

IMAGING DYNAMICS COMPANY LTD.

FINANCIAL RESULTS

FOR THE YEAR ENDED DECEMBER 31, 2014



Your Global Medical Imaging Technology Provider

Management Report

To the Shareholders of Imaging Dynamics Company Ltd.

The accompanying consolidated financial statements of Imaging Dynamics Company Ltd. (the “Company”) are the responsibility of Management. The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards and include certain estimates that reflect Management’s best judgment. Financial information contained throughout the document is consistent with these consolidated 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, accurate financial reports.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with Management and the external auditor. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

MNP LLP, an independent firm of chartered professional accountants have examined the Company’s consolidated financial statements in accordance with Canadian generally accepted auditing standards and provided an independent professional opinion. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the financial reporting process.

Signed: “Sidong Huang”

Sidong Huang

President and Chief Executive Officer

Signed: “Dan Fuoco”

Dan Fuoco

Chief Financial Officer

April 30, 2015

To the Shareholders of Imaging Dynamics Company Ltd.:

We have audited the accompanying consolidated financial statements of Imaging Dynamics Company Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Imaging Dynamics Company Ltd. and its subsidiaries as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw your attention to Note 2 of the consolidated financial statements which indicate that Imaging Dynamics Company Ltd. and its subsidiaries incurred a net loss of \$1,378,232 during the year ended December 31, 2014. As well, Imaging Dynamics Company Ltd. and its subsidiaries have a working capital deficit of \$2,259,627 and negative cash flows from operations of \$992,772. These conditions, along with the matters set out in Note 2 indicate the existence of a material uncertainty that may significant cast doubt about the ability to continue as a going concern.

Other Matter

The consolidated financial statements as at and for year ended December 31, 2013 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements dated April 9, 2014.

MNP LLP

April 30, 2015
Toronto, Ontario

Chartered Professional Accountants
Licensed Public Accountants

Imaging Dynamics Company Ltd.

Consolidated Statements of Financial Position

As At	December 31, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 265,312	\$ 1,254,763
Trade and other receivables (Note 5)	76,981	113,887
Inventory (Note 6)	735,790	1,075,257
Prepaid expenses and others	25,153	89,759
	<u>1,103,236</u>	<u>2,533,666</u>
Non-Current Assets		
Property, plant and equipment (Note 7)	130,610	175,754
Intangible assets (Note 8)	106,238	172,080
	<u>\$ 1,340,084</u>	<u>\$ 2,881,500</u>
Liabilities		
Current Liabilities		
Trade and other payables (Note 9)	\$ 1,776,524	\$ 1,850,120
Deferred revenue	213,508	347,965
Due to director (Note 10)	106,540	103,219
Warranty provision	146,291	179,718
Current portion of long-term debt (Note 11)	1,120,000	1,045,025
	<u>3,362,863</u>	<u>3,526,047</u>
Shareholders' deficiency		
Share capital (Note 12)	76,345,461	76,345,461
Share-based payments reserve (Note 13)	6,846,778	6,846,778
Contributed surplus (Note 14)	4,630,094	4,630,094
Deficit	(89,845,112)	(88,466,880)
	<u>(2,022,779)</u>	<u>(644,547)</u>
	<u>\$ 1,340,084</u>	<u>\$ 2,881,500</u>

Going concern (Note 2)

Commitments and contingencies (Note 22)

Subsequent event (Note 24)

On behalf of the Board:

Signed: **"Sidong Huang"**
Sidong Huang, President & Chief Executive Officer

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

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

Imaging Dynamics Company Ltd.

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31	2014	2013
Revenues	\$ 2,546,317	\$ 2,985,700
Cost of sales	<u>1,773,273</u>	<u>1,880,958</u>
Gross profit	<u>773,044</u>	<u>1,104,742</u>
Expenses		
Sales and marketing (Note 23)	815,715	915,543
General and administrative (Note 23)	919,838	1,294,282
Production and manufacturing (Note 23)	268,614	397,809
Research and development (Note 23)	35,361	140,831
Foreign exchange (gain) loss	(60,484)	110,502
Warranty recovery	(12,924)	(64,735)
Bad debts recovery	(23,027)	(2,948)
Amortization of property, plant and equipment	45,144	62,799
Amortization of intangible assets	65,842	77,260
	<u>2,054,079</u>	<u>2,931,343</u>
Loss before finance costs	(1,281,035)	(1,826,601)
Finance costs		
Interest expense	(108,685)	(139,881)
Interest or other income	<u>11,488</u>	<u>4,665</u>
Net loss and comprehensive loss	<u>\$ (1,378,232)</u>	<u>\$ (1,961,817)</u>
Loss per share, basic and diluted (Note 15)	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>

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

Imaging Dynamics Company Ltd.

Consolidated Statements of Changes in Shareholders' Deficiency

	Share capital	Share-based payments reserve	Contributed surplus	Deficit	Total shareholders' deficiency
Balance, January 1, 2013	\$ 74,389,826	\$ 6,846,778	\$ 4,630,094	\$ (86,505,063)	\$ (638,365)
Issued for cash – private placement	2,010,000	-	-	-	2,010,000
Share issuance costs	(54,365)	-	-	-	(54,365)
Loss for the year	-	-	-	(1,961,817)	(1,961,817)
Balance, December 31, 2013	\$ 76,345,461	\$ 6,846,778	\$ 4,630,094	\$ (88,466,880)	\$ (644,547)
Balance, January 1, 2014	\$ 76,345,461	\$ 6,846,778	\$ 4,630,094	\$ (88,466,880)	\$ (644,547)
Loss for the year	-	-	-	(1,378,232)	(1,378,232)
Balance, December 31, 2014	\$ 76,345,461	\$ 6,846,778	\$ 4,630,094	\$ (89,845,112)	\$ (2,022,779)

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

Imaging Dynamics Company Ltd.

Consolidated Statements of Cash Flows

For the years ended December 31	2014	2013
Cash provided by (used in)		
Operating activities		
Net loss	\$ (1,378,232)	\$ (1,961,817)
Items not affecting cash		
Amortization of property, plant and equipment	45,144	62,799
Amortization of intangible assets	65,842	77,260
Loan accretion and accrued interest	108,685	138,320
Warranty	(33,427)	(76,232)
	<u>(1,191,988)</u>	<u>(1,759,670)</u>
Change in non-cash working capital (Note 16)	199,216	686,106
	<u>(992,772)</u>	<u>(1,073,564)</u>
Investing activities		
Additions to property, plant and equipment	-	(5,513)
Financing activities		
Issuance of shares, net of issuance costs	-	1,955,635
Advances from director	3,321	486,219
Repayments of advances from directors	-	(383,000)
	<u>3,321</u>	<u>2,058,854</u>
Net (decrease) increase in cash and cash equivalents	(989,451)	979,777
Cash and cash equivalents, beginning of the year	1,254,763	274,986
Cash and cash equivalents, end of the year	\$ 265,312	\$ 1,254,763

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

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

1. Nature of the organization

Imaging Dynamics Company Ltd. (the "Company") is a public company incorporated under the laws of the Province of Alberta. As of December 31, 2014, the Corporation is listed on the TSX Venture Stock Exchange ("TSXV"), trading under the symbol "IDL". The address of its registered office is Suite 1157 – 40th Avenue NE, Calgary, Alberta, Canada, T2E 6M9.

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

2. Going concern

The consolidated financial statements of the Company have been prepared by Management in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern which assumes that the Company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations. For the year ended December 31, 2014, the Company has a significant working capital deficit of \$2,269,627 (2013 – \$992,381), negative cash flows from operations of \$992,772 (2013 – \$1,073,564) and a net loss of \$1,378,232 (2013 – \$1,961,817) and deficit at December 31, 2014 of \$89,845,112 (2013 – \$88,466,880). The ability of the Company to continue as a going concern will depend on attaining a satisfactory revenue level, the generation of cash from operations and the ability to secure new financing arrangements and new capital, the outcome of which is uncertain - see Note 24.

The Company may seek to raise additional capital through equity markets, debt markets or other innovative financing arrangements, including partnership or licensing arrangements that may be available for continued operations. However, the disclosed uncertainties may cast significant doubt on the Company's ability to continue as a going concern. Although, in the opinion of management, the use of the going concern assumption is appropriate, there can be no assurance that any steps management is taking will be successful. These 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounts Standards Board ("IASB").

These consolidated financial statements were authorized for issuance on April 30, 2015, by the Board of Directors.

b) Basis of measurement

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

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

3. Basis of preparation (continued)

c) Functional and presentation currency

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

d) Use of estimates, assumptions and judgments

The preparation of 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 year 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 accounts receivable 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 – Amortization expenses and impairment of assets are recorded based on management's estimate of useful life of the assets, market conditions, and fair value of assets, which in turn determines the amortization rates and asset impairment calculations (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.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

3. Basis of preparation (continued)

Share-based payments reserve – Management uses the Black-Scholes option pricing model to determine the fair value of the share-based payments (Note 13). 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, income taxes are subject to measurement uncertainty. Deferred income 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.

Long-term debt – The initial value of the long-term debt was determined based on an estimated market interest rate of 16%. Management determined the interest rate considering the previous interest rate of the long-term debt, the credit risk of the Company and interest rate on loans of other public companies.

(ii) Judgments

Going concern – These consolidated financial statements have been prepared on a going concern basis, based on management's best estimates and assumptions that were available to management at the time of preparing these consolidated financial statements (Note 2). There is no guarantee that these assumptions and judgments used by management in preparing these consolidated financial statements will be realized, in which case adjustments to these consolidated financial statements could be material.

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.

a) Basis of consolidation

These financial statements consolidate the accounts of the Company and its wholly-owned subsidiaries: IDC USA, Inc., 1370509 Alberta Inc. and Imaging Dynamics Company (Hong Kong) Limited.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

4. Summary of significant accounting policies (continued)

(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.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Any excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill.

(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 has been recorded at cost less accumulated amortization and impairment losses.

The Company uses the cost method. 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.

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.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

4. Summary of significant accounting policies (continued)

Amortization is recognized in operations 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 amortization rates are adjusted accordingly on a prospective basis.

Amortization 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
Office equipment	20% declining balance
Tradeshow equipment	3 to 4 years straight-line
Leasehold improvements	Straight-line over lease term

e) Intangible assets

Intangible assets with definite 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 asset.

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 operations 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.

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 operations.

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 operations.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

4. Summary of significant accounting policies (continued)

(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 assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from use of the assets.

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 operations. Impairment losses recognized in respect of CGU's 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

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.

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit and loss", "available-for-sale financial assets", "held to maturity investments", "loans and receivables" or "financial liabilities measured at amortized cost" as defined by the standards.

Financial assets and financial liabilities at "fair value through profit and loss" are either classified as "held for trading" or designated as "fair value through profit or loss". They are measured at fair value with changes in those fair values recognized in operations. "Available-for-sale financial assets" are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial instruments "held to maturity investments", "loans and receivables" and "financial liabilities measured at amortized cost" are measured at amortized cost using the effective interest method.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

4. Summary of significant accounting policies (continued)

Derivative financial instruments are classified as “fair value through profit or loss” and are recorded at fair value based on estimated market prices. The Company may use financial instruments for non-trading purposes to manage fluctuations in foreign currency exchange rates. Fluctuations are recorded in operations within foreign exchange (gain) loss during each reporting period.

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

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 in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in operations. Gains and losses arising from changes in fair value are presented in operations within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss 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 financial assets

Available-for-sale 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.

Available-for-sale 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. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months of the statement of financial position date, or management expects to dispose of them 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 Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

4. Summary of significant accounting policies (continued)

(iv) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. The Company has no items classified in this category. Investments are classified as held to maturity if the Company has the intention and ability to hold them until maturity. Held to maturity investments are subsequently measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, the financial asset is measured at the present value of the estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses are recognized in the statement of operations.

(v) Financial liabilities measured at amortized cost

Financial liabilities at amortized cost include trade and other payables, long-term debt 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.

Long-term debt is 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.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on associated assets.

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.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

4. Summary of significant accounting policies (continued)

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 good 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.

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 (FOB Company shipping point), the Company does not have any contractual obligation to ensure the equipment's proper installation and functioning. Deposits received prior to shipment are reflected as deferred revenue.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

4. Summary of significant accounting policies (continued)

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.

Revenue 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 for the years ended December 31, 2014 and December 31, 2013.

k) Segment reporting

The Company is organized into five sales geographic areas within one operating segment consisting of Asia-Pacific, Canada, Europe, Middle East and Africa ("EMEA") & South Asia ("SA"), Latin America and the United States. These regions are organized to manage sales and distribution channels and are not maintained or managed as operating regions.

l) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in operations 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 income 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.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

4. Summary of significant accounting policies (continued)

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. The Company did not capitalize any development costs for the years ended December 31, 2014 or December 31, 2013.

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 statements 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 operations.

o) Share-based payments

The Company has a stock option plan that is described in Note 13. 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 share-based payments reserve. The fair value of the stock-based payments is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in Note 13. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in 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 year. Diluted loss per common share is computed by dividing the net loss by the diluted weighted average number of common shares outstanding for the year. 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.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

4. Summary of significant accounting policies (continued)

q) Equity, reserves and contributed surplus

Share capital represents the nominal value of shares that have been issued. Share-based payments reserve comprises share-based employee remuneration. Contributed surplus comprises amounts with respect to expired warrants. Retained earnings includes all current and prior period retained profits.

r) Accounting standards adopted

IAS 32 – Financial Instruments: Presentation (“IAS 32”) amendments published by the IASB provide clarifications on the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendments are effective for annual periods beginning on or after January 1, 2014 and should be applied retrospectively. There was no impact to the Company’s consolidated financial statements upon adoption of this standard.

IAS 36 – Impairment of Assets (“IAS 36”) amendments published by the IASB on May 29, 2013 amended the disclosure requirements of IAS 36, requiring disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. There was no impact to the Company’s consolidated financial statements upon adoption of this standard.

IFRIC 21 – Levies (“IFRIC 21”), as an interpretation on *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets* (“IAS 37”), was issued by the International Financial Reporting Interpretations Committee (“IFRIC”), with respect to the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligating event is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. There was no impact to the Company’s consolidated financial statements upon adoption of this standard.

s) Accounting standards issued but not yet adopted

The following new IFRS pronouncements have been issued but are not effective, have not been early adopted and may have an impact on the Company.

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.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

4. Summary of significant accounting policies (continued)

IFRS15 – *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 modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018.

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

	December 31, 2014	December 31, 2013
Trade receivables (Note 20)	\$ 71,974	\$ 95,903
GST and other	5,007	17,984
	<u>\$ 76,981</u>	<u>\$ 113,887</u>

Allowance for doubtful accounts of \$687,758 (December 31, 2013 - \$667,270) has been netted against trade receivables (see Note 20).

6. Inventory

	December 31, 2014	December 31, 2013
Inventory	\$ 2,685,580	\$ 2,862,032
Allowance for obsolescence	(1,949,790)	(1,786,775)
	<u>\$ 735,790</u>	<u>\$ 1,075,257</u>

During the year ended December 31, 2014, the Company recorded a provision for inventory obsolescence of \$160,015 (2013 - \$Nil). During the year ended December 31, 2014, the Company reversed \$Nil (2013 - \$73,730) write-down of inventory recognized during previous years. Inventory items used in products previously considered as "end of life" were reworked into current models being sold.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

7. Property, plant and equipment

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

Accumulated amortization	Technical, lab and computer equipment	Leasehold improvements	Office equipment	Tradeshow equipment	Total
Balance, December 31, 2012	\$ 1,819,283	\$ 95,362	\$ 402,122	\$ 1,099,100	\$ 3,415,867
Amortization	44,381	-	18,418	-	62,799
Disposals	-	-	-	-	-
Balance, December 31, 2013	\$ 1,863,664	\$ 95,362	\$ 420,540	\$ 1,099,100	\$ 3,478,666
Amortization	31,065	-	14,079	-	45,144
Disposals	-	-	-	-	-
Balance, December 31, 2014	\$ 1,894,729	\$ 95,362	\$ 434,619	\$ 1,099,100	\$ 3,523,810

Net book value

As at, December 31, 2013	\$ 103,556	\$ -	\$ 72,198	\$ -	\$ 175,754
As at, December 31, 2014	\$ 72,491	\$ -	\$ 58,119	\$ -	\$ 130,610

The Company conducts an annual impairment assessment of property, plant and equipment in the fourth quarter of each year or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Indicators of impairment that management considered included lower demand for the Company's products, pressure on selling price for the Company's products, availability of new technology, limited financial resources and expiring patents held by the Company. The impairment test performed resulted in no impairment at December 31, 2014 or December 31, 2013.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

8. Intangible assets

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

Accumulated amortization	Software	Digital X-ray technology patents and licenses	Total
Balance, December 31, 2012	\$ 615,998	\$ 269,498	\$ 885,496
Amortization	38,065	39,195	77,260
Disposals	-	-	-
Balance, December 31, 2013	\$ 654,063	\$ 308,693	\$ 962,756
Amortization	26,647	39,195	65,842
Disposals	-	-	-
Balance, December 31, 2014	\$ 680,710	\$ 347,888	\$ 1,028,598

Net book value

As at, December 31, 2013	\$ 88,819	\$ 83,261	\$ 172,080
As at, December 31, 2014	\$ 62,172	\$ 44,066	\$ 106,238

The Company conducts an annual impairment assessment of intangible assets in the fourth quarter of each year or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Indicators of impairment that management considered included lower demand for the Company's products, pressure on selling price for the Company's products, availability of new technology, limited financial resources and expiring patents held by the Company. The impairment test performed resulted in no impairment at December 31, 2014 or December 31, 2013.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

9. Trade and other payables

	December 31, 2014	December 31, 2013
Trade payables	\$ 1,371,918	\$ 1,579,064
Other payables and accruals	404,606	271,056
Trade and other payables	<u>\$ 1,776,524</u>	<u>\$ 1,850,120</u>

10. Due to director

During the year ended December 31, 2013, a former director of the Company advanced \$391,392 of which \$383,000 was repaid upon receipt of the funds from the fiscal year 2013 private placement discussed in Note 12(c) as part of the terms of that agreement. The remaining balance has been reallocated to trade and other payables and is non-interest bearing and has no fixed terms of repayment.

As at December 31, 2014, a director and officer of the Company paid for expenses of \$106,540 (2013 - \$103,219) on behalf of the Company, which is included in Due to director. The advance is non-interest bearing and has no fixed terms of repayment.

11. 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 long-term debt is secured by a general security agreement that is subordinated to a first charge on the Company's assets to a vendor. The terms of the long-term debt were amended effective June 8, 2012 as follows: a) maturity date of the long-term debt was amended to June 8, 2014; b) all rights with respect to covenants in the original long-term debt have been waived until the new maturity date of June 8, 2014; c) annual interest rate was amended to 6% from 12%; d) all interest accrued and unpaid until June 8, 2012 on the long-term debt was waived and written off; e) all other terms of the original long-term debt remain unchanged and any of the current amendments do not and shall not impact or trigger any other provision contained in the original loan payable.

Upon receipt of the new loan in June 2012, the old loan was treated as an extinguishment of debt for accounting purposes, resulting in a gain on extinguishment of debt in the amount of \$167,658. The long-term debt was payable on demand on June 8, 2014.

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

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

The following table shows how the unamortized accretion is netted with the long-term debt and amortized using the effective interest method.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

11. Long-term debt (continued)

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

The interest payable of \$120,000 was paid in March 2015 after the closing of the private placement equity financing which was completed by the Company on February 26, 2015 (see Note 24).

12. Share capital

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

- b) Issued and outstanding:

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

- c) On September 10, 2013, the Company closed on its previously announced non-brokered private placement of 300,000,000 common shares (pre-consolidation) in the capital of the Company (the "Common Shares") with Kangda International Medical Canada Co. Ltd. ("Kangda Canada") at a price of \$0.0046 per Common Share for gross proceeds of \$1,380,000 (the "Private Placement"). The Private Placement coincided with a sale by Belfry Medical Investments Ltd. of 200,000,000 Common Shares (pre-consolidation) to Kangda Canada at the same price per share as the Private Placement which also closed. After giving effect to the Private Placement, the Company currently had 908,441,782 issued and outstanding Common Shares. Subsequent to this Private Placement a majority of the shares of the Company were held by Kangda Canada. The shareholders approved the non-brokered private placement at the Annual and Special Meeting of the shareholders of the Company held on August 6, 2013 (the "AGM"). Proceeds from the Private Placement were used for general working capital and corporate purposes. The common shares issued in connection with the Private Placement were subject to a four month hold period from the date of issuance in accordance with applicable securities law.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

12. Share capital (Continued)

The Company completed the consolidation of its issued and outstanding common shares (the "Consolidation"). The Consolidation was approved by the Company's shareholders at the AGM and has been accepted by the Toronto Stock Exchange. Effective October 18, 2013, the Company's common shares were consolidated on a basis of five pre-consolidation shares for each one post-consolidation share. The common shares of the Company started trading on a consolidated basis at the opening on October 22, 2013. The Company had 908,441,782 common shares outstanding and, following the Consolidation, had approximately 181,688,356 common shares outstanding. No fractional common shares of IDC were issued.

On December 20, 2013, the Company closed on its previously announced non-brokered private placement of 12,600,000 common shares (post-consolidation) in the capital of the Company at a price of \$0.05 per Common Share for gross proceeds of \$630,000.

- d) The Company's common shares were delisted from the Toronto Stock Exchange effective the close of business on March 14, 2014. As a result, the Company arranged for the common shares to be listed on NEX effective March 17, 2014 in the interim. IDC successfully applied to have its common shares listed for trading on the TSXV and received final approval on June 30, 2014 and the shares commenced trading under the symbol "IDL" on July 2, 2014.

13. Share-based payments reserve

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

	December 31, 2014	December 31, 2013
Balance - beginning and end of year	<u>\$ 6,846,778</u>	<u>\$ 6,846,778</u>

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

As at December 31, 2014, 17,595,336 common shares (December 31, 2013 – 17,470,716) adjusted for 5:1 share consolidation remained in reserve. Under the Stock Option Plan, the following options were granted by the Company and are outstanding as at the dates shown in the following chart:

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

13. Share-based payments reserve (continued)

	December 31, 2014		December 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning of year	1,958,120	\$ 0.12	40,326,100	\$ 0.03
Forfeited (pre-consolidation)	-	\$ -	(29,528,000)	\$ 0.03
Cancelled due to 5:1 conversion	-	\$ -	(8,638,480)	\$ 0.03
Forfeited (post-consolidation)	(124,620)	\$ 0.31	(201,500)	\$ 0.11
End of year	<u>1,833,500</u>	<u>\$ 0.11</u>	<u>1,958,120</u>	<u>\$ 0.12</u>
Options exercisable at end of year	<u>1,833,500</u>	<u>\$ 0.11</u>	<u>1,958,120</u>	<u>\$ 0.12</u>

Stock Option Plan

The following table summarizes information about the Company's Stock Option Plan as at December 31, 2014:

Range of exercise price in dollars	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (months)	Weighted average exercise price	Number of options	Weighted average exercise price
Up to \$0.05	1,748,000	33.3	\$ 0.10	1,748,000	\$ 0.10
\$0.06 to \$0.10	85,500	8.5	\$ 0.31	85,500	\$ 0.31
\$0.11 to \$0.57	0	0.0	\$ 0.00	0	\$ 0.00
	<u>1,833,500</u>	<u>32.2</u>	<u>\$ 0.11</u>	<u>1,833,500</u>	<u>\$ 0.11</u>

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

13. Share-based payments reserve (continued)

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

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

There were no share-based payments incurred as a result of stock options grants in the year ended December 31, 2014 (December 31, 2013 – \$Nil).

14. Contributed surplus

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

	December 31, 2014	December 31, 2013
Balance - beginning and end of year	\$ 4,630,094	\$ 4,630,094

15. Per share amounts

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

	2014	2013
Net loss	\$ (1,378,232)	\$ (1,961,817)
Weighted average number of common shares outstanding:		
Basic and diluted	194,288,356 *	140,150,274 *
Per share amounts		
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

15. Per share amounts (continued)

*In calculating diluted common share numbers for the year ended December 31, 2014, the Company excluded 1,833,500 outstanding options (December 31, 2013 – 1,958,120 (post-consolidation)) because the exercise price was greater than the average market price of its common shares in the year.

16. Supplementary information

Change in non-cash working capital:

	2014	2013
Trade and other receivables	\$ 36,906	\$ 80,655
Inventory	339,467	522,085
Prepaid expenses and other	64,606	194,362
Trade and other payables	(107,306)	(443,043)
Deferred revenue	(134,457)	332,047
	<u>\$ 199,216</u>	<u>\$ 686,106</u>
Other information:		
Interest paid	<u>\$ -</u>	<u>\$ -</u>

17. Related party transactions

- (a) During the year, the Company incurred legal costs in the amount of \$Nil (2013 – \$30,923) to a law firm in which a former officer is a partner. The amount of \$Nil (2013 – \$Nil) is included in trade and other payables. These costs have been included in general and administrative expenses \$Nil (2013 – \$30,923) on the consolidated statements of operations and comprehensive loss.
- (b) During the year, the Company incurred legal costs in the amount of \$34,763 (2013 – \$178,047) to a law firm in which a former officer is a partner, of which \$236,584 (2013 – \$220,180) is included in trade and other payables. These costs have been included in general and administrative expenses \$34,763 (2013 – \$137,079) on the consolidated statements of operations and comprehensive loss and share issuance costs netted against equity \$Nil (2013 – \$40,968) on the consolidated statements of financial position.
- (c) During the year, the Company incurred a total of \$Nil (2013 – \$9,524) for professional services payable to a private corporation controlled by a former officer of the Company, of which \$Nil (2013 – \$5,000) is included in trade and other payables. These costs have been included in general and administrative expenses on the consolidated statements of operations and comprehensive loss.
- (d) During the year, the Company incurred a total of \$40,031 (2013 – \$85,469) for professional services payable to a private corporation controlled by a former officer of the Company, of which \$Nil (2013 – \$1,575) is included in trade and other payables. These costs have been included in general and administrative expenses on the consolidated statements of operations and comprehensive loss.
- (e) During the year, the Company incurred a total of \$10,000 (2013 – \$15,000) for professional services payable to a private corporation controlled by a director and officer of the Company, of which \$Nil (2013

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

17. Related party transactions (continued)

- (e) During the year, the Company incurred a total of \$10,000 (2013 – \$15,000) for professional services payable to a private corporation controlled by a director and officer of the Company, of which \$Nil (2013 – \$10,500) is included in trade and other payables. These costs have been included in general and administrative expenses on the consolidated statements of operations and comprehensive loss.
- (f) As discussed in Note 10 above, in the prior year, a former director of the Company advanced \$391,392 of which \$383,000 was repaid upon receipt of the funds from the private placement discussed in Note 12(c) as part of the terms of that agreement. The remaining balance is non-interest bearing and has no fixed terms of repayment and has been reallocated to trade and other payables.
- (g) As discussed in Note 10 above, a director and officer of the Company paid for expenses of \$106,540 (2013 – \$103,219) on behalf of the Company, which is included in Due to director. The advance is non-interest bearing and has no fixed terms of repayment.
- (h) During the year, the Company incurred a total of \$77,937 (2013 – \$1,133,664) for inventory purchases payable to a related corporation, of which \$Nil (2013 – \$98,862) is included in trade and other payables. These costs have been included in cost of sales on the consolidated statements of operations and comprehensive loss.
- (i) During the year, the Company sold a total of \$16,707 (2013 – \$95,580) to a related corporation, of which \$Nil (2013 – \$Nil) is included in trade and other receivables. These revenues have been included in revenues on the consolidated statements of operations and comprehensive loss.
- (j) Key management personnel compensation - the Company has determined that the key management personnel of the Company consists of its officers and directors. The compensation included in general and administrative expenses and share-based payments relating to key management personnel for the year was \$292,317 (2013 - \$285,454).

18. Income taxes

a) Reconciliation of effective tax rate

The income tax expense differs from the amounts which would be obtained by applying the expected statutory income tax rate of 25% (2013 – 25%) as follows:

	2014	2013
Computed expected tax recovery	\$ (344,558)	\$ (490,454)
Non-deductible items	21,401	38,005
Reduction in tax rate and other	-	10,093
Expired losses and other	(1,309,869)	1,519,000
Change in unrecognized deferred tax assets	1,633,026	(1,076,644)
Income tax expense	\$ -	\$ -

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

18. Income taxes (continued)

b) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	<u>2014</u>	<u>2013</u>
Non-capital losses and equipment	\$ 18,975,189	\$ 15,748,517
Intangible assets	11,393	1,314,185
Share issue costs	9,438	22,868
Other	3,476	24,227
Research and development costs	543,849	792,166
Warranty	36,573	44,930
	<u>\$ 19,579,918</u>	<u>\$ 17,946,893</u>

The Company has non-capital losses for income tax purposes in Canada of approximately \$40,927,000 which are available to be applied against future years' taxable income. The benefit of these non-capital losses has not been recognized in the consolidated financial statements.

These non-capital losses will expire as follows:

<u>Year</u>	<u>Amount</u>
2024	\$ 10,742,000
2026	15,606,000
2027	5,347,000
2028	2,313,000
2029	3,183,000
2030	1,736,000
2033	2,001,000
2034	1,215,000
	<u>\$ 40,927,000</u>

Imaging Dynamics Company Ltd.

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For the years ended December 31, 2014 and 2013

18. Income taxes (continued)

As at December 31, 2013, the Company has net operating losses for income tax purposes in the U.S. of approximately \$125,000 (2013 – \$109,000). The Company also has net operating losses for income tax purposes in Hong Kong of \$88,000 (2013 - \$72,000). The benefit of these non-capital losses has not been recognized in the consolidated financial statements.

As at December 31, 2013, the Company also has Scientific Research and Experimental Development (SR&ED) Investment Tax Credit (ITC) carryovers in Canada of approximately \$544,000 which are available to be applied against future years' taxes payable.

The benefits of these ITC carryovers have not been recognized in the consolidated financial statements. These carryovers will expire as follows:

2018	\$ 69,000
2019	153,000
2021	322,000
	<u>\$ 544,000</u>

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.

	<u>2014</u>	<u>2013</u>
Long-term debt	\$ 1,120,000	\$ 1,045,025
Shareholders' deficiency	(2,022,779)	(644,547)
Capital (deficiency)	<u>\$ (902,779)</u>	<u>\$ 400,478</u>

The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new equity or issue new debt.

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.

Imaging Dynamics Company Ltd.

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20. Financial risk management (continued)

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. The Company 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:

	December 31, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	\$ 265,312	\$ 265,312	\$ 1,254,763	\$ 1,254,763
Trade and other receivables	75,981	75,981	95,903	95,903
	\$ 341,293	\$ 341,293	\$ 1,350,666	\$ 1,350,666
Financial liabilities				
Long-term debt	\$ 1,120,000	\$ 1,120,000	\$ 1,045,025	\$ 1,045,025
Trade and other payables	1,776,524	1,776,524	1,850,120	1,850,120
Due to director	106,540	106,540	103,219	103,219
	\$ 3,003,064	\$ 3,003,064	\$ 2,998,364	\$ 2,998,364

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

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of 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.

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

Imaging Dynamics Company Ltd.

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20. Financial risk management (continued)

Currency risk

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

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 December 31, 2014 and December 31, 2013, there were no foreign exchange contracts outstanding.

At December 31, 2014, the Company is exposed to currency risk through the following assets and liabilities denominated in other currencies:

	US Dollars	Euros	HK Dollars
Cash and cash equivalents	\$ 192,042	€ 286	\$ -
Trade receivables	30,447	-	-
Trade payables	(845,396)	-	(148,233)
	\$ (622,907)	€ 286	\$ (148,233)

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

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

Based on the above net exposures as at December 31, 2014 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against other currencies would result in an increase or decrease of approximately \$74,330 (2013 - \$30,718) in the Company's net loss.

Imaging Dynamics Company Ltd.

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20. Financial risk management (continued)

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 December 31, 2014, the Company recognized an allowance for doubtful accounts of \$687,758 (2013 - \$667,270). The bad debt provision as at December 31, 2014 is net of amounts collected from amounts previously provided for.

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 December 31, 2014 and December 31, 2013 is represented as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Not past due	\$ 66,352	\$ 18,910
Past due 31 – 180 days	12,809	47,782
Past due 181 – 365 days	1,434	7,902
Over 365 days	679,137	688,579
	<u>759,732</u>	<u>763,173</u>
Allowance for doubtful accounts	<u>(687,758)</u>	<u>(667,270)</u>
	<u>\$ 71,794</u>	<u>\$ 95,903</u>

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

20. Financial risk management (continued)

Economic dependence – One sales customer represented 62% of the total revenue during the year ended December 31, 2014 as compared to 65% during the year ended December 31, 2013.

Two vendors represented 43% of purchases during the year ended December 31, 2014 compared to two vendors representing 37% during the year ended December 31, 2013.

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 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 December 31, 2014:

Financial liabilities and commitments	<u>< Year</u>	<u>> Year</u>
Long-term debt	\$ 1,120,000	\$ -
Trade and other payables	1,776,524	-
Due to director	<u>106,540</u>	<u>-</u>
	<u>\$ 3,003,064</u>	<u>\$ -</u>

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

20. Financial risk management (continued)

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

Financial liabilities and commitments	<u>< Year</u>	<u>> Year</u>
Long-term debt	\$ 1,000,000	\$ -
Trade and other payables	1,850,120	-
Due to director	<u>103,219</u>	<u>-</u>
	<u>\$ 2,953,339</u>	<u>\$ -</u>

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

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 five sales geographic areas within one operating segment consisting of Asia-Pacific, Canada, Europe, Middle East and Africa ("EMEA") & South Asia ("SA"), Latin America and the United States. These regions are organized to manage sales and distribution channels and are not maintained or managed as operating regions.

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

Segmented revenues are as follows:

2014	Asia Pacific	Canada	EMEA & SA	Latin America	United States	Total
Revenues, net	\$ 1,776,888	\$ 16,036	\$ 11,194	\$ 155,577	\$ 586,622	\$ 2,546,317
2013	Asia Pacific	Canada	EMEA & SA	Latin America	United States	Total
Revenues, net	\$ 2,121,720	\$ 30,748	\$ 12,300	\$ 250,888	\$ 570,044	\$ 2,985,700

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

22. Commitments and contingencies

a) The Company is committed to the following payments:

	Facility	Auto / Equipment	Total
2015	\$ 131,591	\$ 5,296	\$ 136,887
2016	\$ 56,634	\$ -	\$ 56,634
2017	\$ 9,439	\$ -	\$ 9,439
	\$ 197,664	\$ 5,296	\$ 202,960

- b) Bank guarantee for US\$148,700 was issued on July 24, 2007 in relation to an international tender contract. The bank guarantee originally expired on December 31, 2010, was renewed twice and currently expires on March 7, 2016 on completion of the performance as per the terms of the contract.
- c) A general security agreement has been issued by the Company to a vendor who has a first charge on the assets of the Company, and the long-term debt is secured by a second charge to the group of shareholders (see Note 11). The vendor has signed a forbearance agreement with the Company and has agreed not to enforce its security rights for the amount payable to the vendor (included in trade and other payables) in exchange for a payment plan which will pay down the balance owing to the vendor by September 13, 2013. As per this forbearance agreement, if this payment plan is complied with in full by the Company, then the vendor has agreed to waive \$314,245. This amount is currently included in the trade and other payables at December 31, 2014 which will only be reversed and recognized after the final payment is completed. The Company is currently in default of this forbearance agreement and is working with the vendor to remedy its default.
- d) The Company is involved in a legal claim by a former supplier for an unpaid amount of \$236,584 owing to this firm. The balance owing is recorded as a liability in the "trade and other payables" account. The Company anticipates resolving the claim without any additional significant costs in the near future.

23. Expenses by nature

	2014	2013
Sales and marketing	\$ 815,715	\$ 915,543
General and administrative	919,838	1,294,282
Production and manufacturing	268,614	397,809
Research and development	35,361	140,831
	\$ 2,039,529	\$ 2,748,465

Imaging Dynamics Company Ltd.

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For the years ended December 31, 2014 and 2013

23. Expenses by nature (continued)

	2014	2013
Employee related costs	\$ 1,000,928	\$ 1,286,274
Travel and related costs	229,392	190,938
Professional fees	240,126	396,726
Facility and related costs	249,346	248,709
Communications	22,653	40,961
Administrative costs	136,770	218,530
Marketing costs	84,287	138,595
Research costs	25,552	130,835
Insurance costs	50,475	96,897
	<u>\$ 2,039,529</u>	<u>\$ 2,748,465</u>

24. Subsequent event

On February 26, 2015, the Company completed a non-brokered private placement equity financing for 100,000,000 Common Shares in the capital of the Company at a price of \$0.02 per Common Share for gross proceeds of \$2,000,000 (the "Financing"). Each Common Share subscribed for is entitled to a one-half (1/2) Share Purchase Warrant at a price of \$0.05 per share for a period of two years. The Common Shares issued in connection with this private placement are subject to statutory resale restrictions until June 27, 2015 in accordance with applicable securities laws.

The Offering coincided with the sale by Fan Hong of 85,650,000 common shares of Kangda International Medical Canada Company Ltd. ("Kangda Canada"), to Charmaine Cheung, a Canadian citizen, at the same price as the private placement. Kangda Canada is a privately held Canadian company which currently owns and controls 33.98 percent of the 294,288,356 issued and outstanding common shares of IDC. As a result of this purchase and sale transaction, Charmaine Cheung controls Kangda Canada, which is the majority shareholder of IDC, and this effected a "change in control" of Imaging Dynamics Company, Ltd.

The Financing was conducted by the Company utilizing the "Existing Shareholder Exemption" contained in Multilateral CSA Notice 45-31-*Prospectus Exemption for Distributions to Existing Security Holders* as applicable, as well as exemptions under the "Accredited Investor" exemptions of National Instrument 45-106-*Prospectus and Registration Exemptions* (NI 45-106) under securities laws, and also other applicable exemptions available to the Company. The Financing was made available pursuant to the grant of a "discretionary waiver" of the TSX Venture Exchange's minimum \$0.05 pricing requirement.

In connection with this Financing, a Senior Executive Officer of the Company and a Director of the Company both subscribed for a combined total of 13,000,000 Common Shares at a price of \$0.02 per share totaling \$260,000 in gross proceeds to IDC.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

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24. Subsequent event (continued)

The Company intends to use the \$2,000,000 in gross proceeds of the Financing primarily to maintain and preserve the Company's existing operations, activities and assets. There are no payments intended to be made to any related parties from these proceeds. Although the Company intends to use the proceeds of the Financing as described above, the actual allocation of net proceeds may vary from the uses set forth above, depending on future operations or unforeseen events or opportunities.