MEDX HEALTH CORP.

Consolidated Financial Statements

For the Years Ended December 31, 2014 and 2013

(Presented in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements for MedX Health Corp. were prepared by management in accordance with International Financial Reporting Standards (IFRS). Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 2 to the consolidated financial statements.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management as well as with the independent auditors to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed)	*(signed)*
Robert von der Porten President & Chief Executive Officer	Jim Cooke Chief Financial Officer

April 27, 2015
Mississauga, Ontario

Collins Barrow

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Independent Auditor's Report

To the Shareholders of MedX Health Corp.

We have audited the accompanying consolidated financial statements of MedX Health Corp., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained 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 MedX Health Corp. as at December 31, 2014 and 2013, and its consolidated financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards.

Emphasis of Matters

Without qualifying our opinion, the accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As more fully described in note 1 to these consolidated financial statements, the Company has not generated net income to date and is significantly indebted. These conditions raise material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of these uncertainties.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Professional Accountants
April 27, 2015
Toronto, Ontario

MEDX HEALTH CORP.

Consolidated Statements of Financial Position
Presented in Canadian dollars

As at December 31		2014		2013
ASSETS				
Current assets				
Cash	**$**	**3,978**	$	192,277
Accounts receivable (Note 3)		**78,487**		82,167
Inventory (Note 4)		**137,110**		109,017
Prepaid expenses and deposits, and other		**46,438**		17,326
		266,013		400,787
Property and equipment (Note 5)		**71,710**		35,198
Intangible assets (Note 6)		**138,217**		164,217
	$	**475,940**	$	600,202
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 7)	**$**	**2,641,267**	$	3,792,665
Deferred revenue		**16,400**		-
Demand loans (Note 8)		**79,000**		204,000
		2,736,667		3,996,665
EQUITY				
Share capital (Note 10)		**15,309,259**		14,705,250
Contributed surplus (Note 10)		**3,010,550**		2,611,976
Warrants (Note 10)		**1,130,025**		792,295
Deficit		**(21,710,561)**		(21,505,984)
		(2,260,727)		(3,396,463)
	$	**475,940**	$	600,202

Going concern (Note 1), Commitments and contingencies (Note 16), Subsequent events (Note 18)
See accompanying notes to the consolidated financial statements

Approved by the Board of Directors

"Gary Van Nest" (signed) — Director

"Robert von der Porten" *(signed)* — Director

MEDX HEALTH CORP.

Consolidated Statements of Comprehensive Loss

Presented in Canadian dollars

Years ended December 31		2014		2013
Sales	$	**877,732**	$	579,645
Cost of sales		**390,715**		269,798
Gross profit		**487,017**		309,847
Expenses				
Selling, general and administrative		**662,785**		1,159,557
Share-based compensation (Note 10)		**339,203**		35,722
Interest expense		**10,364**		113,049
(Gain) on disposal of subsidiaries (Note 12)		**(122,621)**		-
Loss (gain) on debt settlements (Note 10a)		**(261,362)**		810,721
Foreign exchange loss		**22,646**		45,690
Amortization of property and equipment		**14,579**		11,453
Amortization of intangibles		**26,000**		26,000
		691,594		2,202,192
Comprehensive loss for the year	$	**(204,577)**	$	(1,892,345)
Loss per share, basic and fully diluted	$	**(0.00)**	$	(0.04)
Weighted average number of shares outstanding		**67,402,606**		42,762,384

See accompanying notes to the consolidated financial statements

MEDX HEALTH CORP.

Consolidated Statements of Changes in Equity
Presented in Canadian dollars

Years Ended December 31, 2014 and 2013

	Share Capital	Contributed Surplus	Equity Portion of Convertible Debentures	Warrants	Deficit	Total
Balance, December 31, 2012	$ 12,577,279	$ 1,171,224	$ 16,906	$ 1,388,124	$ (19,613,639)	$ (4,460,106)
Comprehensive loss for the year					(1,892,345)	(1,892,345)
Expiration of warrants		1,388,124		(1,388,124)		-
Share options granted		35,722				35,722
Maturity of convertible debentures		2,641	(2,641)			-
Common shares issued for cash	136,074			59,371		195,445
Common shares issued on debt settlements	1,991,897	14,265	(14,265)	732,924		2,724,821
Balance, December 31, 2013	14,705,250	2,611,976	-	792,295	(21,505,984)	(3,396,463)
Comprehensive loss for the year					(204,577)	(204,577)
Expiration of warrants		59,371		(59,371)		-
Share options granted		339,203				339,203
Common shares issued on debt settlements	174,242					174,242
Common shares issued for cash	429,767			397,101		826,868
Balance, December 31, 2014	$ 15,309,259	$ 3,010,550	$ -	$ 1,130,025	$ (21,710,561)	$ (2,260,727)

See accompanying notes to the consolidated financial statements

MEDX HEALTH CORP.

Consolidated Statements of Cash Flows
Presented in Canadian dollars

Years ended December 31		2014		2013
Cash flows from operating activities				
Comprehensive loss for the year	**$**	**(204,577)**	$	(1,892,345)
Adjustments for non-cash items				
Amortization of property and equipment		**14,579**		11,453
Amortization of intangible assets		**26,000**		26,000
Foreign exchange (gain)/loss		**22,646**		45,690
Interest accretion on convertible debentures		**-**		12,047
(Gain) on disposal of subsidiaries		**(122,621)**		-
(Gain)/loss on debt settlements		**(261,362)**		810,721
Share-based compensation		**339,203**		35,722
Reduction of accounts payable		**(460,345)**		-
		(646,477)		(950,712)
Net change in non-cash operating working capital items:				
Accounts receivable		**3,680**		42,231
Inventory		**(28,093)**		(11,340)
Prepaid expenses and deposits		**(29,112)**		(3,124)
Deferred revenue		**16,400**		-
Accounts payable and accrued liabilities		**(180,474)**		781,003
		(217,599)		808,770
Net cash used in operating activities		**(864,076)**		(141,942)
Cash flows from investing activities				
Purchases of property and equipment		**(51,091)**		(13,493)
Net cash used in investing activities		**(51,091)**		(13,493)
Cash flows from financing activities				
Repayment of demand loans		**(150,000)**		-
Proceeds from issuance of demand loans		**50,000**		150,000
Issue costs for shares issued on debt settlements		**-**		(13,784)
Issuance of share capital, net of issue costs of $88,132 (2013 - $7,555)		**826,868**		195,445
Net cash from financing activities		**726,868**		331,661
Net change in cash for the year		**(188,299)**		176,226
Cash, beginning of year		**192,277**		16,051
Cash, end of year	**$**	**3,978**	$	192,277

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

MedX Health Corp. (“MedX” or “the Company”) is incorporated under the laws of Ontario. The Company develops, manufactures and markets skin related screening tools and phototherapy devices for pain relief and tissue repair throughout North America, Europe and Asia.

The Company’s shares are listed on the TSX Venture Exchange under the symbol MDX. Its head office, principal address, and registered office is located at 1495 Bonhill Road, Unit #1, Mississauga, ON, L5T 1M2.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. As at December 31, 2014, the Company had a working capital deficiency of $2,470,654 (2013 - $3,595,878), had accumulated losses of $21,710,561 (2013 - $21,505,984), and negative equity. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured. The Company has been able to raise capital to continue to market its products, and continues to develop sales opportunities that could result in additional sales of its product in the future. These consolidated financial statements do not give effect to any adjustments which might be necessary should the Company be unable to continue as a going concern and be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements. These adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International These consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective for the reporting year ended December 31, 2014.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April 27, 2015, the date these financial statements were authorized for issuance by the Board of Directors.

Basis of Presentation

These financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting.

Recent Accounting Pronouncements

At the date of authorization of these financial statements, the IASB and International Financial Reporting Interpretations Committee (“IFRIC”) have issued the following new and revised Standards and Interpretations which are not yet effective.

The Company has not early adopted these standards, amendments and interpretations; however it is

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

currently assessing what impact, if any, the application of these standards or amendments will have on future consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures were amended by the IASB in September 2014 to eliminate an inconsistency between IFRS 10 and IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. Subsequent to the amendments, a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not) and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendment is effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures were amended by the IASB in December 2014 to clarify the application of the requirement for investment entities to measure subsidiaries at fair value instead of consolidating them. The amendment is effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

IFRS 11 Joint Arrangements was amended by the IASB in May 2014. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendment is effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

IFRS 14 Regulatory Deferral Accounts, an interim standard, was issued by the IASB in January 2014 and permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with previous GAAP requirements when they adopt IFRS. The standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the Standard. The amendment is effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

IAS 1 Presentation of Financial Statements was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. The amendment is effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets were amended by the IASB in May 2014. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendment is effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture were amended by the IASB in June 2014. Amendments include bringing bearer plants within the scope of IAS 16, instead of IAS 41, because their operation is similar to that of manufacturing. The produce growing on bearer plants

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

will remain within the scope of IAS 41.The amendment is effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

IAS 27 Separate Financial Statements was amended by the IASB in August 2014 to allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

IFRS 15 Revenue from Contracts with Customers was issued by the IASB in May 2014. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue—Barter Transactions Involving Advertising Services. The amendment is effective for annual periods beginning on or after January 1, 2017.

IFRS 9 Financial Instruments was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. 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 assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.. A new hedge accounting model is introduced and represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. The amendment is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

Consolidation

These consolidated financial statements include the accounts of MedX Health Corp. and its wholly-owned subsidiary, MedX Electronics Inc., and LaserPath Therapeutics Inc. All inter-company transactions and balances between the consolidated entities have been eliminated. During 2014, the Company disposed of the shares and other interests in a number of inactive subsidiaries, including Health Care North Inc., MedX Health Inc., and 1419671 Ontario Limited, for nil consideration (Note 12).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Income tax expense represents the sum of current income taxes and deferred income taxes. Current and deferred taxes are recognized in profit and loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. Under these circumstances, the taxes are recognized in other comprehensive loss or directly in equity.

Current income taxes -

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to

compute current income tax assets and liabilities are measured at tax rates, which have been enacted or substantively enacted at the reporting date. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred income taxes -

Deferred income taxes are provided using the asset and liability method applied to temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, and carry forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax assets and deferred income tax liabilities are offset if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a

net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Share-based payment transactions

Employees, directors and service providers of the Company may receive a portion of their compensation in the form of share-based payment transactions, whereby services are rendered as consideration for equity instruments (“equity-settled transactions”).

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

Equity settled transactions

The costs of equity settled transactions are measured by reference to the fair value of the equity instrument at the date on which they are granted.

The costs of equity settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense is recognized for equity settled transactions at each reporting date until the vesting date, and reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive income (loss) per share

Where the terms of an equity settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

Income (loss) per share and comprehensive income (loss) per share are based on the weighted average number of common shares outstanding for the year. In a year when the Company reports a loss and comprehensive loss, the effect of potential issuances of shares under options and warrants outstanding would be anti-dilutive and, therefore basic and diluted loss and comprehensive per share are the same.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Significant Accounting Judgments and Estimates

The preparation of financial statements requires management to make judgments, estimates and form assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting year. Estimates and underlying assumptions are reviewed on an ongoing basis. Significant areas requiring the use of management estimates relate to going concern, the valuation and determination of the useful lives of assets, valuation of stock-based compensation, warrants, share capital, debt settlements through issuance of shares, deferred income taxes, inventory valuation, and the valuation of intangibles of the Company. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent; however, actual results may differ from those estimates.

Financial instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL"). Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through operations.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income.

The Company has elected to apply the following classifications to each of its significant categories of financial instruments:

Asset/Liability	Category	Measurement
Cash	Fair value through profit or loss	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities		Amortized cost
Demand Loans	Other financial liabilities	Amortized cost

Foreign currency

a. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of MedX Health Corp. and its wholly-owned subsidiary. Translations required in these consolidated financial statements are in accordance with IAS 21, The Effects of Changes in Foreign Exchanges Rates.

b. Foreign currency transactions

Foreign currency monetary assets and liabilities are translated into the entity's functional and presentation currency using the closing rate at the end of each reporting period. Non-monetary assets and liabilities are translated at the rates on the date the fair value was determined or at historical cost using the rate at the date of the transaction. Translation gains and losses are included in the consolidated statement of comprehensive income (loss).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Company recognizes revenue when it is realized or earned. The Company considers revenue realized or earned on the sale of goods when persuasive evidence of a sale arrangement exists, title and risk of product ownership is transferred to the customer, collection of the revenue is reasonably assured and the price is reasonably determinable. Remuneration in the form of non-monetary consideration is recognized on the basis of fair value of consideration given up or fair value of consideration received, whichever is more reliable. Provisions are established for estimated warranty costs on applicable product sales at the time revenue is recognized. Cash received in advance of meeting these revenue recognition criteria is recorded as deferred revenue.

Consulting revenue is recognized as services are provided.

Revenue from licensing the Company's technology, or from maintenance contracts is recognized over the period covered by the license or contract. Amounts received and not yet recognized are included in deferred revenue.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand and short-term, highly liquid investments with maturities when acquired of less than three months, held for purposes of meeting short-term cash requirements. There are currently no cash equivalents.

Inventories

Raw materials, work-in-process and finished goods inventories are stated at the lower of cost and net realizable value with cost determined on a weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Finished goods and work-in-process inventory costs include raw materials, direct labour and allocation of overheads. A provision for shrinkage and obsolescence is calculated based on historical experience. Management reviews the entire provision to assess whether, based on economic conditions, it is adequate.

Property and equipment

Property and equipment are recorded at cost net of accumulated depreciation and write-downs for impairment, if any. Depreciation is calculated using the declining balance method over their estimated useful lives at the following annual rates:

Furniture	-	20%
Computers	-	30%
Manufacturing equipment	-	20% - 30%

Intangible assets

Patents and other intangibles are recorded at cost, net of accumulated amortization and write-downs for impairment. On the basis they have a finite useful life, they are amortized on a straight line basis over their estimated useful life which management generally estimates at 5 - 20 years.

Impairment of non-financial assets

At each reporting date of the consolidated statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that

Presented in Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

The recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive income (loss), unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

3. ACCOUNTS RECEIVABLE

The amount of accounts receivable is net of an allowance for doubtful accounts, which was $nil at December 31, 2014 (2013 - $nil).

4. INVENTORY

	2014	2013
	$	$
Finished goods	**96,894**	63,980
Work-in-process	**5,187**	-
Raw materials	**35,029**	45,037
	137,110	109,017

Presented in Canadian dollars

5. PROPERTY AND EQUIPMENT

		Furniture		Computers		Manufacturing Equipment		Total
Cost								
Balance, December 31, 2012	$	85,186	$	58,231	$	42,480	$	185,897
Additions		-		-		13,493		13,493
Balance, December 31, 2013		85,186		58,231		55,973		199,390
Disposals		**(13,118)**		**(36,430)**		**(37,210)**		**(86,758)**
Additions		**15,418**		**1,873**		**33,800**		**51,091**
Balance, December 31, 2014	**$**	**87,486**	**$**	**23,674**	**$**	**52,563**	**$**	**163,723**
Accumulated Amortization								
Balance, December 31, 2012	$	71,275	$	50,636	$	30,828	$	152,739
Amortization		4,612		2,499		4,342		11,453
Balance, December 31, 2013		75,887		53,135		35,170		164,192
Disposals		**(13,118)**		**(36,430)**		**(37,210)**		**(86,758)**
Amortization		**3,419**		**2,317**		**8,843**		**14,579**
Balance, December 31, 2014	**$**	**66,188**	**$**	**19,022**	**$**	**6,803**	**$**	**92,013**
Carrying Value								
Balance, December 31, 2013	$	9,299	$	5,096	$	20,803	$	35,198
Balance, December 31, 2014	**$**	**21,298**	**$**	**4,652**	**$**	**45,760**	**$**	**71,710**

Presented in Canadian dollars

6. INTANGIBLES

During 2011, the Company purchased the worldwide assets related to a technology called SIAscopy™, which is used to help gather information about suspicious moles and lesions, helping physicians and patients to come to a more informed decision about the diagnosis of skin disorders. The assets acquired included the patents, trademarks, manufacturing procedures, software, inventory, and equipment, as well as existing distribution, supply and other contracts previously entered into by the seller.

		SIAscopy		Other		Total
Cost						
Balance, December 31, 2012	$	241,699	$	167,550	$	409,249
Impairment		-		(167,550)		(167,550)
Balance, December 31, 2013		241,699		-		241,699
Balance, December 31, 2014	**$**	**241,699**	**$**	**-**	**$**	**241,699**
Accumulated Amortization						
Balance, December 31, 2012	$	51,482	$	167,550	$	219,032
Amortization		26,000		-		26,000
Impairment		-		(167,550)		(167,550)
Balance, December 31, 2013		77,482		-		77,482
Amortization		**26,000**		**-**		**26,000**
Balance, December 31, 2014	**$**	**103,482**	**$**	**-**	**$**	**103,482**
Carrying Value						
Balance, December 31, 2013	$	164,217	$	-	$	164,217
Balance, December 31, 2014	**$**	**138,217**	**$**	**-**	**$**	**138,217**

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are principally comprised of amounts outstanding for trade purchases relating to general and administrative expenses, accrued salaries and Board fees, unpaid payroll and sales taxes, and interest. Amounts as at December 31, 2014 include the following:

		2014		2013
Accounts payable	**$**	**739,054**	$	1,145,051
Amounts owing to staff, officers and board of directors		**1,160,415**		1,265,806
Unpaid payroll withholdings and related interest, accrued sales and other taxes		**393,140**		624,499
Other accrued liabilities		**348,658**		757,309
	$	**2,641,267**	$	3,792,665

8. DEMAND LOANS

As of December 31, 2014, there are two advances totaling $79,000 owing to parties related to a director of the Company. A $50,000 advance was made during 2014, is non-interest bearing, and was due on December 31, 2014. This demand loan has not been paid to date. The other bears interest at prime plus 6% per annum, with all interest accrued to December 31, 2014.

In 2014, a $25,000 demand loan settled in exchange for common shares, as described in note 10(a). This loan was originally a Convertible debenture from a director that was transferred to demand loans after reaching its maturity date in November 2013. The interest rate on the loan was 10% per annum, and a portion of the accrued interest was included in the settlement.

A $150,000 promissory note issued in May 2013, bearing interest at 10% per annum, was repaid during 2014, along with $15,000 of accrued interest, from the proceeds of a share offering.

During 2013, $750,000 of demand loans were settled by the issuance of common shares, and warrants. The settlements, which also included accrued interest of $392,653 owing on the loans, is more fully described in note 10(a).

9. CONVERTIBLE DEBENTURES

a) The Company issued $243,000 of convertible, redeemable debentures in November 2011, all of which were issued to related parties, or others connected with related parties. The debentures had a coupon interest rate of 10%, payable semi-annually, and a maturity date of November 30, 2013. The debentures were convertible into common shares at the option of the holder at $0.10 per share to November 30, 2012 and at $0.25 per share thereafter to maturity. The notes were discounted by $25,676, which represented the value assigned to the conversion feature, and was recorded as equity, to yield an effective interest rate of 17%. The carrying value of the note was accreted upwards at each period end based on the initial discount recognized. In December, 2012, $83,000 of the debentures were converted to 332,000 common shares. Accordingly, the associated conversion value of $8,770 initially recognized as a separate component of equity was reclassified within equity as Capital stock.

   On November 14, 2013, $135,000 of the debentures were settled in exchange for common shares and warrants. The settlements included accrued interest of $50,344 owing on the debentures, as more fully described in note 10. The $14,265 that was recorded as a separate component of equity when the debentures were issued, was reclassified to Contributed surplus.

   The remaining $25,000 debenture reached its maturity date in November 2013, and as it was unpaid as of that date, was included in Demand loans as of that time. The remaining $2,641 that was recorded as a separate component of equity was reclassified to Contributed surplus.

b) In May, 2012, the Company issued a $23,165 convertible, redeemable debenture with an interest rate of 10%, with a maturity date of September 8, 2012, that could be converted into common shares at the market price of the Company's shares less 10%. Issued with the debenture were 200,000 warrants to purchase common shares at $0.25 per share, expiring 18 months from the date of issuance, which have expired. The loan was secured by the assets of the Company. The principal and accrued interest were settled in exchange for common shares on July 10, 2013, as more fully described in Note 10.

Presented in Canadian dollars

10. SHARE CAPITAL

Common Shares

Authorized - Unlimited number of common shares

Issued and outstanding

	Number of shares		Stated Capital
Outstanding at December 31, 2012	**39,551,146**	**$**	**12,577,279**
Issued in exchange for debt (a)	**18,163,511**		**1,991,897**
Issued for cash (b)	**2,030,000**		**136,074**
Outstanding at December 31, 2013	**59,744,657**		**14,705,250**
Issued in exchange for debt (a)	**1,742,415**		**174,242**
Issued for cash (b)	**9,150,000**		**429,767**
Outstanding at December 31, 2014	**70,637,072**	**$**	**15,309,259**

a) Shares issued in exchange for debt

During 2014, the Company issued 1,742,415 common shares to settle $435,604 of amounts owing to insiders of the Company. The market value of the Company's shares as of the date of issue was $0.10, resulting in an addition to share capital of $174,242, and a gain on the debt settlement of $261,362. Included in the settled debt was a demand loan of $25,000, with the remainder representing unpaid interest, salary, director and other fees.

During the year ended December 31, 2013, the Company issued shares in a number of transactions undertaken to settle debt, as follows:

- The Company issued 1,794,365 common shares to settle an amount payable of $100,000, related to consulting services. The market value of the Company's shares as of the date of issue was $0.065, resulting in an addition to share capital of $116,634, and a loss on the debt settlement of $16,634.
- On July 10, 2013, the Company issued 3,620,780 common shares to settle $208,000 of demand loans, plus accrued interest of $127,078, totaling $335,078, and a $23,165 convertible debenture, plus accrued interest of $3,835, totaling $27,000. In addition to the shares, the Company issued 1,810,390 warrants to the debt holders, of which each warrant entitles the holder to purchase one common share of the Company for $0.20 per share until December 31, 2014 and $0.30 until December 31, 2015.

  The value attributed to the settlement of the debt included the value of the shares on the closing date of $0.08 per share, or $287,890, net of issue costs of $1,772, and the value of the warrants of $127,941, net of issue costs of $788. The value of the warrants was based on the Black-Scholes pricing model at the issue date as $0.071 per share, with a price volatility of 238% based on historical volatility, a risk free rate of 1.13%, and with no expected dividend yield over the life of the warrant. As a result of these debt settlements, the company recorded a loss of $56,313.

10. SHARE CAPITAL (continued)

a) Shares issued in exchange for debt (continued)

- On November 14, 2013, the Company issued 694,922 common shares to settle $138,984 of trade debt. The value attributed to the share capital for the shares issued as a result of this settlement was $86,865, or $0.125 per share, based on the closing price of the shares on the date issued, resulting in a gain on settlement of $52,119.

  On November 14, 2013, the Company issued 12,053,444 common shares to settle $1,326,788 of debt, consisting of $264,610 of trade payables and unpaid salaries, $542,000 of demand loans plus accrued interest of $361,416, and $135,000 of convertible debentures plus accrued interest of $23,762. In addition to the shares, the Company issued 6,026,722 warrants to the debt holders, of which each warrant entitles the holder to purchase one common share of the Company for $0.20 per share until December 31, 2014 and $0.30 until December 31, 2015.

  The value attributed to the settlement of the debt included the value of the shares on the closing date of $0.125 per share, or $1,500,508, net of issue costs of $6,375, and the value of the warrants of $604,983, net of issue costs of $5,017. The value of the warrants was based on the Black-Scholes pricing model at the issue date as $0.101 per share, with a price volatility of 208% based on historical volatility, a risk free rate of 1.13%, and with no expected dividend yield over the life of the warrant. As a result of these debt settlements, the company recorded a loss of $789,893.

b) Shares issued for cash

During 2014, the Company completed the following issues of shares:

- On March 19, 2014, the Company issued the first tranche of a brokered private placement of 5,650,000 units (the “Units”) for gross proceeds of $565,000 at $0.10 per Unit. Each Unit consisted of one common share and one common share warrant of the Company. Each warrant entitles the holder to purchase one common share of the Company for $0.20 per share until March 19, 2016.

  The Company allocated the $565,000 proceeds between the shares and the warrants issued, based on the relative value of the components. The value of the shares was based on the closing value of the Company’s shares on the closing date of $0.12, and the value for the warrants using the Black-Scholes pricing model at the issue date as $0.083 per share based on a share price volatility of 166% based on historical volatility, a risk free rate of 1.06%, and with no expected dividend yield over the life of the warrant. As a result, the amount was allocated as to $333,209 to share capital and $231,791 to the warrants. The Company incurred cash related issue costs in connection with private placement of $64,575, and this amount has been allocated in the same manner as the proceeds, with $38,083 as a reduction of share capital and $26,492 as a reduction of the warrants.

10. SHARE CAPITAL (continued)

b) Shares issued for cash (continued)

The Company issued 452,000 broker warrants in connection with the private placement. The value of the broker warrants, determined as $80,175, are considered as issue costs of the private placement, and this amount has been allocated in the same manner as the proceeds, with $47,283 as a reduction of share capital and $32,892 as a reduction of the warrants. Each broker warrant consists of a right to purchase a unit comprising one common share and one common share warrant, and the unit can be purchased for $0.10 until March 19, 2016. The warrant included in the unit allows the holder to acquire one common share for $0.20 until March 19, 2016. The value for the broker warrants was determined using the Black-Scholes pricing model with a share price volatility of 166% based on historical volatility, a risk free rate of 1.06%, and with no expected dividend yield over the life of the warrants.

- On May 9, 2014, the Company issued the second tranche of a brokered private placement of 3,500,000 units (the "Units") for gross proceeds of $350,000 at $0.10 per Unit. Each Unit consisted of one common share and one common share warrant of the Company. Each warrant entitles the holder to purchase one common share of the Company for $0.20 per share until May 9, 2016.

  The Company allocated the $350,000 proceeds between the shares and the warrants issued, based on the relative value of the components. The value of the shares was based on the closing value of the Company's shares on the closing date of $0.10, and the value for the warrants using the Black-Scholes pricing model at the issue date as $0.068 per share based on a share price volatility of 167% based on historical volatility, a risk free rate of 1.13%, and with no expected dividend yield over the life of the warrant. As a result, the amount was allocated as to $208,708 to share capital and $141,292 to the warrants. The Company incurred cash related issue costs in connection with private placement of $23,557, which has been allocated in the same manner as the proceeds, with $14,047 as a reduction of share capital and $9,510 as a reduction of the warrants.

  The Company issued 148,000 broker warrants in connection with the private placement. The value of the broker warrants, determined as $21,359, are considered as issue costs of the private placement, and this amount has been allocated in the same manner as the proceeds, with $12,737 as a reduction of share capital and $8,622 as a reduction of the warrants. Each broker warrant consists of a right to purchase a unit comprising one common share and one common share warrant, and the unit can be purchased for $0.10 until May 9, 2016. The warrant included in the unit allows the holder to acquire one common share for $0.20 until May 9, 2016. The value for the broker warrants was determined using the Black-Scholes pricing model with a share price volatility of 167% based on historical volatility, a risk free rate of 1.13%, and with no expected dividend yield over the life of the warrants.

During the year ended December 31, 2013, the Company completed a non-brokered private placement of 2,030,000 units (the "Units") for gross proceeds of $203,000 at $0.10 per Unit. Each Unit consisted of one common share and one common share warrant of the Company. Each warrant entitles the holder to purchase one common share of the Company for $0.20 per share until December 31, 2014.

Presented in Canadian dollars

10. SHARE CAPITAL (continued)

b) Shares issued for cash (continued)

The Company allocated the $203,000 proceeds between the shares and the warrants issued, based on the relative value of the components. The value of the shares was based on the closing value of the Company's shares on the closing date of $0.09, and the value for the warrants using the Black-Scholes pricing model at the issue date as $0.039 per share based on a share price volatility of 168% based on historical volatility, a risk free rate of 1.13%, and with no expected dividend yield over the life of the warrant. As a result, the amount was allocated as to $141,334 to share capital and $61,666 to the warrants. The Company incurred cash related issue costs in connection with private placement of $7,555, which has been allocated in the same manner as the proceeds, with $5,260 as a reduction of share capital and $2,295 as a reduction of the warrants.

c) Warrants

The Company has issued warrants in connection with debt and share offerings and debt settlements. The value of warrants has been estimated in each case using the Black-Scholes pricing model as of the applicable date of the transaction. The number of warrants outstanding as of December 31, 2014 are summarized as follows:

		Exercise Price	Warrants	$
Debt settlements	– July 10, 2013	$0.30	**1,810,390**	**127,941**
Debt settlements	– November 14, 2013	$0.30	**6,026,722**	**604,983**
Private Placement	– March 19, 2014	$0.20	**5,650,000**	**172,407**
Private Placement	– March 19, 2014 - broker warrants	$0.10 - $0.20	**452,000**	**80,175**
Private Placement	– May 9, 2014	$0.20	**3,500,000**	**123,160**
Private Placement	– May 9, 2014 - broker warrants	$0.10 - $0.20	**148,000**	**21,359**
			17,587,112	**1,130,025**

In connection with the settlement of the debt in July, 2013, the Company issued 1,810,390 warrants. Each warrant entitles the holder to purchase one common share of the Company for $0.30 until December 31, 2015. The exercise price was $0.20 until December 31, 2014.

In connection with the settlement of debt in November, 2013, the Company issued 6,026,722 warrants. Each warrant entitles the holder to purchase one common share of the Company for $0.30 until December 31, 2015. The exercise price was $0.20 until December 31, 2014.

In connection with the private placement completed in December, 2013, the Company granted 2,030,000 warrants, each allowing the holder to purchase one common share until December 31, 2014, at a price of $0.20 per share, which warrants have expired.

In connection with the private placement completed in March, 2014, the Company granted 5,650,000 warrants, each allowing the holder to purchase one common share at a price of $0.20 per share until March 19, 2016.

In connection with the private placement completed in March, 2014, the Company granted 452,000 broker warrant Units, and at a cost of $0.10 per Unit until March 19, 2016, the holder receives one common share and the ability to purchase an additional common share at a price of $0.20 per share, until March 19, 2016.

Presented in Canadian dollars

10. SHARE CAPITAL (continued)

c) Warrants (continued)

In connection with the private placement completed in May, 2014, the Company granted 3,500,000 warrants, each allowing the holder to purchase one common share at a price of $0.20 per share until May 9, 2016.

In connection with the private placement completed in May, 2014, the Company granted 148,000 broker warrant Units, and at a cost of $0.10 per Unit until May 9, 2016, the holder receives one common share and the ability to purchase an additional common share at a price of $0.20 per share, until May 9, 2016.

d) Stock options

On June 24, 2014, the shareholders of the Company approved the establishment of a new Incentive Stock Option Plan. The new plan increased the number of options available under the plan from 5,076,332 to 12,000,000.

Under the terms of the plan, directors, officers, employees and consultants, subject to certain conditions, may be granted options to purchase common shares of the Company, and options granted under the old plan are carried forward to the new plan. As at December 31, 2014 there were 10,025,000 options that have been granted and are outstanding, of which 7,572,963 are vested, with 1,975,000 options available to be granted under the plan. Options generally expire after five years, with vesting provisions stated in the plan.

Activity in the Company's stock option plan for the years ended December 31, 2014 and 2013 is summarized as follows:

	Year ended December 31, 2014		Year ended December 31, 2013	
	Number of Options	**Weighted-Average Exercise Price $**	Number of Options	Weighted-Average Exercise Price $
Outstanding, beginning of year	**4,450,000**	**0.10**	4,953,000	0.13
Granted	**7,150,000**	**0.10**	400,000	0.10
Exercised	**-**		-	
Expired/forfeited	**(1,575,000)**	**0.10**	(903,000)	0.26
Outstanding, end of year	**10,025,000**	**0.10**	4,450,000	0.10

Of the options outstanding as of December 31, 2014, 7,572,693 may be exercised. All of the outstanding options have an exercise price of $0.10, and an average remaining life of 4.4 years.

On November 29, 2014, 7,150,000 incentive stock options were granted, of which 4,697,693 are vested, with the remainder vesting over a period of eighteen months. The options are exercisable at $0.10 for a period of five years from the date of grant. The options granted were valued at $490,211, of which $339,203, representing the value of the options that vested during the year, was included in expenses, determined using the Black-Scholes option pricing model based on a risk-free interest rate of 2.00%, volatility of 211% based on historical stock price volatility, expected life of 5 years, and expected dividend yield of 0%.

Presented in Canadian dollars

10. SHARE CAPITAL (continued)

d) Stock options (continued)

The Company granted 400,000 share options on July 15, 2013, exercisable at $0.10 per share to July 15, 2018, which vested immediately. The options granted were valued at $35,722, that was included in general and administrative expenses, determined using the Black-Scholes option pricing model based on a risk-free interest rate of 1.63%, volatility of 239% based on historical stock price volatility, expected life of 5 years, and expected dividend yield of 0%.

11. INCOME TAXES

a) Income taxes

	2014	2013
Net loss before income tax	(204,577)	(1,892,345)
Combined federal and provincial statutory income tax rate	26.50%	26.50%
Expected recovery at statutory rate	(54,213)	(501,471)
Non-deductible expenses and other permanent differences	98,340	305,886
Effect of higher tax rates in foreign jurisdiction	-	(575)
Adjustment of losses available in foreign jurisdiction	-	(150,097)
Adjustment to non-capital losses and other deferred tax assets	226,482	-
Adjustment to deferred tax assets on sale of subsidiaries	1,146,790	-
Effect of write off of intercompany balances on sale of subsidiaries	208,570	-
Change in deferred tax assets not recognized	(1,625,969)	346,257
	-	-

b) Deferred tax assets and liabilities

The tax effects of temporary differences that give rise to the deferred income tax assets at December 31, 2014 and 2013 are as follows:

	2014	2013
Non-capital losses	$ 1,182,389	$ 3,096,935
Capital loss	314,441	-
Intangibles	(17,424)	(24,314)
PPE and CEC	45,810	78,564
	1,525,216	3,151,185
Deferred tax assets not recognized	(1,525,216)	(3,151,185)
Net expected deferred income tax recovery	$ -	$ -

A valuation allowance has been applied against all the above deferred income tax assets.

Presented in Canadian dollars

11. INCOME TAXES (continued)

b) Deferred tax assets and liabilities (continued)

As of December 31, 2014, the Company had non-capital losses, carried forward of approximately $4,461,843 (2013 – $10,686,553) available to reduce future years' taxable income. These losses will expire as follows:

Expiry		
2015	$	7,600
2026		553,339
2027		101,131
2028		320,518
2029		1,418,650
2030		481,214
2031		324,117
2032		392,684
2033		638,392
2034		224,198
	$	4,461,843

12. DISPOSAL OF SUBSIDIARIES

The Company disposed of the shares and all other interests in several inactive subsidiaries on December 30, 2014, for nil consideration. The subsidiaries had been inactive for a number of years, had no assets, and liabilities of $122,621. The Company recorded a gain on disposal of $122,621 in the financial statements for the year ended December 31, 2014.

13. GEOGRAPHICAL AND CUSTOMER INFORMATION

The Company's products are sold on a worldwide basis. Sales for the year ended December 31, 2014 were made to customers in the following geographic regions: Canada – 28%; United States – 34%, Rest of World – 38% (2013: Canada – 23%; United States – 63%, Rest of World – 14%).

Approximately 31% of the Company's revenue was from two customers (2013 - Two customers represented 38% of revenue).

14. FINANCIAL INSTRUMENTS

The Company has classified its financial instruments in accordance with IFRS into various categories as described in its accounting policies. A disclosure of exposures to risk with respect to financial instruments and the potential impact is described below.

Fair Value

The carrying value of accounts receivable, accounts payable and accrued liabilities, and demand loans approximates fair value due to the relatively short-term maturity of these financial instruments. Given the respective designations cash is the only financial instrument carried at fair values and has been categorized as level 1 on the fair value hierarchy.

The main risks the Company's financial instruments are exposed to are credit risk, interest rate risk, foreign currency risk and liquidity risk, each of which is discussed below.

Credit Risk -

Credit risk is low with respect to its trade and other receivables. Individual sales are relatively small, are normally to established customers, and often include a deposit for a large portion of the sale. Risk with respect to its cash is minor given the relatively small balances.

The company maintains cash balances with Canadian commercial banks. As such, the Company believes its credit risk is minimal on cash balances.

Interest Rate Risk-

The Company has a low exposure to risk with respect to interest rate fluctuations, as the level of debt has been significantly reduced. A 1% change in interest rates would have a negligible impact on income. The Company may increase debt levels depending on the nature of the financing in the future. If cash balances are higher than required for immediate requirements, the Company invests with a low risk strategy in secure short-term deposits through major banks to earn interest income. The Company has no cash equivalents.

Foreign Currency Risk -

The Company has low exposure to foreign exchange fluctuations with respect to cash, given the low cash balances. There is an impact on comprehensive income from the translation of the accounts receivable and accounts payable balances as of the end of the year. The company sells its products internationally, and incurs costs from international suppliers. As of December 31, 2014, a portion of the Company's accounts receivable and accounts payable were denominated in US Dollars, Euros and British Pounds. A 5% change in the exchange rate of those currencies would impact the comprehensive income (loss) by approximately $12,100.

The objective in managing foreign exchange risk is to monitor expenditure requirements in the short and medium term by currency, and convert available cash to the appropriate currency to match the requirements. Cash balances are small, and foreign exchange hedging is not appropriate.

14. FINANCIAL INSTRUMENTS (continued)

Liquidity risk -

Liquidity risk results from an excess of financial liabilities over available financial assets at any point in time. The Company's objective in managing risk is to ensure that it raises the amount of cash required to fund operating losses and to maintain cash to meet its other obligations. In this regard, the Company has had difficulty raising the level of cash required to meet its financial obligations as they have come due, and has entered into a number of transactions to settle debts through the issuance of shares. Cash has been raised in the last three years, including during 2014, and the Company will be required to raise additional cash to fund its ongoing operating requirements. A portion of the cash raised was in the form of debt, with short-term maturities, or due on a demand basis. The Company is in a position where its financial liabilities are greater than its assets.

15. CAPITAL MANAGEMENT

The Company defines its managed capital as the total of demand loans, shareholders' deficiency including capital stock, warrants, contributed surplus and deficit. As at December 31, 2014, total managed capital was $(2,181,727) compared to $(3,192,463) as at December 31, 2013. The Company's objectives when managing capital are:

i. To maintain balance sheet strength, ensuring the Company's strategic objectives are met, while retaining an appropriate amount of leverage;

ii. And, to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

The Company manages its capital structure within guidelines approved by the Board of Directors. The Company makes adjustments to its capital structure based on changes in economic conditions and Company's planned requirements. The Company has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt, controlling the amount it distributes to shareholders, and making adjustments to its capital expenditure program.

There were no changes in the Company's approach to capital management during the year ended December 31, 2014. The Company is not subject to externally imposed capital restrictions.

16. COMMITMENTS AND CONTINGENCIES

Under the terms of the agreement to acquire the SIAscopy™ assets in 2011, the Company is required to pay a royalty of 10% to the Seller on all future revenue related to the acquired assets.

The Company leases space for its office and manufacturing facility, with the current lease ending in August 2015, with all remaining rent having been prepaid.

Claims have been made against the Company in the normal course of its activities, including:

16. COMMITMENTS AND CONTINGENCIES (continued)

- The Company received notification in December, 2011 of a claim from a vendor for non-payment of goods delivered to the Company, amounting to 35,345 Euros. The Company is defending the claim, and has entered a counterclaim.
- The Company received notification In November, 2010 from a former employee disputing amounts due relating to his position as Chief Technology Officer, claiming approximately $418,000 in damages. The Company has filed a counterclaim for breach of contract.

Although the outcome of these claims cannot be determined with certainty, management estimates that any potential payments resulting from their outcomes are not likely to have a substantial negative impact on the Company's results and financial position.

17. RELATED PARTY TRANSACTIONS

During 2014 the Company incurred costs for management and Board compensation of $532,458 (2013 - $540,125) under the terms of their compensation arrangements, of which $236,416 has not been paid. In addition, $313,508 of the expense recorded in 2014 for share-based compensation relates to management.

See notes 8, 9 and 10 for related party transaction disclosure relating to demand loans, convertible debentures, debt settlements with common share consideration and stock options issuances respectively.

Included in accounts payable and accrued liabilities as of December 31, 2014 is $1,047,910 (2013 - $1,149,575) due to officers and directors of the Company.

18. SUBSEQUENT EVENTS

Subsequent to December 31, 2014, the company entered into a demand loan arrangement with a corporation controlled by a director, pursuant to which the sum of $100,000 was advanced to the Company, with no fixed terms for repayment, without interest but subject to a 3% commitment fee payable on repayment, together with the grant, subject to the Company first obtaining all relevant regulatory and other consents and approvals, of a Warrant to purchase 100,000 shares from the treasury of the Company at the price of $0.12 per share, valid for a period of two years.

Effective March 31, 2015, certain members of the Board of Directors have agreed to a reduction of $102,500 of certain amounts owing to them, and the settlement for the remaining $51,200 of such remaining amounts by the issuance of 512,500 shares of the Company, subject to all relevant regulatory and other consent and approval.