APTERYX IMAGING INC.
(FORMERLY LED MEDICAL DIAGNOSTICS INC.)
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") has been prepared by management as of May 27, 2020 and should be read in conjunction with the audited consolidated financial statements and related notes of Apteryx Imaging Inc. (the "Company"), formerly LED Medical Diagnostics Inc., as at and for the three months ended March 31, 2020 (prepared in accordance with International Financial Reporting Standards or "IFRS"). All amounts are presented in United States (U.S) dollars unless otherwise noted. Additional information about the Company, including the Company's Annual Information Form ("AIF"), are available on SEDAR at www.sedar.com.

DISCLAIMER FOR FORWARD-LOOKING STATEMENTS

The following Management's Discussion and Analysis contains statements, which, to the extent that they are not recitations of historical fact, may constitute forward-looking information under applicable Canadian securities legislation. Such forward-looking statements or information includes financial and other projections as well as statements regarding the Company's future plans, objectives, performance, revenues, growth, profits, operating expenses or the Company's underlying assumptions and the Company's intention to expand its technology beyond dental applications including "costs of production", "capital expenditures", "costs and timing of the development of new products", "hedging practices", "currency exchange rate fluctuations", "requirements for additional capital", "government regulation of medical device operations" and "insurance coverage". Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "would", "could", "might" or "will be taken", "occur" or "be achieved" or the negative connotation thereof. Persons reading this Management's Discussion and Analysis are cautioned that such statements or information are only predictions, and that the Company's actual future results or performance may be materially different. Factors that could cause actual events or results to differ materially from those suggested by these forward-looking statements include, but are not limited to: history of losses; operational risk; debt repayment risk including the risk that some or all of the amounts received under the paycheck protection program may be repayable; distributor risks; disruptions in production; seasonality; working capital requirements; seasonality; new diseases and epidemics (such as COVID 19); management's estimates; regulatory requirements; reliance on few suppliers; dependence on limited third party product vendors; reliance on subcontractors; failure to realize benefits currently anticipated; operating cost fluctuations; fluctuations in exchange rates; taxation; economic conditions; additional financing risk; research and development risk; stock price volatility; product development and technological change risk; sales and marketing and strategic alliances risk; dependence on small number of customers; the Company not adequately protecting its intellectual property; competition risk; fluctuations in quarterly results; dependence upon key personnel and hiring; acquisition risk; risks related to product defects and product liability; future share sale risk; management of growth risk and including, but not limited to, other factors described in the Company's reports filed on SEDAR, including its financial statements and management's discussion and analysis for the year ended December 31, 2019. In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors: the Company's ability to execute on its business plan; the acceptance of the Company's products and services by its customers; the timing of execution of outstanding or potential customer contracts by the Company; the sales opportunities available to the Company; the Company's subjective assessment of the likelihood of success of a sales lead or opportunity; the Company's historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company's estimated margins. This list is not exhaustive of the factors that may affect the Company's forward-looking information. These and other factors should be considered carefully, and readers should not place undue reliance on such forward-looking information. All forward-looking statements made in this Annual Information Form are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. The Company disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW

The Company was incorporated under the BCBCA on July 17, 2002 as 651192 B.C. Ltd. The Company changed its name to LED Medical Diagnostics Inc. on November 6, 2003 and to Apteryx Imaging Inc on September 3, 2019. The Company's head office is located at 580 Hornby Street, Unit 780, Vancouver, B.C. V6C 3B6. The Company's registered and records office is located at 2500 – 700 West Georgia Street, Vancouver, B.C. V7Y 1B3. The Company is listed on the TSX Venture Exchange (TSX-V) under the trading symbol XRAY.

As of the date of this report, the Company has three wholly-owned subsidiaries, LED Dental Ltd., which was incorporated on August 3, 2006 under the laws of Washington State; LED Dental Inc., which was incorporated on January 18, 2006 under the BCBCA, and Apteryx, Inc. acquired on February 10, 2017 was incorporated under the laws of Ohio state.

General Development of the Business

The Company's first product, the VELscope®, a patented hand-held medical device for the early discovery of oral mucosal lesions has experienced widespread adoption in the North American dental market and is the global market leader in this product category. In 2014, the Company established its US based operations in Atlanta, Georgia and began expansion and diversification of its imaging device portfolio with the launch of the Tuxedo intraoral digital sensor and through distribution agreements with select imaging device manufacturers including RAY America with the RAYSCAN extra oral radiographic imaging product line. In February 2017, The Company acquired Apteryx Inc., an Ohio based dental imaging software company. Since the Apteryx acquisition the Company has taken significant and progressive steps towards establishing itself as a leader in the development, sales and support of dental imaging devices and related software including its XVWeb® software as a service (SaaS) product.

Description of the Business

Apteryx Imaging Inc. has grown from a pre-commercial research and product development company to a niche software and technology workflow solutions provider for dentists and oral health care specialists. The Company's product portfolio is centered on a family of patented, open architected software applications which includes XVWeb® SaaS imaging software, the Tuxedo® intraoral digital radiographic sensor, the VELscope® oral assessment device and additional distributed imaging devices. The customer base of the Company's initial VELscope® product, along with customers acquired from the February 2017 Apteryx acquisition provides a predictable pipeline and growth platform for lead generation for its imaging device and software business. The Company's sales and marketing activities are directed primarily within the North American market and are focused towards corporately owned group practices known as Dental Support Organizations (DSOs), government dental clinics and individual dental practices. The Company markets its products and services both directly and through select dental distributor / reseller channels to its target market of end user dental professionals. Marketing activities include direct mail/e-mail campaigns, advertising in industry journals and trade magazines, the publication of white papers, postings on social media and multiple unrelated offsite activities at locations including the company's web sites, personal onsite office visits and inbound and outbound telephone calls. In limited cases, direct marketing activities are oriented towards convincing dental practitioners to attend an educational seminar, webinar or trade show event in which Apteryx Imaging Inc. is a sponsor or participant.

The Company believes there is potential for continued expansion into international markets with its VELscope® device and the recent addition of the Apteryx software portfolio, which can both be localized to different languages. Apteryx Imaging Inc. also has had recent success in establishing indirect and direct partnerships with large dental distributors and other organizations and networks that provide goodwill marketing for the Company and its products at offsite locations. This is a cost-effective strategy that the company will look to continue in the future.

In February 2017, the Company acquired Apteryx Inc. providing the Company with a growing stream of recurring revenue, a significant new base of customers, an expanded and strengthened IP portfolio, research and development software capabilities and a suite of patented digital imaging software. XVWeb®, XrayVision®, XVlite®, and DataGrabber represent Enterprise, Client Server and Software as a Service (SaaS) versions of the Apteryx Imaging portfolio. Once installed at a customer's site, unlike most competitive offerings, Apteryx software allows the practice to interface with and deploy image acquisition devices from a wide range of hardware manufacturers. Through its patented data grabber and name grabber software utilities, Apteryx software also provides integration to most dental practice management software solutions. Apteryx's "open architecture" approach is unique in the dental industry where most competitive systems are "closed" proprietary systems. Apteryx competitive advantage of open compatibility with competitive imaging devices and integration with existing dental practice software allows a practice to continue to use their existing inventory of image acquisition devices while enabling the addition of the Company's imaging device solutions which are optimized for Apteryx software. This allows the Company to successfully compete for the imaging device sales once Apteryx is installed at a customer's site. The ability to integrate with a wide range of devices and practice management software systems creates natural pull through on sales capabilities.

XVWeb® is a cloud based dental imaging software as a service (SaaS) solution that allows an individual practice or organization to capture and view their patient images securely and remotely from most web-enabled devices. Designed to work with existing imaging applications via secure TLS DICOM, XVWeb® allows the customer to store and retrieve images and image data from a webpage or any DICOM-compatible imaging program over a secure connection. XVWeb® allows the entire imaging database to be securely accessible via most web-connected device including smart phone or tablet. XVWeb® allows our customers to scale down the size and expense of onsite servers while reducing hardware and IT maintenance costs by utilizing XVWeb® and cloud resources.

In addition, most 3rd party practice management systems can be bridged to XVWeb®, and many, communicate directly and seamlessly with XVWeb® as an embedded service for clinical image management, processing and analysis. Apteryx software products facilitate our customers and prospects transition to a complete digital imaging workflow via the provision of image capture, analysis, storage, data conversion and sharing functionalities.

The acquisition of Apteryx continues to strengthen the Company by providing a growing stream of recurring revenue from SaaS and support and maintenance agreements and additional synergies to its core business which we expect will result in a financially stronger and more diversified Company with less reliance on imaging devices sales. Currently Apteryx revenues are a mix from the sale of perpetual software licenses, and recurring revenues from XVWeb® subscription software and the sale of support and maintenance agreements to its software customers. XVWeb® software platform add on subscription modules including our recently released XVWeb® 3D which supports 3D Cone Beam Computed Tomography (CBCT) and Stereolithography (STL) data sets. XVWeb® 3D will be offered to all current XVWeb® customers.

The core of the digital imaging device product line is the proprietary TUXEDO intraoral digital sensor used for acquiring low dose intra-oral radiographs. The Tuxedo sensor is optimized for use with Apteryx software products and services.

The VELscope® was initially launched in 2006 with the VELscope® Vantage, and, in 2011, the VELscope® Vx. The VELscope® Vx is portable, rechargeable, and significantly more affordable than previous models. Its increased functionality and lower production costs improve the Company's prospects as it expands into more countries. The VELscope® Vx hand piece emits a safe blue light into the oral cavity, which excites the tissue from the surface of the epithelium through to the basement membrane (where premalignant changes typically start) and into the stroma beneath, causing it to fluoresce. The clinician is then able to immediately view the fluorescence response to help detect abnormal tissue. The VELscope® has peer-reviewed clinical studies that support its use in helping discover occult oral disease. The services of Apteryx Imaging Inc. and its partners are directed toward developing a professional outreach program with key university–based oral pathology, oral surgery, and oral medicine leaders worldwide to assist healthcare providers as the need arises. The Company is positioned to facilitate the dissemination of new findings that address early detection based on fluorescence and other technologies. Currently over 50% of US dental colleges own at least one VELscope®. The Company has sold over 15,000 VELscope® devices since initial launch and supplies its VELscope® customers with disposable VELcaps and VELcare® customer support programs.

Products and Intellectual Property

Apteryx Imaging Inc.'s focus is on accelerating growth through its proprietary and patented products and technologies and aggregating a comprehensive imaging product portfolio in which intellectual property and competitive barrier to entry are a central focus. The Company has sought patent protection for its projects by filing one or more patent applications for each aspect of a device, system or method, that the Company believes is both patentable and that justifies the costs of patent protection. The Company intends to protect future developments in the same manner. The Company maintains certain of its intellectual property as trade secrets. The Company also has pursued and intends to pursue trademark, copyright and other intellectual property protection as it believes is warranted. Currently Apteryx Imaging Inc. has a portfolio of US and foreign patents.

FORWARD-LOOKING COMPANY OBJECTIVES

Apteryx improved financial performance in 2019, which included significant improvement in gross margin, EBITDA and revenue quality was attributed to growth in software and service revenues, particularly the growth in recurring revenues from subscription sales and in addition, sales focus on the Company's own proprietary devices including the VELscope® oral screening device, Tuxedo intra-oral radiographic sensor, related consumables and our suite of software solutions and services and the exit from the sales of third party imaging devices at lower gross margin.

The Company's main objectives for the balance of 2020 are to continue to improve EBITDA[1] and free cash flow while strengthening the Company's financial position by:

- Continued investment in recurring and repeatable revenue growth from XVWeb SaaS, and related subscription and support services, via traditional sales/marketing activities and strategic partnering opportunities
- Targeted customer acquisition campaigns in the Dental Support Organization (DSO) and government market segments
- Continue the development of cloud-based AI solutions to partner with the Company's existing suite of software products

Corporate Highlights

- On February 6, 2020, the Corporation announced the appointment of a new Director, Mr. Avi Naider. Mr. Naider has over twenty-five years of experience operating and advising growth companies in various sector. Mr. Naider is a graduate of Princeton University and has served on various boards of public and private companies.

- On March 3, 2020, the Corporation appointed Avi Naider as the Executive Chairman of the board of Directors and Darryl Yea, the former Chairman has been appointed Lead Director.

- On March 10, 2020, the Corporation announced that 4th IR has now completed the Caries Module, which is intended to be an AI decision support module for use with Apteryx's existing software platforms and as a standalone product for the general dental market.

Financial Highlights

- Revenue for the three months ended March 31, 2020 was $3,879,086, an increase of 2% from the three months ended March 31, 2019. The increase over the prior year period is primarily due to growth in the Company's recurring and repeatable revenue streams.
- Gross Margin[2] for the three months ended March 31, 2020 was $2,804,609 or 72%, compared to the three months ended March 31, 2019 of $2,582,140 or 68%. The increase in gross margin[2] percentage is due to a favorable change in product mix with a growth in sales of the Company's higher margin proprietary software, warranty and support products, and less reliance on distributed third-party products.
- Operating Expenses (excluding stock-based compensation and depreciation and amortization) increased compared to the three months ended March 31,2019. The Company increased expenditure in sales and marketing, research and development and administration.

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[1] *EBITDA or Earnings before Interest, Taxes, Depreciation and Amortization is a non-IFRS measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure. EBITDA referenced here relates to net revenue less cost of goods sold, sales and marketing, support, research and development and administration expenses but excludes interest, income taxes, depreciation, amortization, finder's warrants issuance costs, stock-based compensation, deferred share unit compensation, mark to market adjustments on Canadian dollar denominated warrants, changes in fair value of derivative liabilities, foreign exchange gain or loss and other income. This measure does not have a comparable IFRS measure and is used by the Company to manage and evaluate the cash operating income (loss) of the business.*

[2] *Gross margin is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. Gross margin referenced here relates to revenue less cost of sales. Cost of sales is the direct costs attributable to the production of the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.*

- Net income for the three months ended March 31, 2020 was $1,182,312 compared to a net loss of $613,994 for the three months ended March 31, 2019. Net income was impacted by non-operating expenses including changes in the fair value of derivative liability, foreign exchange and interest expense.
- Cash flow provided by (used in) operations was ($255,154) for the three months ended March 31, 2020 compared to $521,806 for the three months ended March 31, 2019. The net cash used in financing activities was $(96,769) for the three months March 31, 2020 compared to the three months ended March 31, 2019 of $(842,937) relating to the Company's debenture obligation repayment in 2019.
- The Company had cash of $1,481,839 and Net Working Capital of $2,111,243 as at March 31, 2020. The Company had cash of $2,540,051 and Net Working Capital of $1,489,951 as of March 31, 2019. Net Working Capital is defined as total current assets less total current liabilities.

SELECTED QUARTERLY INFORMATION

The information in the tables below has been derived from the Company's annual audited consolidated financial statements. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

(in US$ '000's)	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Cash	$1,482	$1,850	$2,468	$2,778	$2,540	$2,828	$3,413	$1,174
Working Capital	$2,111	2,023	1,521	1,763	1,490	777	2,576	(2,566)
Total Assets	$13,748	13,724	14,816	15,745	14,901	15,444	15,815	13,655
Total Liabilities	$7,615	10,127	11,434	11,955	10,896	11,356	8,077	10,182
Shareholders' Equity	$6,133	3,597	3,382	3,791	4,005	4,087	3,483	3,473

Historically, due to the timing of trade shows and client spending patterns, the Company's business has been seasonal in nature, with the fourth quarter typically representing the largest portion of annual sales and annual net earnings. Management expects such seasonality to be less of a factor going forward, due to adding the Apteryx software product line, focusing on a recurring revenue model, as well as selling to the DSO market and government agencies.

Consolidated Statement of Operations:

(in US$ '000's, except earnings per share)	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Revenues	$3,879	$4,631	$3,166	$3,933	$3,814	$3,812	$3,401	$3,671
Cost of goods sold	1,074	1,544	1,060	1,257	1,232	1,730	1,081	1,507
Gross margin[3]	2,805	3,087	2,106	2,676	2,582	2,082	2,320	2,164
Expenses:								
Sales, marketing and support	1,350	1,475	1,308	1,192	1,283	1,185	1,148	1,293
Research and development	401	324	353	406	316	292	300	270
Administration	555	622	495	563	431	1,019	486	501
Operating Income (loss)	499	357	(313)	248	249	(414)	386	100
Other expenses (income)	(683)	215	122	491	864	(952)	562	(278)
Income tax expense	-	-	-	-	-	-	-	-
Net profit (loss)	1,182	142	(436)	(242)	(615)	538	(176)	378
Net income (loss) per share (basic)	0.00	0.00	(0.01)	(0.01)	(0.02)	0.01	(0.00)	0.01

See Financial Results section below for further discussion on the selected quarterly income statement information.

[3] *Gross margin is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. Gross margin referenced here relates to revenue less cost of sales. Cost of sales is the direct costs attributable to the production of the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.*

(Expressed in U.S. dollars, unless otherwise noted)

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2020

The following analysis of the results of operations for the three months ended March 31, 2020 includes comparisons to the three months ended December 31, 2019 and March 31, 2019.

Revenue

Revenue is derived from the sale of the Company's product line of digital imaging software, software as a service subscriptions (SaaS), maintenance and support services, and imaging hardware devices which includes the VELscope® product and related consumable products, Tuxedo intraoral sensors and distributed extraoral imaging devices. Revenue is expressed net of sales and early payment discounts.

		Three months ended:	
	March 31, 2020	December 31, 2019	March 31, 2019
Total revenue	**$ 3,879,086**	$ 4,630,513	$ 3,814,466

Revenue increased 2% when compared to the three months ended March 31, 2019 and decreased by 16% from the three months ended December 31, 2019. Software related revenue for the period was impacted by a Microsoft Windows 7 platform upgrade which resulted in many of the Company's customers requiring an upgrade to their existing digital imaging software. The decrease over the prior period is primarily due to the closure of dental offices in mid-March 2020 as recommended by North American Dental Associations due to the COVID-19 pandemic.

During the three months ended March 31, 2020, the Company had no customers that represent 10% or more of total revenue. During the three months ended December 31, 2019 and the three months ended March 31, 2019, revenue from customers which amounted to 10% or more of the Company's revenue was also nil.

The Company generates a majority of its revenue from the North American market and is exploring expansion into other geographical regions.

Gross Margin[4]

The Company experienced the following gross margin[4] for the periods outlined:

		Three months ended:	
	March 31, 2020	December 31, 2019	March 31, 2019
Revenue	**$ 3,879,086**	$ 4,630,513	$ 3,814,466
Cost of sales	**1,074,477**	1,543,546	1,232,326
Gross margin[4]	**$ 2,804,609**	$ 3,086,967	$ 2,582,140
Percentage of revenue	**72%**	67%	68%

Gross margin[4] for the three months ended March 31, 2020 was 72% compared to 68% for the three months ended March 31, 2019. The increase in gross margin[2] percentage is due to a favorable change in product mix with a growth in sales of the Company's higher margin proprietary software, warranty and support products, and less reliance on distributed third-party products.

[4] *Gross margin is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. Gross margin referenced here relates to revenue less cost of sales. Cost of sales is the direct costs attributable to the production of the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.*

(Expressed in U.S. dollars, unless otherwise noted)

Expenses

	Three months ended:		
	March 31, 2020	December 31, 2019	March 31, 2019
Sales, marketing and support	**$ 1,350,215**	$ 1,474,821	$ 1,282,802
Research and development	**401,029**	323,913	315,557
Administration	**555,249**	622,242	431,067
Other operating expenses	**276,766**	309,202	303,418
Total expenses	**$ 2,583,439**	$ 2,730,178	$ 2,332,844
As a percentage of revenue	**67%**	59%	61%

Expenses for the three months ended March 31, 2020 decreased 5% compared to the expenses for the three months ended December 31, 2019 due to decreased sales, marketing and customer support expenses and administration expenses. Research and development expenses increased for the three months ended March 31, 2020 compared to the three months December 31, 2019, as there was a payment of common shares to 4th IR for completion of the Caries AI Module.

Sales, Marketing and Support

	Three months ended:		
	March 31, 2020	December 31, 2019	March 31, 2019
Sales, Marketing & Support Expenses	**$1,350,215**	$ 1,474,821	$ 1,282,801
As a percentage of revenue	**35%**	32%	34%

Sales, marketing and support expenses consists of salaries and related personnel costs, sales commissions, consulting fees, advertising and trade show costs. The decrease in sales, marketing and support expenses for the three months ended March 31, 2020 compared to the three months ended December 31, 2019 was due to a decrease in sales personnel commission expenses.

Research and Development

	Three months ended:		
	March 31, 2020	December 31, 2019	March 31, 2019
Research and Development Expenses	**$ 401,029**	$ 323,913	$ 315,557
As a percentage of revenue	**10%**	7%	8%

Research and development expense relates primarily to salaries and related benefit costs, costs related to development of Apteryx software technology and the Company's hardware products, along with costs involved with obtaining and maintaining regulatory approvals. The Company is currently focused on enhancing and developing new imaging devices and software products, including additional XVWeb® modules and other software related enhancements.

Administration

	Three months ended:		
	March 31, 2020	December 31, 2019	March 31, 2019
Administration Expenses	**$ 555,429**	$ 622,242	$ 434,067
As a percentage of revenue	**14%**	13%	11%

Administration expenses include executive and administrative staff, facilities, investor relations, insurance, audit, tax and legal fees as well as various general administrative costs. Administration expenses were lower for the three months ended March 31, 2020 compared to the three months ended December 31, 2019 due to an annual board of director fee payment in December along with increased credit card processing fees. Administration expenses increased for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 as professional fees and board of director fees expenses increased.

Other Operating Expenses

	Three months ended:		
	March 31, 2020	December 31, 2019	March 31, 2019
Stock-based compensation	**$ 33,960**	$ 73,055	$ 68,844
Depreciation & amortization	**242,806**	236,147	234,574
Total other operating expenses	**$ 276,766**	$ 309,202	$ 303,418
Percentage of revenue	**7%**	7%	8%

Other Operating Expenses remain consistent between the three months ended March 31, 2020 and the three months ended December 31, 2019 and the three months ended March 31, 2019 as a percentage of revenue.

EBITDA[5]

	Three months ended:		
	March 31, 2020	December 31, 2019	March 31, 2019
Net income (loss)	**$ 1,182,312**	$ 141,712	$ (613,994)
Add back: Other expenses (earnings)	**(684,376)**	524,279	1,166,708
EBITDA[5]	**$ 497,936**	$ 665,991	$ 552,714

EBITDA[5] was $497,396 for the three months ended March 31, 2020 compared to $665,991 for the three months ended December 31, 2019 and $552,714 for the three months ended March 31, 2019.

Other Expenses (Earnings)

	Three months ended:		
	March 31, 2020	December 31, 2019	March 31, 2019
Change in fair value of Canadian dollar denominated warrants	**$ -**	$ -	$ (155)
Change in fair value of derivative liabilities	**(772,374)**	(213,503)	433,955
Foreign exchange (gain) loss	**(390,074)**	131,922	137,773
Interest expense	**201,306**	287,546	294,829
Other non-operating expenses	**-**	9,111	(2,812)
Total other expenses (earnings)	**$ (961,142)**	$ 215,076	$ 863,290

For the three months ended March 31, 2020 other expenses decreased in comparison to the three months ended December 31, 2019 due to a favourable unrealized foreign exchange gain associated with liabilities denominated in CAD$, and gain resulting from the change in fair value of the derivative liabilities.

[5] *EBITDA or Earnings before Interest, Taxes, Depreciation and Amortization is a non-IFRS measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure. EBITDA referenced here relates to net revenue less cost of goods sold, sales and marketing, support, research and development and administration expenses but excludes interest, income taxes, depreciation, amortization, finder's warrants issuance costs, stock-based compensation, deferred share unit compensation, mark to market adjustments on Canadian dollar denominated warrants, changes in fair value of derivative liabilities, foreign exchange gain or loss and other income. This measure does not have a comparable IFRS measure and is used by the Company to manage and evaluate the cash operating income (loss) of the business.*

(Expressed in U.S. dollars, unless otherwise noted)

Net Income (Loss)

	Three months ended:		
	March 31, 2020	December 31, 2019	March 31, 2019
Operating income (loss)	**$ 221,170**	$ 356,788	$ 294,296
Total other Expenses (earnings)	**(961,142)**	215,076	(863,260)
Income tax expense	**-**	-	-
Net income/ (loss) for the period	**$ 1,182,312**	$ 141,712	$ (613,994)
Earnings/ (Loss) per share	**$ 0.03**	$ (0.00)	$(0.02)

Net Income for the three months ended March 31, 2020 was $1,182,312 or $0.03 earnings per share compared to net income of $141,712 for the three months ended December 31, 2019 or $(0.00) earnings per share. Other non-operating expenses including changes in the fair value to derivative liability, foreign exchange losses and interest impacted the net income figure for the period.

LIQUIDITY AND CAPITAL RESOURCES

The Company's near-term cash requirements relate primarily to operations, working capital and general corporate purposes. Based on the current business plan, the Company believes cash and cash equivalents, along with its short-term investments will be sufficient to fund the Company's operating requirement for the next three months. The Company updates its forecasts on a regular basis and will consider additional financing sources as appropriate.

As at March 31, 2020, the Company had cash of $1,481,839 and Net Working Capital of $2,111,243 as compared to cash of $2,540,051 and Net Working Capital of $1,489,951 as at March 31, 2019.

	Three months ended:	
Cash provided by (used in):	**March 31, 2020**	March 31, 2019
Operating activities	**$ (255,154)**	$ 521,806
Investing activities	**(9,853)**	-
Financing activities	**(96,769)**	(842,937)
Foreign exchange effect on cash	**(5,918)**	33,300
Net (decrease) increase in cash	**$ (367,694)**	$ (287,831)

Cash used in operating activities for the three months ended March 31, 2020 was attributable to positive net income from operating activities offset by negative changes in working capital items.

For the three months ended March 31, 2020 cash flows relating to investing activities was for the purchase of computer hardware and office furnishings.

The financing activities during the three months ended March 31, 2019 relates to the payment of the February 2019 maturing Debenture units. Financing activities for the three months ended March 31, 2020 related to lease payments and dividend payments on the preferred shares.

(Expressed in U.S. dollars, unless otherwise noted)

STAFFING LEVELS

The following table summarizes the Company's headcount by functional group:

	As at March 31, 2020	As at December 31, 2019	As at March 31, 2019
Sales and marketing	14	13	13
Support	17	19	18
Research and development	11	10	10
Administration	6	6	5
Total	**48**	**48**	**46**

COMMITMENTS

The Company has operating leases with respect to its operating premises in Vancouver, British Columbia, Canada.; Atlanta, Georgia, United States; and Akron, Ohio, United States. The aggregate of minimum lease payments as at March 31, 2020:

2020		161,299
2021		156,510
2022		50,388
2023		8,450
Total future minimum lease payments	**$**	**376,647**

The Company has 16,637,624 convertible preferred shares outstanding. The preferred shares were issued at a price of CDN$0.45 per share. Each share is entitled to cumulative annual dividends of CDN$0.0225 per share (5%), payable in arrears quarterly in cash until maturity. The dividend rate may be increased to an annual dividend of CDN$0.054 per share (12%) under certain circumstances. The preferred shares mature on September 4, 2023.

The terms of the preferred share agreement are inclusive of a dividend escalation clause which may increase the annual dividend payable from 5% to 12% based on failure to comply with two covenants. The two covenants relate to the achievement of a minimum annual EBITDA balance and if the Company does not achieve the minimum annual EBITDA balance, the Company must maintain a minimum cash balance. The covenants are in effect each year until maturity in 2023. For the 2018 year, the Company did not comply with the minimum EBITDA covenant due to transaction costs associated with closing of the Financing and Debenture Exchange, however the Company did comply with the minimum cash balance covenant for 2018 and as such there was no impact on the annual dividend rate payable for the subsequent 2019 year. For the 2019 year, the Company complied with both the minimum EBITDA covenant and the minimum cash balance covenant and as such there is no escalation to the annual dividend rate for the subsequent 2020 year. The current cash obligations for the preferred shares is a 5% annual dividend, paid quarterly in arrears, at the discretion of the Company's board of directors, otherwise if not paid in cash, accrued until paid. As at March 31, 2020 all quarterly interest has been paid in cash and accrued interest at March 31, 2020 is $0.

INTANGIBLE ASSET IMPAIRMENT

The Company has no impaired intangible assets.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

(Expressed in U.S. dollars, unless otherwise noted)

TRANSACTIONS WITH RELATED PARTIES

Related parties include key management, the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

During the three months ended March 31, 2020 and 2019 respectively, the Company paid or accrued the following compensation expenses to key personnel of the Company:

	Three months ended:	
Cash used in:	**March 31, 2020**	March 31, 2019
Short-term compensation	**$ 228,193**	$ 132,177
Share-based payments	**19,197**	55,806
Total	**$ 247,390**	$ 187,983

In June 2019, there was a change in the board of directors and corporate management team which increased the short-term compensation for the three months ended March 31, 2020 in comparison to the corresponding 2019 period.

During 2019, the Company entered into a marketing consulting arrangement with a third-party company controlled by one of the Company's directors. Payments made under this consulting agreement since the time the director joined the Company have been included in the related parties' short-term compensation for the three months ended March 31, 2020.

In early 2020, the Company appointed an additional director to its board, who also commenced an Executive Chair position which increased the short-term compensation in comparison to the corresponding 2019 period.

(Expressed in U.S. dollars, unless otherwise noted)

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These interim condensed consolidated financial statements, which have been approved by the Board of Directors on May 28, 2020, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These consolidated financial statements have been prepared using the historical cost basis and the same accounting policies as those disclosed in the Company's annual financial statements as at and for the year ended December 31, 2019. Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company's annual financial statements as at and for the year ended December 31, 2019 (which were prepared in accordance with International Financial Reporting Standards, or "IFRS").

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management makes assumptions and estimates of the impacts from uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates, as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis, including impairment of goodwill and assets with indefinite and finite lives, based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting impacts on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. Investors are cautioned that circumstances may arise which may cause estimates to be revised or may cause actual results to differ from these estimates and these revisions or differences may be material to the Company's financial position. The critical judgments and estimates applied in the preparation of the Company's consolidated financial statements for the three months ended March 31, 2020 are consistent with those applied and disclosed in note 3 to the Company's audited consolidated financial statements for the year ended December 31, 2019.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The following financial instruments are all measured at amortized cost. The fair value of each approximates its carrying value due to their short-term nature. The fair value of the investment in customer is determined using implied valuations from financing rounds. Therefore, it is treated as a Level 1 financial asset, as with the fair value equating its carry value.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures.

The carrying values and fair values of financial assets (liabilities) as at March 31, 2020 and March 31, 2019 are summarized as follows:

<u>Classification of financial instruments</u>

Financial assets included in the statement of financial position are as follows:

	March 31, 2020	December 31, 2019
Amortized cost:		
Cash	$ 1,481,839	$ 1,849,533
Trade and receivables	2,641,243	2,109,677
	$ 4,123,082	$ 3,959,210

(Expressed in U.S. dollars, unless otherwise noted)

Financial liabilities included in the statement of financial position are as follows:

	March 31, 2020	December 31, 2019
FVPTL:		
Warrants	$ -	$ -
Derivative preferred share liability	1,765,195	3,229,201
	$ 1,765,195	$ 3,229,201

	March 31, 2020	December 31, 2019
Other financial liabilities:		
Trades payable and accrued liabilities	$2,319,103	$1,889,658
Preferred Shares	2,296,137	3,145,235
Lease Liability	312,837	161,837
	$ 4,928,077	$ 5,196,730

Fair value

Due to the short-term nature of cash, trade and other receivables, trade payables and accrued liabilities and deferred revenue, their fair values approximate their carrying amounts.

The fair value of the Company's debenture and accrued interest payable is estimated by a discounted cash flow model based on market rate of interest existing at the end of the reporting period. Management believes that there has been no significant change in market interest rate since the inception of the debenture and as such the fair value of the debenture approximates the carrying value given that an immaterial amount of transaction cost was allocated to the debenture at inception.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as at March 31, 2020 and December 31, 2019. As required by IFRS 13, assets and liabilities are classified in their entirety on the lowest level of input that is significant to the fair value measurement.

	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value at March 31, 2020**
Derivative preferred share liability	-	-	$ 1,765,195	$ 1,765,195
Total	-	**-**	**$ 1,765,195**	**$ 1,765,195**

(Expressed in U.S. dollars, unless otherwise noted)

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value at December 31, 2019
Derivative preferred share liability	-	-	$3,229,201	$ 3,229,201
Total	**-**	**-**	**$3,229,201**	**$ 3,229,201**

The Company measures warrants using the Black-Scholes method, which utilizes the risk-free rate and the stock price volatility to estimate the fair value of warrants. The effects of non-observable inputs are not significant for CDN denominated warrants and as such this financial instrument is categorized as Level 2 in the fair value hierarchy. There were no transfers between Level 1, 2 and 3 in 2019 or year to date 2020.

Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, and interest rate risk are provided below.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risks arising from its cash and restricted cash and receivables. The Company manages credit risk by placing cash with major Canadian financial institutions. With respect to receivables, the Company performs ongoing credit evaluations of its customers' financial condition.

The Company monitors collectability of receivables on an on-going basis to determine credit risk. In order to mitigate credit risk, the Company offers credit terms to established customers. Other customers are required to pay in advance or by credit card, prior to shipping of the product. At March 31, 2020, any accounts receivable due beyond one year have been provided for in the allowance for doubtful accounts.

As at March 31, 2020 and December 31, 2019, the Company's exposure to credit risk for these financial instruments was as follows:

Credit risk	**March 31, 2020**	December 31, 2019
Cash	$ 1,481,839	$ 1,849,533
Receivables	2,641,243	2,091,356
Total	**$ 4,123,082**	$ 3,940,889

Trade accounts receivable were aged as follows as at March 31, 2020 and December 31, 2019.

Accounts receivable aging	**March 31, 2020**	December 31, 2019
Current	$ 1,679,484	$ 1,371,479
31 - 60 days	257,025	327,885
Over 60 days	662,733	391,992
Total accounts receivable	**$ 2,599,242**	$ 2,091,356
Goods and services tax receivable	42,001	18,321
Total Accounts Receivable plus taxes receivable	**$ 2,641,243**	$ 2,109,677

(Expressed in U.S. dollars, unless otherwise noted)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company manages its liquidity risk associated with its financial liabilities through the use of cash flow generated from operations, and the issuance of additional equity primarily through private placements, as required to meet the payment requirements of maturing financial liabilities.

The contractual maturities of the Company's trade payables were aged as follows as at March 31, 2020 and December 31, 2019, respectively and does not include accrued liabilities, warranty provision and state and provincial sales tax payable. All trade payables are current liabilities:

Accounts payable aging	**March 31, 2020**	December 31, 2019
Current	$ 804,371	$ 846,346
31 - 60 days	1,493	1,418
Over 60 days	-	9,873
Total	**$ 805,864**	$ 857,637

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as at March 31, 2020:

	Within One Year	**Between One and Five years**
Trade payables and accrued liabilities	$ 2,319,103	$ -
Deferred revenue	922,029	-
Lease Liability	142,697	170,140
Preferred Shares	278,490	2,017,647
	$ 3,662,319	**$ 2,187,787**

The ability of the Company to make the aforementioned payment requirements related to maturing financial liabilities in the near term is dependent on the ability to secure additional financing and the timing of cash flows from operations. The ability to obtain additional financing is dependent on continued access to debt and/or equity markets, which may not be available on acceptable terms. In the event that debt or equity capital is not available on acceptable terms, the Company may need to explore other strategic alternatives.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is limited to the portion of the Company's cash held in bank accounts that earn interest and debentures that pay interest. There is no interest rate risk associated with the debentures as they carry a fixed rate of interest.

Due to the limited and short-term nature of these financial instruments, fluctuations in the interest rates will not have a significant impact on their fair value. As at March 31, 2020, the Company had not entered into any derivative contracts to manage this risk.

Foreign Currency risk

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs primarily attributable to its services business and has outstanding trade and other payables denominated in Canadian dollars and other foreign currencies. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations. The Company maintains certain assets, inclusive of a portion of its treasury investments, in Canadian dollars which are translated to its U.S. dollar functional currency resulting in an unrealized foreign exchange gain or loss. The Company has not hedged its exposure to currency fluctuations.

With all other variables remaining constant, assuming a 10% weakening of the Canadian dollar versus the U.S. dollar would have an impact on the amounts shown in the table below. An assumed 10% strengthening of the Canadian dollar versus the U.S. dollar would have had an equal but opposite effect on the amounts shown below:

	March 31, 2020	December 31, 2019
	CDN	CDN
Cash	$ 187,059	$ 380,289
Account Receivable	24,788	38,955
Trade payable and accrued liabilities	(274,597)	(200,311)
Net statement of financial position exposure	**$ (62,750)**	**$ 218,933**

DISCLOSURE OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares, without par value and an unlimited number of preferred shares without par value. As of the date of this MD&A, the Company has 42,855,092 common shares outstanding and 16,637,624 preferred shares outstanding.

The Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect 10% of the issued and outstanding common shares of the Company from time to time. As of the date of this MD&A, the Company is entitled to grant incentive stock options for 4,263,610 and has issued 12,000 deferred share units under the Company's Deferred Share Unit Plan. The Company also had 604,579 warrants outstanding.

SUBSEQUENT EVENTS

Since March 31, 2020, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The Company has determined that these events are non-adjusting events. Accordingly, the financial position and results of operations as of and for the three months ended March 31, 2020 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

On April 2, 2020, the Corporation announced the retirement of Apteryx founder Kevin Crucs. Since the acquisition of Apteryx in February 2017, Mr. Crucs has been serving as vice president of research and development supporting the development of Apteryx's various on-premise imaging software products.

On May 5, 2020, the Company announced the completion of a new secured financing agreement with National Bank of Canada, securing an operating line of credit up to a maximum of CDN $3.5 million and a credit card facility up to a maximum of CDN$150,000. The Facility is secured by assets of Apteryx Imaging and its US subsidiaries. The proceeds of the Facility will be used for general corporate and working capital purposes.

On May 6, 2020, Apteryx Inc. announced receipt of financing under the Paycheck Protection Program (PPP) with a principal amount of USD$824,000. This program was created as a part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and is administered by the U.S. Small Business Administration. The loan has a term of two years at an interest rate of 1% per annum with a deferral of payments for the initial six months of the loan. Proceeds of the loan will be used for eligible business purposes as required by the CARES Act. Under the ACT, recipients of the PPP loans may apply for forgiveness of all or a portion of the funds granted under the loan with any amount not forgiven to be subject to monthly payments of the principal and interest following the initial six-month deferral. There can be no assurance that any or all of the proceeds of the loan will be forgiven, whether as a result of legislative or administrative requirements, political considerations or otherwise. Accordingly some or all of the proceeds of the loan may be required to be repaid.

On May 13, 2020, the Company issued 218,984 common shares at a price of CDN$0.32 per share, equivalent to USD$50,000 of value. This share issuance is in relation to the Company's partnership with 4th IR AG, for the development of cloud-based AI solutions to be integrated with the Company's existing software portfolio.

On May 15, 2020, the Company received funds in the amount of CDN$28,808 from the Canada Emergency Wage Subsidy (CEWS) program legislated by the Government of Canada in response to COVID-19. CEWS is a wage subsidy program available that will provide a subsidy of 75% of eligible remuneration pay by an eligible employer to a maximum of $847 per employee per week.

RISKS AND UNCERTAINTIES

An investment in the securities of the Company may be regarded as speculative due to the Company's stage of development. Risk factors relating to the Company could materially affect the Company's future results and could cause them to differ materially from those described in forward-looking statements relating to the Company. Prospective investors should carefully consider these risks.

For an extensive discussion on risks and uncertainties refer to the "Risks and Uncertainties" section in the December 31, 2019 Annual Information Form (AIF) and the Company's Management Discussion and Analysis (MD & A) for the period ended December 31, 2019 filed on SEDAR and the discussion of the paycheck protection program risks under "Subsequent Events" in this interim Management Discussion and Analysis. Although the risk factors disclosed in the AIF, MD & A and herein are the major risk factors identified by management, they do not comprise a definitive list of all risk factors related to the Company. In addition, other risks and uncertainties not presently known by management could impair the Company and its business, operations, results of operations, financial condition and future prospects.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Director of Finance have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company. The Chief Executive Officer and Director of Finance have also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements in accordance with IFRS.

The Chief Executive Officer and Director of Finance have evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of the Company's internal controls over financial reporting in accordance with Internal Control - Integrated Framework 2013, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation identified no instances in which internal controls did not operate in an effective manner. Nonetheless, the Company has further strengthened its internal control processes to mitigate future potential material financial statement misstatements and other internal control violations during the three months ended March 31, 2020.

Because of the inherent limitations in a control system, any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements, due to error or fraud, from occurring in the financial statements. As the Company has a limited number of personnel, management has concluded that a weakness exists in the design of internal controls over financial reporting caused by a lack of adequate segregation of duties. This weakness has the potential to result in material misstatements in the Company's financial statements and should also be considered a weakness in its disclosure controls and procedures. Management has concluded that taking into account the present stage of the Company's development and the best interests of its shareholders; the Company does not have sufficient size and scale to warrant the hiring of additional personnel to correct this weakness at this time. To help mitigate the impact of this weakness and to ensure quality financial reporting, supervisory controls are exercised by management and the Audit Committee is vigilant in its' oversight.

The Chief Executive Officer and Director of Finance of the Company conducted an evaluation of the disclosure controls and procedures as required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual Filings" issued by the Canadian Securities Administrators. They concluded that as at March 31, 2020, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information regarding required disclosures was made known to them on a timely basis.