

AQUARIUS SURGICAL TECHNOLOGIES INC.
(Formerly Aquarius Coatings Inc.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended September 30, 2017

(expressed in Canadian dollars)

(UNAUDITED)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited condensed consolidated financial statements for the six month period ended September 30, 2017

Management's Responsibility for Financial Information

The condensed consolidated interim financial statements (the "Interim Financial Statements"), the notes thereto and other financial information contained in the management's discussion and analysis are the responsibility of management of Aquarius Surgical Technologies Inc. and have been approved by the Board of Directors.

The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where necessary, include amounts which reflect management's best estimates and judgments based on current available information. Aquarius Surgical Technologies Inc. maintains systems of internal accounting and administrative controls in order to provide reasonable assurance that the Corporation's assets are appropriately accounted for and adequately safeguarded, and that financial information is accurate and reliable.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the Interim Financial Statements and the accompanying management's discussion and analysis.

The Audit Committee is composed of three non-management, independent directors and meets periodically with management and the independent auditors to review internal accounting controls, auditing matters and financial reporting issues, and to satisfy itself that all parties are properly discharging their responsibilities. The Audit Committee reviews the Interim Financial Statements and the management's discussion and analysis of financial results and reports its findings to the Board of Directors for its consideration when approving the Interim Financial Statements for issuance to the shareholders.

"N. Gary Van Nest"

N. Gary Van Nest
Acting Chief Executive Officer

"Lorne S. MacFarlane"

Lorne S. MacFarlane
Chief Financial Officer

November 29, 2017

AQUARIUS SURGICAL TECHNOLOGIES INC.

Consolidated Financial Statements

September 30, 2017

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Aquarius Surgical Technologies Inc.
(formerly Aquarius Coatings Inc.)
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

| | As at | Sep 30, 2017 | Mar 31, 2017 |
|--|-------|---------------------|---------------------|
| ASSETS | | \$ | \$ |
| Current Assets | | | |
| Cash and deposits | | 795,782 | 1,123,047 |
| Accounts receivable | | 234,836 | 145,755 |
| Inventories (Note 6) | | 716,512 | 196,172 |
| Prepaid expenses and deposits | | 14,670 | 235,259 |
| Due from related party (Note 9) | | 121,823 | 118,537 |
| | | 1,883,623 | 1,818,770 |
| Long-term investment | | 1 | 1 |
| Capital assets (Note 8) | | 395,481 | 383,279 |
| Provisional Goodwill (Note 5) | | 1,893,610 | 1,893,610 |
| Provisional Intangibles (Note 7) | | 4,084,500 | 4,303,500 |
| | | 8,257,215 | 8,399,160 |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY) | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | | 339,159 | 230,875 |
| | | 978,901 | 1,717,563 |
| Due to related party (Note 9) | | 978,901 | 1,717,563 |
| Deferred tax liability (Note 13) | | 1,150,100 | 1,150,100 |
| Series "A" Special Shares (Notes 5 and 11) | | 282,979 | 282,979 |
| | | 2,411,980 | 3,150,642 |
| | | 2,751,139 | 3,381,517 |
| Shareholders' Equity (Deficiency) | | | |
| Common Shares (Note 11) | | 18,962,351 | 18,075,418 |
| Contributed surplus | | 7,690,990 | 7,216,990 |
| Deficit | | (21,147,265) | (20,274,764) |
| | | 5,506,076 | 5,017,644 |
| | | 8,257,215 | 8,399,160 |

The accompanying notes form an integral part of these condensed consolidated interim financial statements

(See Note 2 - Going Concern, Note 16 - Commitments and Note 21 - Subsequent Event)

Approved on behalf of the Board

 "David J. Hennigar"

David J. Hennigar

 "N. Gary Van Nest"

N. Gary Van Nest

November 29, 2017

| Aquarius Surgical Technologies Inc. | | | | |
|---|---------------------------|--------------------|-------------------------|--------------------|
| (formerly Aquarius Coatings Inc.) | | | | |
| Condensed Consolidated Interim Statement of | | | | |
| Comprehensive Loss (Unaudited) | | | | |
| (Expressed in Canadian dollars unless otherwise indicated) | | | | |
| | Three Months Ended | | Six Months Ended | |
| | Sep 30,2017 | Sep 30,2016 | Sep 30,2017 | Sep 30,2016 |
| | \$ | \$ | \$ | \$ |
| Sales | 201,265 | - | 352,872 | - |
| Cost of sales (Note 6) | 187,620 | - | 296,219 | - |
| Gross Margin | 13,645 | - | 56,653 | - |
| Expenses | | | | |
| General and administrative (Note 14) | 335,876 | 36,670 | 682,935 | 41,888 |
| Bank charges and interest | 2,203 | 512 | 3,865 | 1,013 |
| Amortization (Notes 7 and 8) | 122,632 | 23 | 244,946 | 47 |
| | 460,711 | 37,205 | 931,746 | 42,948 |
| Net loss before other items | (447,066) | (37,205) | (875,093) | (42,948) |
| Other items: | | | | |
| Royalty income | 915 | 3,086 | 2,592 | 5,158 |
| Total comprehensive loss | (446,151) | (34,119) | (872,501) | (37,790) |
| Loss per share, basic and diluted | (\$0.025) | (\$0.006) | (\$0.050) | (\$0.007) |
| and 15) | 18,141,430 | 5,397,411 | 17,484,880 | 5,397,411 |

The accompanying notes form an integral part of these condensed consolidated interim financial statements

Aquarius Surgical Technologies Inc.
(formerly Aquarius Coatings Inc.)
Condensed Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars unless otherwise indicated)
for the six months ended September 30, 2017 and September 30, 2016

| | Issued Capital | | Contributed | | Total |
|-----------------------------------|-------------------|-------------------|------------------|---------------------|------------------|
| | Common Shares | Amount | Surplus | Deficit | |
| | | \$ | \$ | \$ | \$ |
| Balance March 31, 2016 | 107,948,144 | 10,340,865 | 5,193,806 | (19,398,456) | (3,863,785) |
| Net income for the period | - | - | - | (3,671) | (3,671) |
| Balance September 30, 2016 | 107,948,144 | 10,340,865 | 5,193,806 | (19,402,127) | (3,867,456) |
| Balance March 31, 2017 | 16,821,115 | 18,075,418 | 7,216,990 | (20,274,764) | 5,017,644 |
| Private placement | 1,412,430 | 943,430 | - | - | 943,430 |
| Class A warrants | - | - | 451,000 | - | 451,000 |
| Brokers warrants | - | - | 18,000 | - | 18,000 |
| Issue costs | - | (56,497) | - | - | (56,497) |
| Stock based compensation | - | - | 5,000 | - | 5,000 |
| Net income for the period | - | - | - | (872,501) | (872,501) |
| Balance September 30, 2017 | 18,233,545 | 18,962,351 | 7,690,990 | (21,147,265) | 5,506,076 |

The accompanying notes form an integral part of these condensed consolidated interim financial statements

Aquarius Surgical Technologies Inc.
(formerly Aquarius Coatings Inc.)

Condensed Consolidated Interim Statement of Cash Flows (unaudited)
(Expressed in Canadian dollars)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | Sep 30, 2017 | Sep 30, 2016 | Sep 30, 2017 | Sep 30, 2016 |
| Cash flows provided by (used in): | | | | |
| | \$ | \$ | \$ | \$ |
| Operating activities | | | | |
| Net income for the year | (446,151) | (34,119) | (872,501) | (37,790) |
| Amortization (Notes 7 and 8) | 122,632 | 23 | 244,946 | 47 |
| Stock based payment | 5,000 | - | 5,000 | - |
| Allowance for doubtful accounts | - | 698 | - | 698 |
| Accounts receivable | 2,562 | 10,003 | (89,081) | 8,526 |
| Inventory | (365,853) | - | (520,340) | - |
| Prepaid Expenses and deposits | 57,619 | - | 220,589 | - |
| Due from related party | (8,930) | - | (3,285) | - |
| Accounts payable and accrued liabilities | 164,123 | (21,998) | 108,284 | (17,275) |
| | (468,998) | (45,393) | (906,388) | (45,794) |
| Financing activities | | | | |
| Advances from related parties | (19,429) | 64,210 | (32,447) | 64,210 |
| | (19,429) | 64,210 | (32,447) | 64,210 |
| Investment activities | | | | |
| Purchase capital assets | - | - | (38,148) | - |
| Issuance of common share units-net of costs | 649,718 | - | 649,718 | - |
| | 649,718 | - | 611,570 | - |
| Increase (Decrease) in cash during the year | 161,291 | 18,817 | (327,265) | 18,416 |
| Cash, beginning of period | 634,491 | 7,397 | 1,123,047 | 7,797 |
| Cash, end of period | 795,782 | 26,213 | 795,782 | 26,213 |

The accompanying notes form an integral part of these condensed consolidated interim financial statements

Aquarius Surgical Technologies Inc.
(formerly Aquarius Coatings Inc.)
Notes to Condensed Consolidated Interim Financial Statements
for the three months and six months ended September 30, 2017 and September 30, 2016
(Expressed in Canadian dollars, unless otherwise indicated)

1. NATURE OF OPERATIONS

Aquarius Surgical Technologies Inc. (formerly Aquarius Coatings Inc.), 89 Scollard Street, Toronto, ON M5R 1G4 (the “Corporation” OR “ASTIP”) was incorporated under the *Business Corporations Act* (Ontario) on December 12, 1986. The Corporation trades on the Canadian Securities Exchange (CSE) under the symbol ASTI. As disclosed in the Audited Financial Statements for the year ended March 31, 2015 the Corporation disposed of inventories, formulations and manufacturing equipment associated with the protective coatings operations in September, 2014.

As of March 20, 2017, the Corporation acquired all the outstanding shares of Surgical Lasers Inc. (“SLP”). The acquisition is disclosed in more detail in Note 5 herein.

The business of SLI is the development, sale, distribution, marketing, and exploitation of laser-driven technologies for use in surgical environments, principally in the field of urology. In particular, SLI has entered into two exclusive distribution agreements, covering effectively all countries in North America, pursuant to which it has exclusive rights over a multi-diode laser system and related fibre-optic delivery devices used principally for minimally invasive treatment of Benign Prostatic Hyperplasia. The exclusivity of the Corporation’s distribution rights is dependent on achievement of certain annual targets agreed between the parties from time to time.

2. GOING CONCERN

The consolidated financial statements for the Corporation have been prepared on a going concern basis, which assumes the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation currently has limited operating revenues and during the years ended March 31, 2017 and March 31, 2016 recorded a loss of \$876,308 and income of \$162,530, respectively. At September 30, 2017 and March 31, 2017, the Corporation has working capital of \$1,544,464 and \$1,587,895, respectively. Also, at September 30, 2017 and March 31, 2017, the Corporation has shareholders’ equity of \$5,506,076 and \$5,017,644, respectively. The Corporation completed the acquisition of Surgical Lasers Inc. on March 20, 2017, the costs associated with that acquisition were expensed during the year ended March 31, 2017, and there was only a very short time in that fiscal year for results of operations to be reflected. These circumstances create a material uncertainty that may be considered to cast significant doubt on the ability of the Corporation to continue as a going concern. The Corporation is dependent on the support of its creditors, the ability to obtain additional financing, and ultimately, the attainment of profitable operations. The Corporation’s lenders, whom are significant shareholders, have indicated that their support will continue over the forthcoming year, and significant working capital was raised during the fiscal year ended March 31, 2017, which has been further supplemented since the year-end as disclosed in Note 11 herein.

If the going concern assumption were not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying values of assets and liabilities, the reported loss for the period and balance sheet classifications, such adjustments could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements are presented in Canadian dollars which is also the functional currency of the Corporation and its subsidiaries.

The unaudited condensed consolidated interim financial statements for the period ended September 30, 2017, and the notes thereto (the “Interim Financial Statements”), present the Corporation’s financial results of operations and financial position under IFRS as at and for the six month periods ended September 30, 2017 and September 30, 2016. The Interim Financial Statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies the Corporation adopted in its financial statements for the year ending March 31, 2017 based on current standards. The Interim Financial Statements do not include all the necessary annual disclosures in accordance with IFRS.

Aquarius Surgical Technologies Inc.
(formerly Aquarius Coatings Inc.)
Notes to Condensed Consolidated Interim Financial Statements
for the three months and six months ended September 30, 2017 and September 30, 2016
(Expressed in Canadian dollars, unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of presentation (continued)

The policies set out in Note 3 were consistently applied to all the periods presented.

The Interim Financial Statements were approved by the board of directors for issuance on August 24, 2017.

(b) Basis of consolidation

The Interim Financial Statements include the accounts of the Corporation and its wholly owned subsidiaries, Surgical Lasers Inc., Scotiachemco Holdings Limited and Scotiachemco Inc. Inter-company transactions and balances have been eliminated.

(c) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for certain assets, liabilities and financial instruments which are measured at their fair values, as explained in the relevant accounting policies set out below.

(d) Accounting estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, revenue and expenses and the accompanying notes. Actual results could differ from these estimates under the circumstances.

The areas that management makes critical estimates, assumptions and judgments are the valuation and determination of the useful life of assets, valuation of share capital warrants and stock options, acquisition accounting and fair value of long-term investments, recoverability of deferred tax assets and classification of contingent consideration as a liability or equity.

(e) Cash and deposits

Cash consists of deposits with major financial institutions.

(f) Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses. The cost is determined based on a first-in, first-out basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition which include the purchase price, import duties, non-recoverable taxes, transportation, handling and other costs directly related to the purchase of the inventory.

(g) Revenue Recognition

Revenue from the sale of goods is recognized when persuasive evidence of an agreement exists, significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue from royalty income, which is generally earned based upon a percentage of sales or a fixed amount per product sold, is recognized on an accrual basis.

Aquarius Surgical Technologies Inc.
(formerly Aquarius Coatings Inc.)
Notes to Condensed Consolidated Interim Financial Statements
for the three months and six months ended September 30, 2017 and September 30, 2016
(Expressed in Canadian dollars, unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Amortization is provided on equipment over the estimated useful life using the following rates and methods:

| | |
|-------------------------|--------------------------|
| Computer equipment | - 5 years straight line |
| Furniture and equipment | - 3 years straight line |
| Demo equipment | - 10 years straight line |

(i) Intangibles

Intangibles assets include distributions rights and a non-compete agreement that qualify for recognition as intangible assets in a business combination and are measured initially at fair value which is their initial deemed cost. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. Amortization of intangibles is calculated on a straight line basis over 10 years for exclusive distribution rights and over 5 years for the non-compete agreement.

(j) Income Taxes

Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using the substantively enacted rates and laws that are expected to be in effect in the periods that the temporary differences are expected to be realized or settled. The effect of changes in rates is included in the statement of comprehensive income in the period which includes the substantive enactment date. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Stock based Payments

Stock based payment awards that are direct awards of stock to employees or directors, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by issuing equity instruments, are accounted for using the Black-Scholes option pricing model. The cost is recognized on a straight-line graded method over the vesting period adjusted for expected forfeitures as an employee or director expense with a corresponding increase to equity in contributed surplus. Consideration paid by employees or directors on the exercise of stock options is recorded as share capital.

Stock based payments with parties other than employees, assumes a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. In certain circumstances, the Corporation rebuts this presumption because it cannot estimate reliably the fair value of the goods or services received. The Corporation then measures the goods or services received, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service.

(l) Unit private placements

For private placements of units consisting of common shares and warrants, the Corporation uses the Black-Scholes option-pricing model in determining the fair value of warrants. The common shares are allocated the residual value.

Aquarius Surgical Technologies Inc.
(formerly Aquarius Coatings Inc.)
Notes to Condensed Consolidated Interim Financial Statements
for the three months and six months ended September 30, 2017 and September 30, 2016
(Expressed in Canadian dollars, unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Foreign currency

Foreign currency transactions are translated into Canadian dollars at the rate prevailing on the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at the end of the period. Translation gains and losses are recorded in the statement of comprehensive income.

(n) Provisions

A provision is recognized in the statement of financial position when the Corporation has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Earnings (Loss) per share

Basic earnings (loss) per share amounts are calculated by dividing net profit (loss) for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) attributable to common shareholders by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

(p) Impairment of non-financial assets

Equipment and intangible assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Goodwill is systematically tested for impairment at each balance sheet date, or more frequently when events or changes in circumstances indicate that the asset may be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value (less costs to sell) is the amount obtainable from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs to sell. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

Impairment losses may be reversed, in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized.

(q) Impairment of financial assets

A financial asset not carried at fair value is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Impairment is measured as the difference between the carrying amount of the financial asset and the present value of the future cash flows and such impairment loss shall not be reversed.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

Aquarius Surgical Technologies Inc.
(formerly Aquarius Coatings Inc.)
Notes to Condensed Consolidated Interim Financial Statements
for the three months and six months ended September 30, 2017 and September 30, 2016
(Expressed in Canadian dollars, unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial Instruments

The Corporation recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value and the subsequent measurement depends on their classification.

All financial assets are classified into one of the following four categories: held for trading, held to maturity, loans and receivables or available for sale. All financial liabilities are classified into one of the following two categories: held for trading or other financial liabilities. The classification determines the accounting treatment of the instrument. The classification is determined by the Corporation when the financial instrument is initially recorded, based on the underlying purpose of the instrument.

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

| Financial Asset/Liability | Classification | Measurement |
|--|-----------------------------|----------------|
| Cash and deposits | Held for trading | Fair value |
| Accounts receivable | Loans and receivables | Amortized cost |
| Due from related party | Loans and receivables | Amortized cost |
| Long-term investment | Available-for-sale | Cost |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost |
| Due to related parties | Other financial liabilities | Amortized cost |
| Contingent consideration | Held for trading | Fair value |

Held-for-trading financial investments are measured at fair value and all gains and losses are included in operating profit or loss in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, impairment write-downs and foreign exchange translation adjustments are recognized immediately.

(s) Fair value measurement

The Corporation categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The Corporation's cash is considered Level 1 and the contingent consideration Level 2 in the hierarchy.

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(formerly Aquarius Coatings Inc.)
Notes to Condensed Consolidated Interim Financial Statements
for the three months and six months ended September 30, 2017 and September 30, 2016
(Expressed in Canadian dollars, unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Business combinations

At the time of acquisition, the Corporation determines whether what is acquired meets the definition of business, in which case if it does, the transaction is considered a business combination, and otherwise it is recorded as an asset acquisition.

For an asset acquisition, the net identifiable assets acquired and liabilities assumed are measured at the fair value of the consideration paid, based on their relative fair values at the acquisition date. Acquisition related costs are included in the consideration paid and capitalized. No goodwill is recorded and no deferred tax asset or liability arising from the assets acquired or liabilities assumed are recognized upon the acquisition of the assets.

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the fair value of the net identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Acquisition costs are expensed as incurred, unless they qualify to be treated as debt issue costs, or as cost of issuing equity securities.

The measurement period is the period from the date of acquisition to the date the Corporation obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year. The Corporation elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

(u) Recent accounting pronouncements

The Corporation has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at March 31, 2017 but are not yet effective. Unless otherwise stated, the Corporation does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 15 Revenue from Contracts with Customers is a new standard issued by the IASB. 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 Corporation 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. 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. This standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 9 Financial Instruments was issued in final form in July 2014 by the IASB 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

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(formerly Aquarius Coatings Inc.)
Notes to Condensed Consolidated Interim Financial Statements
for the three months and six months ended September 30, 2017 and September 30, 2016
(Expressed in Canadian dollars, unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Recent accounting pronouncements (continued)

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. IFRS 9 also includes requirements relating to a new hedge accounting model, which 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 16 In January 2016, the IASB issued IFRS 16 - Leases (“IFRS 16”), which replaces IAS 17 – Leases (“IAS 17”) and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12-months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained. IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019. The Corporation is assessing the potential impact of this standard.

4. ROYALTY INCOME

The Corporation has received royalty payments on the sale of the Corporation’s former products for a 3 year period ending September 5, 2017 as follows:

Year 1 – 10%
Year 2 - 9%
Year 3 - 8%

5. ACQUISITION OF BUSINESS

As outlined in Note 1 the Corporation acquired all the shares of SLI on March 20, 2017 in exchange of 4,598,704 common shares from the treasury of ASTI and 1,532,901 Series “A” non-voting convertible redeemable special shares from the treasury of ASTI. The Series “A” Special Shares are performance shares, which are convertible into common shares on a one for one basis in the event that specific milestones are reached or redeemable by the Corporation at \$0.0001 each in the event that the specific EBITA (earnings before interest, taxes and amortization) milestones are not met. The Corporation has determined that the operations of SLI represent a business. And as such, the acquisition has been accounted for as a business combination. Under IFRS 3 – Business Combinations, the Company has one year to finalize the purchase price allocation of an acquired Company’s intangible assets, assumed liabilities, intangible assets and goodwill. The Company will analyze the acquired rights, liabilities, contingent consideration, intangibles and goodwill and will make the final allocation within the 12 month period. The purchase price allocation to the following identified assets and liabilities are based on their estimated fair values:

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5. ACQUISITION OF BUSINESS (Continued)

| <u>Fair Value of Net assets acquired (Provisional)</u> | <u>20-Mar-17</u> |
|--|------------------|
| Cash | 5,767 |
| Accounts receivable | 112,057 |
| Inventory | 199,175 |
| Prepaid expenses | 227,671 |
| Due from related party | 115,086 |
| Goodwill | 1,893,610 |
| Intangibles | 4,340,000 |
| Capital assets | 361,492 |
| Accounts payable and accrued liabilities | (219,192) |
| Deferred tax liability | (1,150,100) |
| Notes payable | (3,174,937) |
| | <u>2,710,629</u> |
| Consideration comprised of | |
| Common Shares of ASTI | 2,427,650 |
| Special Series A Shares of ASTI - Contingent consideration | 282,979 |
| | <u>2,710,629</u> |

The fair value of common shares was determined based on the estimated fair value of common shares that were issued in a unit private placement at the same time as the acquisition. The fair value of the Series "A" Special Shares of ASTI are based on the fair value of common shares adjusted to the probability of meeting the specific milestone and discounted at a rate of 29%. The fair value of Series A Special Shares can range from nil to \$812,437.

All of the common shares and Series "A" Special Shares issued as consideration for the acquisition were initially placed in Escrow in accordance with the general requirements of National Policy 46-201. Under the provisions of the Escrow Agreement, 10% of those securities were released on June 21, 2017, with six further releases, each of 15%, at six-month intervals thereafter.

The fair value of receivables acquired was \$112,057 and the full amount of the receivable is expected to be collected.

Goodwill for the acquisition represents the acquired knowledge of the medical equipment market. Goodwill acquired is not deductible for tax purposes.

6. INVENTORIES

Inventories consists of finished products held for sale. In the six months ending September 30, 2017, the cost of sales consists of cost of goods sold of \$221,271, demonstration fibers \$50,356 and incoming shipping costs of \$24,592 (2016 - nil) in the statement of net loss and comprehensive loss.

7. INTANGIBLES AND GOODWILL

Intangibles consists of exclusive distribution agreement and a non-compete agreement acquired in a business combination:

| | <u>30-Sep-17</u> | <u>30-Sep-16</u> |
|-----------------------------|------------------|------------------|
| | \$ | \$ |
| Balance beginning of period | 4,303,500 | - |
| Amortization for period | (219,000) | |
| Balance end of period | <u>4,084,500</u> | <u>-</u> |

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7. INTANGIBLES AND GOODWILL (Continued)

The goodwill impairment analysis performed by the Corporation concluded there was no impairment to goodwill as at March 31, 2017 as the recoverable amount of its CGU exceeded its carrying value. The Corporation concluded that it has only one CGU. The recoverable amount was determined based on its value in use using a 5 year discounted cash flow model. Key assumptions used in the discounted cash flow model are: (a) projected revenue used in the forecast based on projected units sold; b) project cost of sales, selling, general and administrative expenses use in the forecast were estimated using current and historical results as a percentage of revenue with consideration to variable costs. Fixed costs were estimated to remain fairly constant. The discount rate applied in the discounted cash flow model was 29%.

8. CAPITAL ASSETS

Capital assets are comprised of the following:

| | Computer equipment \$ | Demonstration equipment \$ | Office furniture and equipment \$ | Total \$ |
|---------------------------------|--------------------------------------|---|--|---------------------|
| September 30, 2016 | | | | |
| Cost | | | | |
| Balance, beginning of period | 8,219 | - | - | 8,219 |
| Additions | - | - | - | - |
| Balance, end of period | 8,219 | - | - | 8,219 |
| Accumulated depreciation | | | | |
| Balance, beginning of period | 8,031 | - | - | 8,031 |
| Depreciation for period | 47 | - | - | 47 |
| Balance, end of period | 8,078 | - | - | 8,078 |
| Net book value | 141 | - | - | 141 |
| September 30, 2017 | | | | |
| Cost | | | | |
| Balance, beginning of period | 10,623 | 368,323 | 16,013 | 394,959 |
| Additions | - | 38,148 | - | 38,148 |
| Balance, end of period | 10,623 | 406,471 | 16,013 | 433,107 |
| Accumulated depreciation | | | | |
| Balance, beginning of period | 8,176 | 3,375 | 129 | 11,680 |
| Depreciation for period | 359 | 22,368 | 3,219 | 25,946 |
| Balance, end of period | 8,535 | 25,743 | 3,348 | 37,626 |
| Net book value | 2,088 | 380,728 | 12,665 | 395,481 |

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9. DUE FROM AND TO RELATED PARTY

(A) Due from related party

Cast Laser Inc., ("Cast") a corporation owned by Gordon Willox, Managing Director of the Corporation, was indebted to the Corporation as at September 30, 2017, in the amount of \$121,823; that indebtedness is secured by a Promissory Note made jointly and severally by Cast and Mr. Willox and an Assignment of Receivables by Cast, and is repayable on or before December 31, 2017 (the "Maturity Date"), without interest, but subject to interest at 6% per year from and after January 1, 2018 if not fully repaid by the Maturity Date.

(B) Due to related party

Forest Lane Holdings Limited ("FLH"), a Corporation controlled by David J. Hennigar, Chairman of the Corporation, owns directly and indirectly 8,300,331 shares (45.5%) (September 30, 2016 – 42.5%) of the Corporation. FLH has provided working capital funding to the Corporation for a number of years.

The following table details the changes in the amount due to related party:

| | Sep 30, 2017 | Sep 30, 2016 |
|--|--------------|--------------|
| | \$ | \$ |
| Balance beginning of period | 1,717,563 | 3,823,864 |
| Subscription 706,215 Class "A" units | (706,215) | - |
| Change in foreign currency translation | (32,447) | - |
| Balance end of period | 978,902 | 3,823,864 |

The amount due is non-interest bearing and has no set terms of repayment. FLH has agreed not to call the loan before April 1, 2018.

The compensation paid to the directors and key management of the Corporation in the period ended September 30, 2017 was \$205,000 (2016 - nil) paid in management fees and benefits. Key management includes those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly, including any directors.

10. LONG TERM INVESTMENT

Woodland Biofuels Inc. ("Woodland")

The Corporation holds 112,272 shares in Woodland, a private company focused on the development and production of ethanol and other fuels and chemicals from biomass. In 2015, the investment was recorded at its fair value based on a recent third party financing. In fiscal 2016, as there was no recent readily available market information, the Corporation has written down the investment to its original cost of \$1.

11. SHARE CAPITAL

Share capital consists of the following:

During the year ended March 31, 2016, and until reconstituted by filing of Articles of Amendment on February 24, 2017, the Authorized Capital was as follows:

- An unlimited number of non-voting, convertible, redeemable special shares convertible into one common upon certain conditions
- An unlimited number of common shares

Following filing of Articles of Amendment on February 24, 2017, in accordance with resolutions passed by the shareholders on November 21, 2016, the share capital of the Corporation consists of:

- An unlimited number of special shares, issuable in series; and
- An unlimited number of common shares.

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11. SHARE CAPITAL (Continued)

On February 24, 2017, the Corporation completed a 20 to 1 share consolidation. For disclosure purposes, on the consolidated statement of income (loss), the comparative period's weighted-average outstanding common shares has been adjusted to reflect the share consolidation.

On February 27, 2017, Articles of Amendment were filed designating a series of special shares as Series "A" Special Shares, limited to a maximum outstanding number of 1,532,901 as initially issued. The Series "A" Special Shares are "performance shares", are non-voting, and may, upon attainment of specified milestones be converted into fully paid common shares or, in the event those specified milestones are not achieved, they will be redeemed for a nominal consideration and cancelled. The Series "A" Special Shares have been classified as a liability on the statement of financial position as they do not meet the fixed for fixed criteria to be recorded as equity

On March 3, 2017, the Corporation accepted subscriptions for 3,000,000 Class "A" units at a subscription price of \$1 per unit. Each unit comprises One (1) fully paid and non-assessable common share from the Treasury of the Corporation and One (1) Class "A" Warrant, exercisable for a period of two years from the date of issue at a price of \$1.50. Each Class "A" Warrant will entitle the holder to purchase One (1) Class "B" Unit. Each Class "B" Unit will comprise One (1) fully paid non-assessable common share from the Treasury of the Corporation and One (1) Class "B" Warrant. Each Class "B" Warrant will entitle the holder to purchase one fully paid common share from the treasury of the Corporation for a period of one year from the date of issue of the Class "B" Unit at a price of \$2.50 per share. On March 16, 2017, the Corporation accepted a subscription for an additional 25,000 Class "A" units. The securities are subject to a four-month hold period following the date of issuance. The fair value of the warrants was determined to be \$1,378,075 with the residual of \$1,602,691 allocated to the common shares.

On March 20, 2017, the Corporation issued 3,800,000 common shares to settle \$3,800,000 debt due to Forest Lane Holdings Limited

On July 6, 2017, the Corporation accepted subscriptions for an additional 1,412,430 Class "A" units at a subscription price of \$1 per unit. Cash payment were received for 706,215 units and 706,215 units were paid for by a reduction in loans due to shareholders. In connection with this financing, there were also issued a total of 56,496 non-transferable Brokers Warrants, with terms otherwise similar to the Class "A" Warrants then issued.

| Common shares | Shares | Amount |
|--|---------------|---------------|
| | | \$ |
| Balance March 31, 2016 | 107,948,144 | 10,340,865 |
| Share consolidation | (102,550,733) | - |
| Issued on acquisition of business (Note 5) | 4,598,704 | 2,427,650 |
| Issued for cash | 3,025,000 | 1,602,691 |
| Debt consolidation | 3,800,000 | 3,800,000 |
| Issue costs | - | (95,788) |
| Balance March 31, 2017 | 16,821,115 | 18,075,418 |
| Issued for cash | 1,412,430 | 943,430 |
| Issue costs | - | (56,497) |
| Balance September 30, 2017 | 18,233,545 | 18,962,351 |

In connection with the financing which closed on March 3, 2017, the Corporation issued an additional 93,780 Brokers Warrants, which are non-transferable, but otherwise in similar terms to the Class "A" Warrants, which were paid as a fee related to the financing, giving total warrants issued and outstanding at March 31, 2017 of 3,118,780. The Corporation determined the fair value of the warrants using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield 0%; Risk-free interest rate 0.73%; Contractual term (in years) 2; Expected volatility 125%.

Expected volatility is derived from the historical volatilities of several comparable unrelated public companies from the same or similar industry

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11. SHARE CAPITAL (Continued)

In connection with the financing which closed on July 6, 2017, the Corporation issued an additional 56,496 Brokers Warrants, which are non-transferable, but otherwise in similar terms to the Class "A" Warrants, which were paid as a fee related to the financing, giving total warrants issued and outstanding at September 30, 2017 of 3,118,780. The Corporation determined the fair value of the warrants using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield 0%; Risk-free interest rate 0.73%; Contractual term (in years) 2; Expected volatility 125%.

Expected volatility is derived from the historical volatilities of several comparable unrelated public companies from the same or similar industry

| Series "A" Special Shares | Shares | Amount |
|--|------------------|------------------|
| | | \$ |
| Balance March 31, 2016 | - | - |
| Issued on acquisition of business | 1,532,901 | 282,979 |
| Balance March 31, 2017 and September 30, 2017 | 1,532,901 | 282,979 |
| Class "A" Warrants | Warrants | Amount |
| | | \$ |
| Balance March 31, 2016 | - | - |
| Issued for cash | 3,025,000 | 1,378,075 |
| Brokers warrants | 93,780 | 44,234 |
| Balance March 31, 2017 | 3,118,780 | 1,422,309 |
| Issued for cash | 1,412,430 | 451,000 |
| Brokers warrants | 56,496 | 18,000 |
| Balance September 30, 2017 | 4,587,706 | 1,891,309 |
| Class "B" Warrants | Warrants | Amount |
| | | \$ |
| None issued | nil | nil |

Callable Warrant Feature Class "A" Warrants and Class "B" Warrants each have a "Callable" feature, empowering the Corporation to Call the Warrant for exercise at any time while they are outstanding if the average closing price of the stock on the market over a period of 20 trading days in any period of thirty consecutive trading days is at or above 130% of the respective exercise price of the Warrants. The Call procedure provides that the Corporation may give Notice to Exercise within 30 days, after which date any unexercised Warrants will become void.

12. STOCK BASED COMPENSATION PROGRAM

The Board of Directors has established a stock option plan ("the plan") under which options to purchase common shares are granted to directors, officers, consultants and key employees of the Corporation. The plan was approved by the shareholders of the Corporations at the Annual General and Special Shareholders Meeting held on November 21, 2016. Options to acquire common shares are granted at option prices, which shall be not less than the fair market value of the shares at the time the option is granted. Fair market value shall be deemed to be the average between the highest and lowest prices at which the common shares are traded on the day the option is granted and if not so traded, the average between the closing bid and asked prices thereof as reported for the day on which the option is granted. Options expire between one and ten years from the date of the grant and will generally vest immediately.

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12. STOCK BASED COMPENSATION PROGRAM (continued)

The Corporation has reserved 3,000,000 common shares pursuant to the plan. There are 1,450,000 options to acquire common shares outstanding under the plan as at March 31, 2017. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

On March 31, 2017, 1,450,000 options were granted to directors, officers, consultants and employees under the plan at an exercise price of \$1.00. These options vested immediately and expire in 5 years. The fair value of these options were estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions; estimated fair value of the shares \$0.53; risk free interest rates of 1.12%; dividend yields of nil; volatility factor of 125%; and a weighted average expected life of the option of 5 years. The fair value of the options is \$600,875. The expected volatility of the Corporation is based on historical volatility of comparable entities for the same weighted average expected life of the option.

On August 24, 2017, 10,000 options were granted to a consultant under the plan at an exercise price of \$1.00. These options vested immediately and expire in 5 years. The fair value of these options were estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions; estimated fair value of the shares \$0.60; risk free interest rates of 0.73%; dividend yields of nil; volatility factor of 125%; and a weighted average expected life of the option of 5 years. The fair value of the options is \$5,000. The expected volatility of the Corporation is based on historical volatility of comparable entities for the same weighted average expected life of the option.

Options issued and outstanding as at September 30, 2016 and September 30, 2017:

| | Weighted average exercise price | Issued |
|----------------------------|------------------------------------|-----------|
| | \$ | |
| Balance March 31, 2016 | - | - |
| Granted | - | - |
| Balance September 30, 2016 | - | - |
| Balance March 31, 2017 | 1.00 | 1,450,000 |
| Granted | 1.00 | 10,000 |
| Balance September 30, 2017 | 1.00 | 1,460,000 |

The following table summarizes information about the options outstanding and exercisable at September 30, 2017:

| Number of options outstanding | Expiry Date | Exercise Price \$ | Number of Options exercisable | Weighted average remaining life |
|----------------------------------|-------------|----------------------|-------------------------------------|------------------------------------|
| 1,450,000 | 31-Mar-2022 | 1.00 | 1,450,000 | 4.5 years |
| 10,000 | 24-Aug-2022 | 1.00 | 10,000 | 4.9 years |
| 1,460,000 | | | 1,460,000 | |

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13. INCOME TAX

The following table reconciles the income tax provision from the expected amount based on statutory rates to the amount reported for consolidated financial statement purposes for the six months ended September 30, 2017 and September 30, 2016:

| | Sep 30, 2017 | Sep 30, 2016 |
|---|-----------------------|--------------|
| | \$ | \$ |
| Net income (loss) | (426,350) | (3,671) |
| Income tax (recovery) at Canadian Federal and provincial statutory rates of 26.5% | (112,983) | (973) |
| Non-taxable items | 58,035 | - |
| Tax benefits acquired on acquisition | - | - |
| Other | - | - |
| Deferred tax asset not recognized | 54,948 | 973 |
| Provision for income taxes | - | - |
| Deferred taxes | | |
| | Sep 30, 2017 | Sep 30, 2016 |
| | \$ | \$ |
| Non-Capital losses carried forward | 1,490,948 | 761,073 |
| Equipment | 49,700 | 35,400 |
| Other | 55,900 | 17,900 |
| Intangible assets | (1,150,000) | - |
| | 446,548 | 814,373 |
| Less: Deferred tax assets not recognized | (1,596,548) | (814,373) |
| Deferred tax liability | \$ (1,150,000) | \$ - |

| Non-capital losses carried forward | \$ |
|------------------------------------|------------------|
| 2026 | 303,096 |
| 2027 | 183,097 |
| 2028 | 327,325 |
| 2029 | 409,661 |
| 2030 | 348,264 |
| 2031 | 217,199 |
| 2032 | 323,394 |
| 2033 | 963,325 |
| 2034 | 735,728 |
| 2035 | 1,177,167 |
| 2036 | 180,175 |
| 2037 | 250,352 |
| | <u>5,418,783</u> |

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14. EXPENSES BY NATURE

| <u>Expenses by nature</u> | Three Months Ended | | Six Months Ended | |
|-------------------------------------|---------------------------|-------------|-------------------------|-------------|
| | Sep 30,2017 | Sep 30,2016 | Sep 30,2017 | Sep 30,2016 |
| Selling, general and admin expenses | 167,729 | - | 352,576 | - |
| Professional fees | 14,679 | 29,041 | 23,679 | 29,041 |
| Listing expenses | 40,083 | 7,629 | 64,567 | 12,847 |
| Management fees | 52,500 | - | 105,000 | - |
| Consulting fees | 55,886 | - | 132,114 | - |

15. EARNINGS (LOSS) PER SHARE

The earnings per share is calculated based upon the weighted average number of common shares outstanding during the period of 16,821,115 (September 30, 2016 – 5,397,411 – adjusted for consolidation). As at September 30, 2017, the Corporation had 3,118,780 outstanding warrants (September 30, 2016 nil) and 1,450,000 outstanding stock options (September 30, 2016 - nil). The dilution created by warrants and options and the Corporation's commitment to issue shares has not been reflected in the per share amounts as the effect would be anti-dilutive.

16. COMMITMENTS

The Corporation's only commitment consists of a lease agreement related to the Corporation's premises, commencing on July 1, 2015 and terminating on June 30, 2017. On June 30, 2017 the Corporation renewed the lease for a further one year period. Under the terms of this lease, the Corporation is required to pay a proportionate share of operating costs, realty taxes and utilities, in addition to the minimum lease payments. The future minimum lease payments are shown in the table below.

| | |
|------------------|----------------|
| <u>2017-2018</u> | <u>\$7,400</u> |
|------------------|----------------|

The Corporation's exclusive distribution rights are dependent on the achievement of certain annual minimum purchase targets agreed between the parties from time to time.

17. FINANCIAL INSTRUMENTS

Fair Values

The estimated fair values of cash, accounts receivables, due form related party, accounts payable and accrued liabilities and due to related party approximate their carrying values due to the relatively short-term nature of the instruments.

The long-term investment has been recorded at cost. The Series "A" Special Shares are measured at fair value at the end of the reporting period.

During the periods ended September 30, 2017 and September 30, 2016, there was no transfer of financial assets between the three levels of the fair value hierarchy.

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18. FINANCIAL RISKS

The main risks the Corporation's financial instruments are exposed to are credit risk, foreign currency risk, liquidity risk and market risk.

Credit Risk

The Corporation's credit risk is primarily attributable to its accounts receivable and due from related party. The amounts disclosed in the consolidated statements of financial position are net of allowances for doubtful accounts, estimated by the Corporation's management based on prior experience and their assessment of the current economic environment.

The Corporation establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures.

Liquidity Risk

The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Corporation's reputation. To the extent that the Corporation does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions. The Corporation manages its liquidity risk by continuously monitoring forecast and actual cash flows from operations. In recent years, additional loans from directors/shareholders have provided the necessary liquidity required.

Market Risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Corporation. As indicated in Note 11, the Corporation has an investment in a company focused in the development and production of ethanol and other fuels and chemicals from biomass. The fair value of this investment is subject to future financing to further develop the planned facility and the prices of the ethanol and wood. The Corporation has determined that it is not exposed significantly to any other market risk.

Interest Rate Risk

The amount due to and due from related parties (Notes 9(A) and 9(B)) are non-interest bearing and, as such, the Corporation is not subject to interest rate price risk resulting from changes in cash flows from market fluctuations in interest rates.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. At year end the following assets and liabilities originate in U.S. dollars and are subject to fluctuations:

| | Sep 30, 2017 | Sep 30, 2016 |
|-----------------------|--------------|--------------|
| | US\$ | US\$ |
| Cash | 400,709 | - |
| Accounts receivable | 44,873 | - |
| Accounts payable | (8,806) | - |
| Related party payable | (390,925) | - |
| | 45,851 | - |

A 5% change in the US/Canadian dollar exchange rates could create a nominal net loss or gain in the statement of operations. There would be no impact on the Corporation's Other Comprehensive Income ("OCI").

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19. MANAGEMENT OF CAPITAL

The Corporation defines capital that it manages as the aggregate of its loans payable, Series "A" Special Shares, share capital, contributed surplus and deficit. Its objectives when managing capital are to ensure that the Corporation will continue as a going concern, so that it can provide returns to its shareholders.

| | Sep 30, 2017 | Sep 30, 2016 |
|-----------------------------|---------------------|--------------|
| | \$ | \$ |
| Amount due to related party | 978,901 | 3,865,710 |
| Series "A" Special Shares | 282,979 | - |
| Share capital | 18,962,351 | 10,340,865 |
| Contributed surplus | 7,690,990 | 5,193,806 |
| Deficit | (21,147,265) | (19,436,246) |
| Total Capital | 6,767,957 | (35,865) |

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions. The Corporation, upon approval from its Board of Directors and subject to all relevant regulatory and other consents and approvals, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Corporation is not subject to any externally imposed capital requirements or debt covenants, and does not presently utilize any quantitative measures to monitor its capital. The Corporation's overall strategy with respect to management of capital remains unchanged from the year ended March 31, 2017.

20. SEGMENTED INFORMATION

Management has determined that during the periods covered by these financial statements, the Corporation carried on business in one operating segment only. All capital assets, except for demonstration equipment, were located in Canada. Sales other than to Canadian customers for the six months ended September 30, 2017 were export sales to the Dominican Republic of \$134,236 (September 30, 2016 - \$ nil) and to the United States of \$218,636 (September 30, 2016 - \$ nil).

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DIRECTORS AND OFFICERS

| | |
|------------------------------------|---|
| David J. Hennigar | Chairman and Director |
| N. Gary Van Nest | Director and Acting Chief Executive Officer |
| Gordon Willox | Director and Managing Director |
| Dr. Robert Francis | Director |
| Dr. Stanley Swierzewski III | Director |
| Lorne S. MacFarlane | Chief Financial Officer |
| Christopher H. Freeman | Secretary |