



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended June 30, 2020 and June 30, 2019

(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 interim financial statements for the three-month period ended June 30, 2020

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
Chief Executive Office

"Lorne S. MacFarlane"

Lorne S. MacFarlane
Chief Financial Officer

August 31, 2020



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2020

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Aquarius Surgical Technologies Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	As at	30-Jun-20	31-Mar-20
ASSETS		\$	\$
Current Assets			
Cash and deposits		245,776	105,186
Accounts receivable		114,725	146,244
Inventories (Note 4)		270,186	105,348
Prepaid expenses and deposits		21,135	42,928
Due from related party (Note 6 (A))		242,673	238,049
		894,495	637,755
Long-term investment (Note 7)		1	1
Equipment (Note 5)		985,647	1,021,160
		1,880,143	1,658,916
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current Liabilities			
Accounts payable and accrued liabilities		303,171	323,291
Current portion long term debt (Note 10)		92,585	-
		395,756	323,291
Due to related party (Note 6 (B))		1,909,092	1,870,284
Long term debt (Note 10)		605,579	154,495
Series "A" Special Shares (Notes 8)		1	1
		2,514,672	2,024,780
		2,910,428	2,348,071
Shareholders' Equity (Deficiency)			
Common Shares (Note 8)		19,765,907	19,750,907
Contributed surplus		9,283,951	9,283,950
Deficit		(30,080,143)	(29,724,012)
		(1,030,285)	(689,155)
		1,880,143	1,658,916

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

(See Note 2 - Going Concern, Note 14 - Commitments and Note 19- Subsequent events)

Approved on behalf of the Board

"David J. Hennigar"

David J. Hennigar

"N. Gary Van Nest"

N. Gary Van Nest

August 31, 2020



Aquarius Surgical Technologies Inc.

**Condensed Consolidated Interim Statement of
Comprehensive Loss (Unaudited)**

(Expressed in Canadian dollars)

Three Months Ended

	30-Jun-20	30-Jun-19
	\$	\$
Sales		
Equipment	-	225,728
Fiber sales	84,233	63,191
Equipment rental	-	13,060
Other	8,525	1,241
	92,758	303,220
Cost of sales	59,425	157,284
Gross Margin	33,333	145,936
Expenses		
General and administrative (Note 12)	263,403	378,565
Bank charges and interest	94,017	78,555
Amortization (Notes 5)	35,512	33,261
	392,931	490,381
Net loss before other items	(359,598)	(344,445)
Other items:		
Interest income	3,468	3,381
Net loss and comprehensive loss for the year	(356,130)	(341,064)
Loss per share, basic and diluted	(\$0.016)	(\$0.017)
Weighted average number of shares outstanding, basic and diluted (Notes 8 and 13)	22,879,172	19,652,876

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



Aquarius Surgical Technologies Inc.
Condensed Consolidated Statements of Changes in Equity (Deficiency)
(Expressed in Canadian dollars)
for the three months ended June 30, 2020 and June 30, 2019

	Issued Capital		Contributed		Total
	Common Shares	Amount	Surplus	Deficit	
		\$	\$	\$	\$
Balance March 31, 2019	19,555,139	19,042,428	8,617,039	(28,113,363)	(453,896)
Private placement	1,446,900	311,415	-	-	311,415
Issued for services	70,500	29,250	-	-	29,250
Warrants - December 26, 2021	-	-	170,000	-	170,000
Brokers warrants - December 26, 2021	-	-	25,000	-	25,000
Issue costs	-	(39,948)	-	-	(39,948)
Net loss for the period	-	-	-	(341,064)	(341,064)
Balance June 30, 2019	21,072,539	19,343,145	8,812,039	(28,454,427)	(299,243)
Balance March 31, 2020	22,866,672	19,750,907	9,283,950	(29,724,012)	(689,155)
Issued for services	37,500	15,000	-	-	15,000
Net loss for the period	-	-	-	(356,130)	(356,130)
Balance June 30, 2020	22,904,172	19,765,907	9,283,950	(30,080,143)	(1,030,285)



Aquarius Surgical Technologies Inc.
Condensed Consolidated Interim Statement of Cash Flows
(unaudited)

(Expressed in Canadian dollars)

Three Months Ended

30-Jun-20

30-Jun-19

Cash flows provided by (used in):

	\$	\$
Operating activities		
Net loss for the period	(356,130)	(341,064)
Amortization (Notes 5)	35,512	33,261
Shares issued for services	15,000	29,250
Interest accretion (Note 6(B)) and Note 10	51,499	65,510
Accounts receivable	31,518	(13,584)
Inventory	(164,838)	(47,491)
Prepaid expenses and deposits	21,794	37,155
Due from related party (Note 6 (A))	(4,624)	(5,684)
Accounts payable and accrued liabilities	(20,119)	178,921
	(390,387)	(63,726)
Financing activities		
Increase (decrease) in amounts due to related party	(4,061)	(10,789)
Proceeds (repayment) of convertible note	(4,961)	-
Proceeds term loan	500,000	-
Proceed CEBA loan	40,000	-
Issuance of common shares units	-	506,415
Issue costs	-	(39,948)
	530,978	455,678
Decrease in cash during the year	140,591	391,952
Cash, beginning of period	105,186	125,440
Cash, end of period	245,777	517,392
Non-cash transactions		
Issuance common shares for services	15,000	29,250

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

1. NATURE OF OPERATIONS

Aquarius Surgical Technologies Inc., 89 Scollard Street, Toronto, ON M5R 1G4 (the “Corporation” OR “ASTI”) 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 of March 20, 2017, the Corporation acquired all the outstanding shares of Surgical Lasers Inc. (“SLI”). 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 the 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. When the annual targets have not been met in the past the targets have been waived.

2. GOING CONCERN

The condensed consolidated interim financial statements (the “Interim 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.

During the years ended March 31, 2020 and March 31, 2019 the Corporation had operating revenues of \$958,743 and \$393,385, recorded losses of \$1,610,649 and \$1,586,709, respectively, and has not met sales targets to comply with its distribution agreement. For the years ended March 31, 2020 and March 31, 2019 the Corporation had negative cash flow from operations of \$951,176 and \$942,473, respectively. At June 30, 2020 and March 31, 2020, the Corporation has working capital of \$500,700 and \$314,465, respectively. Also, at June 30, 2020 and March 31, 2020, the Corporation has a shareholders' deficit of \$1,028,324 and \$689,155, respectively. Since March 31, 2020, the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation in future periods.

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 and lenders, the ability to obtain additional financing, maintaining its distribution rights and ultimately, the attainment of profitable operations. The exclusivity of the Corporation’s distribution rights is dependent on achievement of certain annual targets agreed between the parties from time to time, or alternatively, continued support from the other party with respect to waiving targets.

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 year and balance sheet classifications, such adjustments could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The Interim Financial Statements are presented in Canadian dollars which is also the functional currency of the Corporation and its subsidiaries.

The Interim Financial Statements for the period ended June 30, 2020, and the notes thereto present the Corporation’s financial results of operations and financial position under IFRS as at and for the three month

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of presentation (continued)

periods ended June 30, 2020 and June 30, 2019. 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, 2020 based on current standards. The Interim Financial Statements do not include all the necessary annual disclosures in accordance with IFRS.

The policies set out in Note 3 were consistently applied to all the years presented unless mentioned.

The consolidated financial statements were approved by the board of directors for issuance on August 31, 2020.

(b) Basis of consolidation

The consolidated 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 convertible debenture debt/equity, valuation of share capital warrants and stock options, fair value of long-term investments, recoverability of deferred tax assets and classification of contingent consideration as a liability or equity.

(e) Financial Instruments

A financial asset shall be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Instruments (continued)

The classification of the Corporation's financial assets and financial liabilities are summarized in the following table:

	IFRS 9	
	Classification	Measurement
Financial assets and liabilities		
Cash and deposits	Amortized cost	Amortized cost
Accounts receivable and deposits	Amortized cost	Amortized cost
Due from related party	Amortized cost	Amortized cost
Long-term investment	FVTPL	FVTPL
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Note payable	Amortized cost	Amortized cost
Convertible note	Amortized cost	Amortized cost
Due to related party	Amortized cost	Amortized cost
Series "A" special shares	FVTPL	FVTPL

Impairment of financial assets at amortized cost

The impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL"). Impairment provisions on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the provision decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. The Corporation's accounts receivable, deposits and due from related party are included in this category. The Corporation applies the simplified approach to measuring ECL which uses a lifetime expected impairment. To measure the ECL, impairment provisions on accounts receivable are based on credit risk characteristics and days past due. Accounts receivable are written off when there is no reasonable expectation of recovery. An indicator that there is no reasonable expectation of recovery is the failure of a debtor to engage in a repayment plan with the Corporation.

(f) Revenue from contracts with customers

The Corporation employs a five step process for determining the performance obligations within customer sales contract such that revenue is recognized when each specific performance obligation is satisfied and as or when the transfer of control of goods or services to the customer has occurred. Revenue is recognized to reflect the consideration the Corporation is entitled to receive in exchange for the goods or services included under each specific performance obligation.

The Corporation's primary sources of revenue under its contracts with customers are the sale of medical devices and fibre-optic delivery devices. The performance obligation regarding the Corporation's contracts with its customers and the timing of revenue recognition on those obligations is upon shipment and revenue is recognized at a point in time. Payment is due on terms established with the customer and can range from date of delivery to 60 days. The Corporation is able to allocate the transaction price to all of its performance obligations using the prices of the promised goods as they are quoted and invoiced to customers on a stand-alone basis. The Corporation also provides a 1 year manufacturer's warranty on sales and therefore the Corporation makes no warranty provision

(g) Cash and deposits

Cash consists of deposits with major financial institutions

(h) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Equipment

Equipment placed in hospitals and clinics for evaluation purposes are classified as demo equipment. Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment 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

Depreciations methods, useful lives and residual values are reviewed at reviewed at each reporting date and adjusted if appropriate.

(j) Convertible debenture

Loans and borrowings are initially recognized at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortized cost using the effective interest method. The component of the convertible note that exhibits characteristics of a liability is recognized as a liability in the statement of financial position, net of transaction costs.

On the issuance of the convertible notes the fair value of the liability is determined and this amount is carried as a non-current liability on the amortized cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognized as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognized and included in shareholders equity as part of contributed surplus, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. The corresponding interest on the convertible note is expensed to profit and loss.

(k) 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.

(l) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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.

(n) 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 year. Translation gains and losses are recorded in the statement of comprehensive income.

(o) 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.

(p) Earnings (loss) per share

Basic earnings (loss) per share amounts are calculated by dividing net income (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.

(q) Impairment of non-financial assets

Equipment and intangibles 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.

(r) 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.

Long term investments and the Series "A" Special Shares are considered Level 2 in the hierarchy.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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.

(t) New Accounting Standards and Interpretations Adopted

IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. The Corporation has elected not to recognize right-of-use assets and lease liabilities for leases with a lease term of less than 12 months remaining, as permitted by IFRS 16. As at April 1, 2019, the Corporation adopted this pronouncement using the modified retrospective approach and there was no material impact on the Corporation's financial statements.

IFRIC 23 - Uncertainty over income tax treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (the “Interpretation”). The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Early application is permitted. The interpretation clarifies the accounting for income tax treatments (current and deferred tax) that have yet to be accepted by tax authorities. The Corporation adopted the Interpretation in its financial statements effective January 1, 2019. The amendments and additions to IFRIC 23 do not have an impact on the Corporation's consolidated financial statements or financial results.

4. INVENTORIES

Inventories consists of finished products held for sale.

5. EQUIPMENT

Equipment is comprised of the following:

	Computer equipment \$	Demonstration equipment \$	Office furniture and equipment \$	Total \$
June 30, 2019				
Cost				
Balance, beginning of period	12,178	1,209,478	16,013	1,237,669
Additions	-	-	-	-
Balance, end of period	12,178	1,209,478	16,013	1,237,669
Accumulated depreciation				
Balance, beginning of period	9,983	149,639	13,007	172,629
Depreciation for period	232	31,418	1,610	33,260
Balance, end of period	10,215	181,057	14,617	205,889
Net book value	1,963	1,028,421	1,396	1,031,780
June 30, 2020				
Cost				
Balance, beginning of period	12,178	1,283,598	20,784	1,316,560
Additions	-	-	-	-
Balance, end of period	12,178	1,283,598	20,784	1,316,560
Accumulated depreciation				
Balance, beginning of period	10,917	268,471	16,013	295,401
Depreciation for period	234	33,271	2,007	35,512
Balance, end of period	11,151	301,742	18,020	330,913
Net book value	1,027	981,856	2,764	985,647

6. DUE FROM AND TO RELATED PARTY

(A) Due from related party

The President, Chief Technology Officer and Director of the Corporation, and Cast Laser Inc., (“Cast”) a corporation owned by the director were indebted to the Corporation as at June 30, 2020, in the amount of \$242,673 (2019- \$230,591).

6. DUE FROM AND TO RELATED PARTY (continued)

As of July 30, 2019, each of Gordon Willox, CAST Laser, Inc. and Forest Lane Holdings Inc. delivered a joint and several promissory note to secure the principal amount of \$224,907 together with interest at 6% per year accruing from April 1, 2019. Under this promissory note interest accruing on the outstanding principal from time to time is payable at the end of each month, and the principal is payable on demand.

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

	30-Jun-20	30-Jun-19
	\$	\$
Balance beginning of period	238,049	224,907
Interest and advances during the period	4,624	5,684
	242,673	230,591

(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 8,686,553 shares (37.9%) (June 30, 2019 – 41.2%) 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:

	30-Jun-20	30-Jun-19
	\$	\$
Balance beginning of period	2,059,522	2,027,310
Advances during period	9,117	-
Change in foreign currency translation	(13,178)	(10,789)
Face value of loan	2,055,461	2,016,521
Imputed interest	(146,369)	(196,530)
Balance end of period	1,909,092	1,819,991

Effective January 14, 2020, the Corporation entered into an Agreement with FLH in relation to the loan due to FLH. Under that Agreement, the terms of the FLH Loan, which was previously non-interest-bearing and had no set terms for repayment, were amended such that effective April 1, 2020, (i) it will be subject to interest at CIBC Prime Rate plus 1%, payable quarterly on June 30, September 30, December 31 and March 31 in each year, (ii) it may be called for redemption by notice in writing expiring on a maturity date that is not less than fifteen months following the date of the notice, except in the case of a "trigger event" happening, and (iii) it may be repaid by the corporation, in whole or in part, at any time without notice or penalty. A "trigger event" includes any act or incident of insolvency of either the Corporation or Surgical Lasers Inc. ("SLI"), the disposition of all or substantially all of the assets of either the Corporation or SLI, or the acquisition of more than 50% of the issued and outstanding shares of the Corporation by any one shareholder or a group of shareholders acting in concert

As at March 31, 2020 the expected maturity date of the amount due to related party was extended to June 30, 2021 and the interest rate changed from nil to CIBC Prime +1%. The resulting change in fair value was credited to contributed surplus and the imputed interest of \$189,238 will be recorded as a finance cost until the deemed maturity.

The compensation paid to the directors and key management of the Corporation in the three months ended June 30, 2020 was \$73,500 (2019 - \$70,500) 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.

7. 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. The Corporation has written down the investment to its original cost of \$1.

8. SHARE CAPITAL

Share capital consists of the following:

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

Effective June 26, 2019, the Corporation accepted subscriptions for 1,446,900 Units at a price of \$0.35 per unit. Each Unit is comprised of one fully paid common share and one-half of a share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional share at a price of \$0.70 from the Treasury of the Corporation during the period up to thirty months from the Closing Date of the Placement. In connection with this financing, there were also issued a total of 90,783 non-transferable Brokers Warrants. Each Broker Warrant entitles the holder to purchase one additional share at a price of \$0.35 from the Treasury of the Corporation during the period up to thirty months from the Closing Date of the Placement. The fair value of the Warrants and Brokers Warrants was determined to be \$195,000 with the residual of \$311,415 allocated to the common shares.

In connection with the financing which closed on June 26, 2019, the Corporation issued an additional 90,783 Brokers Warrants, which are non-transferable, exercisable at \$0.35 expiring 30 months from date of issue, which were paid as a fee related to the financing, giving total warrants issued and outstanding at June 26, 2019 of 3,656,737. 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) 2.5; Expected volatility 125%.

For the three months ended June 30, 2019 the Corporation issued a total of 70,500 common shares from \$0.40 to \$0.43 per share as compensation for services.

For the three months ended June 30, 2020, the Corporation issued a total of 37,500 common shares at \$0.40 per share as compensation for services.

Common shares	Shares	Amount
		\$
Balance March 31, 2019	19,555,139	19,042,428
Issued for cash	1,446,900	311,415
Issued for services	70,500	29,250
Issue costs	-	(39,948)
Balance June 30, 2019	21,072,539	19,343,145
Balance March 31, 2020	22,866,672	19,750,907
Issued for services	37,500	15,000
Balance June 30, 2020	22,904,172	19,765,907
Series "A" Special Shares	Shares	Amount
		\$
Balance March 31, 2019 and June 30, 2019	1,226,321	1
Balance March 31, 2020 and June 30, 2020	919,741	1

8. SHARE CAPITAL (continued)

Class "A" Warrants	Warrants	Amount
		\$
Balance March 31, 2019 and June 30, 2019	1,468,926	815,049
Balance March 31, 2020 and June 30, 2020	-	-
Class "C" Warrants	Warrants	Amount
		\$
Balance March 31, 2019 and June 30, 2019	1,186,078	138,000
Balance March 31, 2020	1,186,078	138,000
Expired unexercised	(1,186,078)	(138,000)
Balance June 30, 2020	-	-
Warrants - April 17, 2020	Warrants	Amount
		\$
Balance March 31, 2019 and June 30, 2019	187,500	33,000
Balance March 31, 2020	187,500	33,000
Expired unexercised	(187,500)	(33,000)
Balance June 30, 2020	-	-
Warrants - December 26, 2021	Warrants	Amount
		\$
Balance March 31, 2019	nil	nil
Issued for cash	723,450	170,000
Brokers warrants	90,783	25,000
Balance June 30, 2019	814,233	195,000
Balance March 31, 2020 and June 30, 2020	814,233	195,000
Warrants - May 29, 2022	Warrants	Amount
		\$
Balance March 31, 2019 and June 30, 2019	nil	nil
Balance March 31, 2020 and June 30, 2020	906,707	183,000
Warrants - June 6, 2022	Warrants	Amount
		\$
Balance March 31, 2019 and June 30, 2019	nil	nil
Balance March 31, 2020 and June 30, 2020	10,000	2,000

8. SHARE CAPITAL (continued)

The following table summarizes information about the warrants outstanding and exercisable at June 30, 2020:

Number of warrants outstanding	Expiry Date	Exercise Price \$	Number of warrants exercisable	Weighted average remaining life (yrs)
723,450	26-Dec-2021	0.70	723,450	1.49
90,783	26-Dec-2021	0.35	90,783	1.49
797,815	29-May-2022	0.70	797,815	1.91
108,892	29-May-2022	0.35	108,892	1.91
10,000	6-Jun-2022	0.70	10,000	1.93
<u>1,730,940</u>			<u>1,730,940</u>	<u>1.71</u>

9. 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.

The Corporation has reserved 3,000,000 common shares pursuant to the plan. There are 1,460,000 options to acquire common shares outstanding under the plan as at June 30, 2020. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

Options issued and outstanding as at June 30, 2020 and June 30, 2019:

	Weighted average exercise price \$	Issued
<u>Balance June 30, 2019 and June 30, 2020</u>	<u>1.00</u>	<u>1,460,000</u>

The following table summarizes information about the options outstanding and exercisable at June 30, 2020:

Number of options outstanding	Expiry Date	Exercise Price \$	Number of options exercisable	Weighted average remaining life (yrs)
1,450,000	31-Mar-2022	1.00	1,450,000	1.75
10,000	24-Aug-2022	1.00	10,000	2.15
<u>1,460,000</u>			<u>1,460,000</u>	<u>1.75</u>

10. LONG TERM DEBT

Convertible Note

Effective March 19, 2019, the Corporation borrowed an amount of \$250,000 by way of a short term loan; the loan, was subject to interest calculated at 15% per year, and was secured by a Promissory Note issued by the Corporation and guaranteed by directors of the Corporation, and matured on December 31, 2019.

Effective January 15, 2020 the unsecured short-term loan of \$250,000 bearing interest at 15%, which matured on December 31, 2019, was exchanged for a 9.5% unsecured convertible note maturing April 15, 2022. Interest will be payable quarterly on April 15, July 15, October 15 and January 15. The note will be convertible into common shares at \$0.35 per share at any time up to the date of maturity. The Corporation has determined the value of the conversion option to be \$107,043 and has transferred this amount to contributed surplus.

10. LONG TERM DEBT (continued)

Term Loan

Effective June 3, 2020, the Corporation entered into a Credit Facility Agreement (the “Credit Facility”) with a chartered bank (the “Bank”). Under the terms of the Credit Facility, the Corporation was granted a non-revolving term facility of \$500,000. The Credit Facility, together with all other obligations of the Corporation to the Bank, is secured by (i) a General Security Agreement over all personal property of the Corporation, ranking first in priority to all other obligations of the Corporation, (ii) a personal guarantee and postponement of claims in the amount of \$250,000 granted by a director of the Corporation, also by (iii) security over a cash collateral deposit by the Corporation in the form of a GIC in the amount of \$100,000 and a Guarantee in the amount of \$250,000 (the “EDC Guarantee”) issued by Export Development Canada. The Terms of the Credit Facility also include financial covenants by the Corporation, including in particular the obligation to maintain Debt Service Coverage at the end of each financial year of not less than 1.25:1. The Credit Facility bears interest at 3.69% and is repayable in blended monthly payments of \$9,138 commencing July 3, 2020. The EDC Guarantee fee, calculated at 3.15% on the guaranteed balance outstanding, is payable quarterly in advance commencing on the May 22, 2020 acceptance date. Because of Covid-19 the payment of the fees for May 22 and August 22 have each been deferred for 6 months.

CEBA Loan

The Government of Canada provided interest free loans to qualified businesses through the Canada Emergency Business Account (“CEBA”). The loan is interest free and if repaid before December 31, 2022 qualify for forgiveness of 25% of the original loan (up to \$10,000). Loans not paid in full by December 31, 2022 will automatically renew for a further 3 years and interest will commence at 5% per annum.

Long Term Debt	Convertible Note	Term Loan	CEBA Loan	Total
	\$	\$	\$	\$
Balance March 31, 2019 and June 30, 2019	-	-	-	-
Balance March 31, 2020	254,961	-	-	254,961
Advances (Payments) during period	(4,961)	500,000	40,000	535,039
Face value of loans	250,000	500,000	40,000	790,000
Imputed interest	(91,836)	-	-	(91,836)
Current portion long term debt	-	(92,585)	-	(92,585)
Balance June 30, 2020	158,164	407,415	40,000	605,579

11. 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 three month periods ended June 30, 2020 and June 30, 2019:

	30-Jun-20	30-Jun-19
	\$	\$
Net income (loss) before taxes	(356,130)	(341,064)
Income tax (recovery) at Canadian Federal and provincial statutory rates of 26.5%	(94,374)	(90,382)
Deferred tax asset not recognized	94,374	90,382
Provision for income taxes	-	-

11. INCOME TAX (continued)

Deferred taxes	30-Jun-20	30-Jun-19
	\$	\$
Non-Capital losses carried forward	2,493,000	2,102,000
Equipment	174,000	118,000
Other	36,000	30,000
	2,703,000	2,250,000
Less: Deferred tax assets not recognized	(2,703,000)	(2,250,000)
Deferred tax liability	-	-

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	1,178,880
2036	187,084
2037	250,352
2038	1,458,657
2039	1,348,216
2040	1,172,945
	9,407,223

12. EXPENSES BY NATURE

Expense item	Three Months Ended	
	30-Jun-20	30-Jun-19
Selling, general and admin expenses	123,418	245,801
Professional fees	12,100	12,274
Listing expenses	23,685	19,142
Management fees	52,500	52,500
Consulting fees	51,700	48,848
	263,403	378,565

13. EARNINGS (LOSS) PER SHARE

The earnings per share is calculated based upon the weighted average number of common shares outstanding during the period of 22,879,172 (June 30, 2019 – 19,652,876). As at June 30, 2020, the Corporation had 1,730,940 outstanding warrants (June 30, 2019 - 3,656,737) and 1,460,000 outstanding stock options (June 30, 2019 – 1,460,000). 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.

14. COMMITMENTS

(A) The Corporation is committed to a lease agreement related to the Corporation's premises, commencing on July 1, 2015 and terminating on July 31, 2020. 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. (See Subsequent event Note 19(c))

2021	\$ 880
2022	TBD

(B) 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. The current future minimum purchase commitments are as follows:

	Lasers	Fibers
2021	24	15,000
2022	36	TBD
2023	TBD	TBD

15. FINANCIAL INSTRUMENTS

Fair Values

The estimated fair values of cash, accounts receivables, due from related party, accounts payable and accrued liabilities, convertible debenture 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 convertible debenture has been recorded at the discounted value after allocating the attributed value of the conversion feature. The Series "A" special shares are measured at fair value at the end of the reporting period.

During the years ended June 30, 2020 and June 30, 2019, there was no transfer of financial assets between the three levels of the fair value hierarchy.

16. 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. As at June 30, 2020, all receivables which are 60 days past the due date and are deemed uncollectible have been recorded in the allowance for doubtful accounts. The total allowance for bad debts at June 30, 2020 is \$13,082 (2019 - \$24,747).

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

16. FINANCIAL RISKS (continued)

Liquidity Risk (continued)

loans from directors/shareholders have provided the necessary liquidity required. The payment of accounts payable and accrued liabilities are based upon contractual terms as arranged with suppliers. Effective April 1, 2020 the amount due to related party bears interest at CIBC Prime + 1% and the amount is callable upon 15 months written notice. The Corporation also manages liquidity risk on the basis of expected maturity dates. The following table analyzes financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

Liquidity risk table	Debt	Lease Liability	Account payable and accrued liabilities	Total
	\$	\$	\$	\$
Less than 1 year	-	880	303,171	304,051
1 - 5 year	2,845,462	-	-	2,845,462
More than 5 years	-	-	-	-
Balance as at March 31, 2020	2,845,462	880	303,171	3,149,513

Debt Service Coverage

The Terms of the Credit Facility include financial covenants by the Corporation, including the obligation to maintain Debt Service Coverage, defined as the ratio of EBITDA to the total of Interest Expense and scheduled principal payments in respect of Funded Debt, at the end of each financial year of not less than 1.25:1

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 7, the Corporation has an investment in a company focused on 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 convertible note (Note 10) bears interest at 9.5%, the term loan (Note 10) bears interest at 3.69%, the amount due from related parties (Note 6(A)) bears interest at 6% per annum and the amount due to related parties (Note 6(B)) bears interest at CIBC Prime +1%. The Corporation is subject to interest rate price risk on the amount due to related parties resulting from market fluctuations in interest rates. A 1% change in interest rates would change interest expenses by \$20,000 per year.

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 the year end the following assets and liabilities originate in US. dollars and Euros and are subject to fluctuations:

	30-Jun-20	30-Jun-19	30-Jun-20	30-Jun-19
	US\$	US\$	€	€
Cash	58,231	12,428	-	-
Accounts receivable	35,173	1,794	-	-
Inventory deposits	-	-	11,600	11,600
Term deposit	-	19,750	-	-
Accounts payable	(76,454)	(90,270)	(27,829)	(65,252)
Credit cards	-	(11,939)	-	-
Related party payable	(394,287)	(390,925)	-	-
	(377,337)	(459,161)	(16,229)	(53,652)

A 5% change in the US and Euro exchange rates vs the Canadian dollar could create a net loss or gain of \$25,000 in the statement of operations. There would be no impact on the Corporation's Other Comprehensive Income ("OCI").

17. 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.

	30-Jun-20	30-Jun-19
	\$	\$
Long term debt	605,579	-
Amount due to related party	1,909,092	1,819,991
Series "A" Special Shares	1	1
Share capital	19,765,907	19,343,145
Contributed surplus	9,283,951	8,812,039
Deficit	(30,080,143)	(28,454,427)
Total Capital	1,484,387	1,520,749

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, 2020.

18. 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 period ended June 30, 2020 were export sales to the United States of \$89,257 (June 30, 2019 - \$303,220) and export sales to the Dominican Republic of \$3,501 (June 30, 2019 - \$ nil).

19. SUBSEQUENT EVENTS

- (a) Effective July 31, 2020, the Corporation issued 12,500 common shares at \$0.40 per share as compensation for services.
- (b) Effective August 31, 2020, the Corporation issued 12,500 common shares at \$0.40 per share as compensation for services.
- (c) Effective July 28, 2020 the Corporation is committed to a lease agreement related to the Corporation's premises, commencing on August 1, 2020, and terminating on July 31, 2021. 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.

DIRECTORS AND OFFICERS

David J. Hennigar	Director and Chairman
N. Gary Van Nest	Director, Vice Chairman and Chief Executive Officer
Gordon Willox	Director, President and Chief Technology Officer
Dr. Robert Francis	Director
Dr. Stanley Swierzewski III	Director
Lorne S. MacFarlane	Chief Financial Officer
Christopher H. Freeman	Secretary