



Rapid Dose Therapeutics Corp.

Condensed Interim Consolidated Financial Statements

November 30, 2019

(expressed in Canadian dollars)

(unaudited)

Management's Comments on Unaudited Condensed Interim Consolidated Financial Statements

These unaudited condensed interim consolidated financial statements of Rapid Dose Therapeutics Corp. (the "Company") have been prepared by management and approved by the Board of Directors of the Company.

These unaudited condensed interim financial statements have not been reviewed by the Company's external auditors.

Rapid Dose Therapeutics Corp.

Consolidated Statements of Financial Position

(expressed in Canadian dollars)
(unaudited)

| | Notes | As at November 30, 2019 \$ | As at February 28, 2019 \$ |
|--|-------|-------------------------------------|-------------------------------------|
| Assets | | | |
| Current | | | |
| Cash and cash equivalents | | 22,641 | 1,266,880 |
| Short-term investments | 4 | 54,623 | 2,224,906 |
| Amounts receivable | 5 | 366,943 | 286,092 |
| Employee advances | | - | 15,536 |
| Inventory | 6 | 220,784 | 138,865 |
| Prepaid expenses | | 474,932 | 167,449 |
| | | 1,139,923 | 4,099,728 |
| Non-current | | | |
| Right-of-use asset | 7 | 1,250,145 | - |
| Property and equipment | 8 | 2,397,645 | 1,683,514 |
| | | 4,787,713 | 5,783,242 |
| Liabilities | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | 1,003,900 | 952,830 |
| Current portion of deferred revenue | 9 | 329,259 | 1,002,760 |
| Current portion of lease liability | 10 | 258,557 | - |
| | | 1,591,716 | 1,955,590 |
| Non-current | | | |
| Deferred revenue | 9 | 1,317,035 | - |
| Lease liability | 10 | 1,027,130 | - |
| | | 3,935,881 | 1,955,590 |
| Shareholders' equity | | | |
| Share capital | | | |
| Common shares | 11 | 18,093,690 | 16,673,525 |
| Warrant reserve | 12 | 4,000 | 67,033 |
| Options reserve | 13 | 2,648,169 | - |
| Accumulated other comprehensive loss | | - | (12,699) |
| Deficit | | (19,894,027) | (12,900,207) |
| | | 851,832 | 3,827,652 |
| | | 4,787,713 | 5,783,242 |

Going concern

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Approved by the Board:

Mark Upsdell
Director

Ken Fox
Director

Rapid Dose Therapeutics Corp.

Consolidated Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)
(unaudited)

| | Notes | 3 months ended November 30, | | 9 months ended November 30, | |
|---|-------|--------------------------------|-------------|--------------------------------|-------------|
| | | 2019 \$ | 2018 \$ | 2019 \$ | 2018 \$ |
| Revenue | | | | | |
| Installation of equipment | 9 | (893,952) | - | - | - |
| Nutraceuticals | | 3,479 | 2,206 | 40,206 | 2,206 |
| Total revenue | | (890,473) | 2,206 | 40,206 | 2,206 |
| Cost of sales | | 1,115 | 59 | 10,297 | 59 |
| Gross profit | | (891,588) | 2,147 | 29,909 | 2,147 |
| Expenses | | | | | |
| General and administrative | 14 | 736,590 | 678,898 | 2,709,853 | 1,232,129 |
| Legal and professional | | 30,693 | 129,683 | 202,302 | 182,450 |
| Sales and marketing | | 108,155 | 59,457 | 514,643 | 109,068 |
| Research and development | | 192,874 | 70,633 | 287,368 | 196,544 |
| Stock-based compensation | | 446,395 | - | 2,648,169 | - |
| Depreciation | | 319,381 | 69,394 | 299,413 | 90,720 |
| Interest | | 66,053 | - | 66,053 | - |
| | | 1,900,141 | 1,008,065 | 6,727,801 | 1,810,911 |
| Loss from operations | | (2,791,729) | (1,005,918) | (6,697,892) | (1,808,764) |
| Non-operating expenses | | | | | |
| Realized loss on short-term investments | | - | - | (1,451) | - |
| Unrealized loss on short-term investments | | (296,016) | - | (553,730) | - |
| Foreign exchange (gain) | | 80,341 | - | 141,772 | - |
| Gain on sale of equipment | | - | - | 85,808 | - |
| Interest income | | - | - | 17,159 | - |
| Other income | | (11,047) | - | 14,514 | - |
| Net loss before other comprehensive loss | | (3,018,451) | (1,005,918) | (6,993,820) | (1,808,764) |
| Net movement in foreign currency | | 203,070 | - | (12,699) | - |
| Net comprehensive loss | | (2,815,381) | (1,005,918) | (7,006,519) | (1,808,764) |
| Net loss per common share-basic and diluted | | (0.04) | (0.02) | (0.09) | (0.03) |
| Weighted average number of common shares-basic and diluted | | 76,980,763 | 64,841,200 | 75,772,642 | 54,408,407 |

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

Rapid Dose Therapeutics Corp.

Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

(unaudited)

| | Number | Common shares \$ | Warrant reserve \$ | Option reserve \$ | Accumulated other comprehensive loss | Deficit \$ | Total \$ |
|---------------------------------------|-------------------|------------------------|--------------------------|-------------------------|---|---------------------|------------------|
| Balance, February 28, 2019 | 75,121,327 | 16,673,525 | 67,033 | - | (12,699) | (12,900,207) | 3,827,652 |
| Private placement of common shares | 1,276,108 | 893,276 | - | - | - | - | 893,276 |
| Fair value of warrants issued | - | (4,000) | 4,000 | - | - | - | - |
| Exercise of warrants | 670,000 | 502,500 | - | - | - | - | 502,500 |
| Fair value of warrants exercised | - | 60,692 | (60,692) | - | - | - | - |
| Fair value of expired warrants | - | 6,341 | (6,341) | - | - | - | - |
| Share issue costs | - | (38,644) | - | - | - | - | (38,644) |
| Stock-based compensation | - | - | - | 2,667,894 | - | - | 2,667,894 |
| Fair value of stock options cancelled | - | - | - | (19,725) | - | - | (19,725) |
| Loss | - | - | - | - | 12,699 | (6,993,820) | (6,981,121) |
| Balance, November 30, 2019 | 77,067,435 | 18,093,690 | 4,000 | 2,648,169 | - | (19,894,027) | 851,832 |
| Balance, February 28, 2018 | 54,331,200 | 2,016,280 | 74,282 | - | - | (1,501,862) | 588,700 |
| Private placement of common shares | 10,410,000 | 7,005,000 | - | - | - | - | 7,005,000 |
| Common shares issued for services | 100,000 | 50,000 | - | - | - | - | 50,000 |
| Share issue costs | - | (115,100) | - | - | - | - | (115,100) |
| Loss | - | - | - | - | - | (1,808,764) | (1,808,764) |
| Balance, November 30, 2018 | 64,841,200 | 8,956,180 | 74,282 | - | - | (3,310,626) | 5,719,836 |

Rapid Dose Therapeutics Corp.

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)
(unaudited)

| | 9 months ended | |
|---|-----------------------|--------------------|
| | November 30, | |
| | 2019 | 2018 |
| | \$ | \$ |
| Cash provided by (used in) | | |
| Operating activities | | |
| Loss | (6,993,820) | (1,808,764) |
| Items not affecting cash | | |
| Stock-based compensation | 2,648,169 | - |
| Depreciation | 299,413 | 90,720 |
| Realized loss on short-term investments | 1,451 | - |
| Unrealized loss on short-term investments | 553,730 | - |
| Gain on sale of equipment | (85,808) | - |
| Changes in non-cash operating working | | |
| Amounts receivable | (80,851) | (160,259) |
| Employee advances | 15,536 | (9,212) |
| Inventory | (81,919) | (82,255) |
| Prepaid expenses | (307,483) | (51,804) |
| Accounts payable and accrued liabilities | 86,122 | 60,020 |
| Deferred revenue | 347,444 | 296,898 |
| | (3,598,016) | (1,664,656) |
| Investing activities | | |
| Proceeds on sale of equipment | 98,997 | - |
| Purchase of property and equipment | (1,013,544) | (1,235,848) |
| Sale of short-term investments | 1,911,192 | - |
| | 996,645 | (1,235,848) |
| Financing activities | | |
| Private placement of common shares | 893,276 | 7,055,000 |
| Exercise of warrants | 502,500 | - |
| Share issue costs | (38,644) | (115,100) |
| | 1,357,132 | 6,939,900 |
| Net increase (decrease) in cash | (1,244,239) | 4,039,396 |
| Cash, beginning of period | 1,266,880 | 326,267 |
| Cash, end of period | 22,641 | 4,365,663 |
| Non-cash transaction | | |
| Receipt of common shares of licensee for deferred revenue | 296,090 | - |
| Supplementary information | | |
| Interest paid | 66,053 | - |
| Income taxes paid | - | - |

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

Rapid Dose Therapeutics Corp.

Notes to the Condensed Interim Consolidated Financial Statements

November 30, 2019

(expressed in Canadian dollars)
(unaudited)

1. Nature of operations

Rapid Dose Therapeutics Corp. (the "Company") is a publicly traded Canadian life sciences company that provides innovative, proprietary drug delivery technologies designed to improve outcomes and quality of lives. The Company is amalgamated under the laws of Ontario and its registered office is located at 1121 Walker's Line, Unit 3A, Burlington, Ontario, L7N 2G4.

2. Going concern uncertainty

The Company is an early stage company and has just started to generate revenue. As at November 30, 2019, the Company had a working capital deficit of \$451,793 (February 28, 2019 - working capital of \$2,144,138) and for the 9 months ended November 30, 2019, the Company recorded a loss of \$6,993,820 (2018 - \$1,808,764). The working capital deficits and losses limit the Company's ability to fund its operations. As a result, there is significant doubt about the Company's ability to continue as a going concern.

The continued operation of the Company is dependent upon the support of its creditors and the Company's ability to secure advances from related parties and debt and equity financings to meet its existing obligations and finance its operations. The Company is actively seeking to raise the necessary advances and debt and equity financings, however; there is no assurance that the Company will be successful in these efforts.

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to 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. These condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

3. Basis of preparation

Statement of compliance

These interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board.

The accounting policies used in these interim condensed financial statements are consistent with those disclosed in the Company's audited financial statements for the year ended February 28, 2019.

These interim condensed financial statements do not include certain information and disclosures normally included in annual financial statements prepared in accordance with IFRS and should be read in conjunction with the Company's annual financial statements for the year ended February 28, 2019.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on January 29, 2020.

Changes in accounting standards

On March 1, 2019, the Company adopted *IFRS 16, Leases* ("IFRS 16"). According to IFRS 16, a contract is, or contains, a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. With exceptions for certain short-term leases and leases of low-value assets, IFRS 16 requires a lessee to recognize lease contracts as a right-of-use asset representing its right to use an identified asset for a period of time and a lease liability representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying the standard as an adjustment to retained earnings with no restatement of comparative information which continues to be reported under *IAS 17, Leases*.

The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability and any lease payments made at or before the commencement date. Right-of-use assets are subsequently depreciated from the commencement date of the lease to the earlier of the end of the lease term or the end of the useful life of the asset. The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability.

The lease liability is initially recognized as the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's applicable incremental borrowing rate. The incremental borrowing rate is the rate which the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset. The lease liability is subsequently measured by reducing the carrying amount to reflect lease payments made and to reflect any reassessments or modifications.

The Company is a party to a lease for office premises with a term ending March 31, 2024. At March 1, 2019, the Company used its incremental borrowing rate of 8% to measure its lease liability.

| | |
|--|------------------|
| | \$ |
| Lease commitments at February 28, 2019 | 1,789,679 |
| Discount using the incremental borrowing rate of 8% | (323,163) |
| <u>Lease liabilities recognized at March 1, 2019</u> | <u>1,466,516</u> |

At March 1, 2019, the impact of adopting IFRS 16 on the Company's statement of financial position was as follows:

| | |
|------------------------------------|------------------|
| | \$ |
| Assets | |
| Non-current | |
| <u>Right-of-use asset</u> | <u>1,466,516</u> |
| Liabilities | |
| Current | |
| Current portion of lease liability | 243,548 |
| Non-current | |
| <u>Lease liability</u> | <u>1,222,967</u> |
| | <u>1,466,516</u> |

4. Short-term investments

| | November 30, 2019 \$ | February 28, 2019 \$ |
|----------------------------|----------------------------|----------------------------|
| Fixed income | – | 1,181,678 |
| Domestic equity securities | 54,623 | 305,459 |
| Foreign equity securities | – | 293,962 |
| Mutual funds | – | 443,807 |
| | <u>54,623</u> | <u>2,224,906</u> |

5. Amounts receivable

| | November 30, 2019 \$ | February 28, 2019 \$ |
|-------------------|----------------------------|----------------------------|
| Trade receivables | 267,523 | – |
| HST receivable | 99,420 | 286,092 |
| | <u>366,943</u> | <u>286,092</u> |

6. Inventory

| | November 30, 2019 \$ | February 28, 2019 \$ |
|---------------------------------|----------------------------|----------------------------|
| Raw materials | 661 | 3,722 |
| Labels and packaging | 193,948 | 60,281 |
| Finished goods - nutraceuticals | 26,175 | 74,862 |
| | 220,784 | 138,865 |

7. Right-of-use asset

| | November 30, 2019 \$ | March 1, 2019 \$ |
|--------------------------|----------------------------|------------------------|
| Right-of-use asset | 1,466,516 | 1,466,516 |
| Accumulated depreciation | (216,371) | – |
| | 1,250,145 | 1,466,516 |

8. Property and equipment

| Cost | Furniture and fixtures \$ | Research & development equipment \$ | Portable building units \$ | Computer hardware \$ | Leaseholds \$ | Processing equipment \$ | Total \$ |
|-------------------|---------------------------------|--|-------------------------------------|----------------------------|------------------|-------------------------------|-------------|
| February 28, 2019 | 36,050 | 141,779 | 358,088 | 93,833 | 38,678 | 1,172,351 | 1,840,779 |
| Additions | 25,842 | 36,175 | 73,770 | 105,803 | 207,940 | 360,142 | 809,672 |
| Disposals | – | (17,203) | – | – | – | – | (17,204) |
| November 30, 2019 | 61,892 | 160,751 | 431,858 | 199,636 | 246,618 | 1,532,493 | 2,633,248 |

| Accumulated depreciation | Furniture and fixtures \$ | Research & development equipment \$ | Portable building units \$ | Computer hardware \$ | Leaseholds \$ | Processing equipment \$ | Total \$ |
|-----------------------------|---------------------------------|--|-------------------------------------|----------------------------|------------------|-------------------------------|-------------|
| February 28, 2019 | 5,008 | 16,128 | 7,133 | 4,299 | 1,575 | 123,122 | 157,265 |
| Depreciation | 8,330 | 15,079 | 18,335 | 28,150 | 13,672 | – | 83,566 |
| Disposals | – | (5,228) | – | – | – | – | (5,228) |
| November 30, 2019 | 13,338 | 25,979 | 25,468 | 32,449 | 15,247 | 123,122 | 235,603 |

| Net book value | Furniture and fixtures \$ | Research & development equipment \$ | Portable building units \$ | Computer hardware \$ | Leaseholds \$ | Processing equipment \$ | Total \$ |
|-------------------|---------------------------------|--|-------------------------------------|----------------------------|------------------|-------------------------------|-------------|
| February 28, 2019 | 31,042 | 126,651 | 350,955 | 89,534 | 37,103 | 1,049,229 | 1,683,514 |
| November 30, 2019 | 48,554 | 134,772 | 406,390 | 167,187 | 231,371 | 1,409,371 | 2,397,645 |

9. Deferred revenue

Deferred revenue includes the receipt of signing fees and fees for the installation of equipment in respect of Managed Strip Services Agreements (each a "MSSA") that have been received prior to the Company fulfilling its performance obligations under those MSSAs.

For the 6 months ended August 31, 2019, the Company recognized signing fees and fees for the installation of equipment of \$893,952 as revenue on the completion of its performance obligation to install equipment. The Company has reviewed its policy for the recognition of revenue and IFRS 15, *Revenue from Contracts with Customers* and determined that amounts earned for signing fees and fees for the installation of equipment in accordance with the MSSA should be deferred and recognized as revenue over time, commencing as the Company completes all of its performance obligations under each MSSA. Accordingly, the Company reversed the revenue of \$893,952 back to deferred revenue.

The Company has estimated the allocation between current and non-current deferred liability to be as follows:

| | November 30, 2019 \$ | February 28, 2019 \$ |
|-----------|----------------------------|----------------------------|
| Current | 329,259 | 1,002,760 |
| Long-term | 1,317,035 | – |
| | <u>1,646,294</u> | <u>1,002,760</u> |

10. Lease liability

| | \$ |
|------------------------------------|------------------|
| Balance, March 1, 2019 | 1,466,516 |
| Lease payments | (180,829) |
| Balance, November 30, 2019 | <u>1,285,687</u> |
| Current portion of lease liability | 258,557 |
| Non-current lease liability | 1,027,130 |
| | <u>1,285,687</u> |

The remaining lease term is 4.34 years.

11. Share capital

Authorized

An unlimited number of common shares without par value

Outstanding

77,067,435 common shares

Private placement

On October 9, 2019 and October 30, 2019, the Company completed tranches of a non-brokered private placement of 1,276,108 common shares at a price of \$0.70 per common share for gross proceeds of \$893,276. Of the common shares issued, 227,857 common shares were issued to two directors and officers of the Company. In connection with the private placement, the Company paid a finder's fee of \$35,369 and issued 17,684 warrants with each warrant entitling the holder to purchase one common share for \$1.00 per common share until October 9, 2021.

The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following assumptions:

| | |
|--|-----------------|
| Date of issue | October 9, 2019 |
| Expiry date | October 9, 2021 |
| Warrants issued | 17,684 |
| Exercise price | \$1.00 |
| Share price | \$0.69 |
| Risk-free interest rate | 1.47% |
| Expected volatility based on historical volatility | 80% |
| Expected life of warrants | 2 years |
| Expected dividend yield | 0% |
| Fair value | \$4,000 |
| Fair value per warrant | <u>\$0.23</u> |

12. Warrant reserve

A summary of the continuity of warrant activity is as follows:

| | Weighted-average exercise price | Number of warrants | Warrant reserve |
|----------------------------|------------------------------------|-----------------------|--------------------|
| | \$ | | \$ |
| Balance, February 28, 2019 | 0.75 | 740,000 | 67,033 |
| Issued | 1.00 | 17,684 | 4,000 |
| Exercised | 0.75 | (670,000) | (60,692) |
| Cancelled | 0.75 | (70,000) | (6,340) |
| Balance, November 30, 2019 | 1.00 | 17,684 | 4,000 |

13. Options reserve

The Company adopted a stock option plan under which it can grant options to directors, officers, employees and consultants for up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of an option may not be less than the closing market price during the trading day immediately preceding the date of the grant of the option, less any applicable discount allowed by the Canadian Securities Exchange.

A summary of the Company's stock options is presented below:

| | Weighted-average exercise price | Number of stock options | Options reserve |
|----------------------------|------------------------------------|----------------------------|--------------------|
| | \$ | | \$ |
| Balance, February 28, 2019 | — | — | — |
| Granted | 0.82 | 5,526,000 | 2,667,894 |
| Cancelled | 0.82 | (40,000) | (19,725) |
| Balance, November 30, 2019 | 0.82 | 5,486,000 | 2,648,169 |

A summary of the Company's outstanding stock options is presented below:

| Exercise price | Expiry date | Number of stock options issued | Number of stock options exercisable |
|----------------|----------------|--------------------------------------|---|
| \$0.82 | March 11, 2024 | 4,386,000 | 4,386,000 |
| \$0.82 | July 29, 2024 | 1,100,000 | 933,333 |
| | | 5,486,000 | 5,319,333 |

The Company granted stock options to directors, officers, employees and consultants. The fair value of the stock options granted was calculated using the Black-Scholes option pricing model with the following assumptions:

| | | |
|--|------------------|---|
| Date of grant | March 11, 2019 | July 29, 2019 |
| Expiry date | March 11, 2024 | July 29, 2024 |
| Number of stock options granted | 4,426,000 | 1,100,000 |
| Exercise price | \$0.82 | \$0.82 |
| Share price | \$0.79 | \$0.82 |
| Risk-free interest rate | 1.65% | 1.65% |
| Expected volatility based on historical volatility | 78% | 74% |
| Expected life of stock options | 5 years | 5 years |
| Expected dividend yield | 0% | 0% |
| Vesting | On date of grant | 933,334 on date of grant and 83,333 on the first and second anniversary of the date of grant |
| Fair value | \$2,182,591 | \$547,522 |
| Fair value per stock option | \$0.49 | \$0.50 |

On November 30, 2019, the fair values of the stock options were recalculated to change the expected life of the stock options from 3 years to 5 years which resulted in an increase in stock-based compensation of \$522,607 and \$105,732 for the stock options granted on March 11, 2019 and July 29, 2019, respectively.

14. General and administrative expenses

| | 9 months ended November 30, | |
|--|-----------------------------|-----------|
| | 2019 | 2018 |
| | \$ | \$ |
| Salaries, consulting fees and benefits | 2,204,869 | 935,307 |
| Premises | 55,670 | 48,884 |
| Travel | 201,783 | 44,446 |
| Other | 247,531 | 203,492 |
| | 2,709,853 | 1,232,129 |

15. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Cash, accounts receivable and accounts payable and accrued liabilities

The fair values of cash, accounts receivable and accounts payable and accrued liabilities at November 30, 2019 approximated their respective carrying values due to their short term to maturity.

Short-term investments

The fair value of short-term investments is estimated based on observable inputs.

Classification of fair value of financial instruments

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1: quoted prices in active markets for identical assets and liabilities;

Level 2: inputs, other than the quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3: inputs for the asset or liability that are not based on observable market data.

Short-term investments are classified as Level 1 financial assets.

16. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its activities, including credit risk, liquidity risk and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's customers are subject to an internal credit review, together with ongoing monitoring of the amount and age of balances in order to minimize the risk of non-payment. The carrying amount of accounts receivable reflects the maximum credit exposure and management's assessment of the credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as they come due. The continued operation of the Company is dependent upon the Company's ability to secure equity financing to meet its existing obligations and finance operations. Accounts payable and accrued liabilities are subject to normal trade terms.

Market risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments.

Equity price risk

Equity price risk arises from the Company's marketable securities. The Company's approach to managing equity price risk is to optimize the return from its marketable securities within acceptable parameters for equity price risk. The Company estimates that if the fair value of its marketable securities as at November 30, 2019 had changed by 10%, with all other variables held constant, the income would have increased or decreased by \$5,462.

Currency risk

Currency risk arises from financial instruments and sales and purchases that are denominated in a currency other than the Canadian dollar, the Company's functional currency. The Company operates in Canada and the United States and the Company incurs the majority of its operating expenses in Canadian dollars. In the future, the proportion of international sales is expected to increase. Any fluctuation in the exchange rates of foreign currencies may negatively impact the Company's business, financial condition and results of operations. The Company manages risk to foreign currency exposure by monitoring financial assets and liabilities denominated in US dollars and exchange rates on an ongoing basis. The Company has not engaged in foreign currency hedging.

Interest rate risk

The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments.

17. Capital risk management

Capital of the Company consists of share capital, warrant reserve, option reserve and deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can provide returns for the benefit of its shareholders and other stakeholders.

The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors has not established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

As the Company is an early stage company and has just started to generate revenue, its principal source of capital is from the issuance of common shares or advances from related parties. In order to achieve its objectives, the Company intends to raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

18. Related party transactions

Related parties include the members of the Board of Directors, key management personnel and any companies controlled by these individuals. Key management personnel include those persons having authority and responsibility for planning, directing and controlling activities of the Company, namely, directors, Chief Executive Officer, Chief Financial Officer and Senior Vice President, Business Development.

Compensation of key management personnel

The Company considers its directors and officers to be key management personnel. Transactions with key management personnel are set out as follows:

| | 9 months ended November 30, | |
|--------------------------|------------------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Salaries | 566,155 | 449,513 |
| Stock-based compensation | 1,457,350 | — |
| | 2,023,505 | 449,513 |

Subsequent to November 30, 2019, certain directors and officers resigned or were replaced and stock-based compensation of \$397,400 will be reversed.

See note 11 for other related party transactions.