

BREATHTEC BIOMEDICAL, INC.

(Formerly PBA Acquisitions Corp.)

Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended November 30, 2016 and 2015

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these interim financial statements they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

BREATHTEC BIOMEDICAL, INC.

(Formerly PBA Acquisitions Corp.)

Unaudited Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian dollars)

As at November 30, 2016 and 2015

	Note	November 30, 2016	August 31, 2016
Assets			
Current assets			
Cash and cash equivalents	4	\$ 2,140,133	\$ 1,597,728
Accounts and advances receivable		189,673	34,397
Prepaid expenses		36,769	79,300
Total current assets		2,366,575	\$ 1,711,425
Non-current assets			
Incorporation costs		1,371	1,371
License agreement	6	619,258	532,490
Furniture and equipment	7	99,839	27,837
Total assets		\$ 3,087,043	\$ 2,273,123
Current liabilities			
Accounts payable		164,509	150,378
Total liabilities		\$ 164,509	\$ 150,378
Shareholders' equity			
Capital stock	8	\$ 7,968,228	\$ 7,235,508
Share-based expense reserve	8	2,638,393	2,060,834
Accumulated other comprehensive income		138,592	128,960
Deficit		(7,822,679)	(7,302,557)
Total shareholders' equity		\$ 2,922,534	\$ 2,122,745
Total liabilities and shareholders' equity		\$ 3,087,043	\$ 2,273,123

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

Approved on behalf of the Board:

"Kal Malhi" (signed)

Kal Malhi

"Dr. Raj Attariwala" (signed)

Dr. Raj Attariwala

BREATHTEC BIOMEDICAL, INC.

(Formerly PBA Acquisitions Corp.)

Unaudited Condensed Consolidated Interim Statements of Comprehensive Loss
(Expressed in Canadian dollar)

		Three Months Ended November 30, 2016	Three Months Ended November 30, 2015
	Notes		
Expenses			
General and administrative		\$ 89,440	\$ 56,903
Marketing		48,246	-
Professional fees		134,481	134,038
Research and development	6, 9	145,924	(61,780)
Share-based payment	8	90,278	-
Shareholder communications		13,292	-
		521,661	160,641
Interest income		(1,538)	(186)
Transaction expense	5	-	3,949,459
Loss for the period		520,123	4,109,914
Foreign exchange on translating foreign operations		(9,632)	(17,335)
Comprehensive loss for the period		\$ 510,491	\$ 4,092,579
Loss per share, basic and fully diluted		\$ 0.01	\$ 0.26
Weighted average number of common shares outstanding		36,582,551	15,913,310

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

BREATHTEC BIOMEDICAL, INC.

(Formerly PBA Acquisitions Corp.)

Unaudited Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian dollars)

	Three Months Ended November 30, 2016	Three Months Ended November 30, 2015
Cash provided by (used for):		
Operations:		
Loss for period	\$ (520,123)	\$ (4,109,914)
Items not involving the use of cash:		
Amortization	38,516	-
Share-based payment	90,278	-
Unrealized foreign exchange loss (gain)	(9,663)	-
Shares issued for services	1,300	-
Transaction expense	-	3,949,459
	(399,692)	(160,455)
Changes in non-cash operating working capital:		
Accounts and advances receivable	(155,276)	(27,841)
Prepaid expenses	56,831	29,375
Accounts payable and accrued liabilities	14,134	(76,878)
Cash used in operations	(484,003)	(235,799)
Investing:		
Furniture and equipment	(56,270)	-
Cash acquired from Breathtec	-	1,371,792
Cash provided by (used in) investing activities	(56,270)	1,371,792
Financing:		
Cash proceeds from issue of shares - net of financing costs	1,082,678	-
Cash provided by financing activities	1,082,678	-
Effect of exchange rate fluctuations on cash held	-	17,335
Increase in cash and cash equivalents	542,405	1,153,328
Cash and cash equivalents, beginning of year	1,597,728	1,399,835
Cash and cash equivalents, end of period	\$ 2,140,133	\$ 2,553,163

For the period ended November 30, 2016 and 2015

Supplemental cash flow information

Shares issued included in prepaid expenses and deposit	\$	1,300	\$	-
Shares issued for services		14,300		-
Shares issued for License		121,722	\$	-

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BREATHTEC BIOMEDICAL, INC.

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Unaudited Condensed Consolidated Interim Statement of Changes in Equity (Expressed in Canadian dollars)

Description	Number of Shares	Capital Stock	Share-Based Expense Reserve	Accumulated Comprehensive Income	Deficit	Total
Inception, January 22, 2015	5,000,000	\$ 30,298	\$ -	\$ -	\$ -	\$ 30,298
Shares issued for cash	10,605,400	1,498,817	-	-	-	1,498,817
Other comprehensive loss	-	-	-	123,864	-	123,864
Loss for the period	-	-	-	-	(425,769)	(425,769)
August 31, 2015	15,605,400	\$ 1,529,745	\$ -	\$ 123,864	\$ (425,769)	\$ 1,227,840
Acquisition of Breathtec	22,477,298	4,918,977	700,348	-	-	5,619,325
Shares issued for license	1,000,000	480,000	-	-	-	480,000
Shares issued for services	60,000	15,750	-	-	-	15,750
Exercise of warrants	302,500	115,000	-	-	-	115,000
Exercise of stock options	280,000	176,036	(106,036)	-	-	70,000
Share-based payment	-	-	1,466,522	-	-	1,466,522
Other comprehensive income	-	-	-	5,096	-	5,096
Net loss for the year	-	-	-	-	(6,876,788)	(6,876,788)
August 31, 2016	39,725,198	\$ 7,235,508	\$2,060,834	\$ 128,960	\$ (7,302,557)	\$2,122,745
Shares issued for license	468,162	121,722	-	-	-	121,722
Shares issued for services	60,000	15,600	-	-	-	15,600
Shares issued for cash	14,498,664	595,399	487,280	-	-	1,082,679
Exercise of warrants	-	-	-	-	-	-
Exercise of stock options	-	-	-	-	-	-
Share-based payment	-	-	90,278	-	-	90,278
Other comprehensive income	-	-	-	9,632	-	9,632
Net loss for the year	-	-	-	-	(520,123)	(520,123)
November 30, 2016	54,752,024	\$ 7,968,229	\$ 2,638,393	\$ 138,592	\$ (7,822,680)	\$2,922,533

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

BREATHTEC BIOMEDICAL, INC.

(Formerly PBA Acquisitions Corp.)

Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)

1. Nature of operations

Breathtec Biomedical, Inc. (“Breathtec” or the “Company”) was incorporated on April 10, 2015 under the British Columbia *Business Corporations Act* as “PBA Acquisitions Corp.” On July 23, 2015, it changed its name to Breathtec Biomedical, Inc. The registered office of Breathtec is located at Suite 1500 – 1500 West Georgia Street, Vancouver, British Columbia, V6E 4N7.

The Company was formed to propel innovative research in the area of breath analysis as a medical diagnostic tool. The Company will focus on innovation and advances in the field of specialized mass spectrometry.

Breathtec was incorporated as a wholly-owned subsidiary of Petro Basin Energy Corp. (“Breathtec Parent”). On June 25, 2015, Breathtec entered into a plan of arrangement (the “Arrangement Agreement”) with Breathtec Parent pursuant to which Breathtec Parent spun out Breathtec to its shareholders. The Arrangement Agreement was completed on September 23, 2015. As a result, Breathtec became a reporting issuer in the provinces of British Columbia, Ontario and Alberta.

On September 11, 2015, Breathtec incorporated a wholly-owned subsidiary named Breathtec Merger Sub, Inc. (“MergerCo”) under the *Florida Business Corporations Act* (“FBCA”).

Breathtec Biomedical, Inc. (“Breathtec US”) was incorporated under the FBCA on January 22, 2015. The head office and registered office of Breathtec US is located at 525 Okeechobee Boulevard, Suite 1600, West Palm Beach, Florida, 33401.

On October 26, 2015, Breathtec, Breathtec Parent, Breathtec US and MergerCo completed an agreement (the “Merger Agreement”) structured as a reverse takeover, specifically, as a triangular merger under the FBCA among Breathtec, Breathtec US and MergerCo (the “Merger”). Pursuant to the Merger, Breathtec US was merged with and into MergerCo with Breathtec US as the surviving corporation. The Company acquired a 100% interest in Breathtec US pursuant to and on the terms and subject to the conditions set out in the Merger Agreement resulting in Breathtec US becoming a 100% owned Florida operating subsidiary of the Company. Management applied judgment in determining the shareholders of which entity was the acquirer, and concluded Breathtec US controlled Breathtec, and these condensed consolidated interim financial statements represent the continuation of Breathtec US, the legal subsidiary.

At present, the Company has no current operating income. The Company will need to raise sufficient working capital to maintain operations. Without additional financing, the Company may not be able to fund its ongoing operations and complete development activities. Management anticipates that the Company will continue to raise adequate funding through equity or debt financings, although there is no assurance that the Company will be able to obtain adequate funding on favorable terms. These uncertainties cast doubt on the Company’s ability to continue as a going concern. These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize

BREATHTEC BIOMEDICAL, INC.

(Formerly PBA Acquisitions Corp.)

Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)

1. Nature of operations (continued)

its assets and discharge its liabilities in the normal course of business. These condensed consolidated interim financial statements do not reflect adjustments, which could be material, to the carrying value of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

2. Basis of presentation

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. IFRS comprises IFRSs, International Accounting Standards, and interpretations issued by the IFRS Interpretations Committee and the former Standing Interpretations Committee.

The accounting policies applied in these consolidated financial statements are based on IFRS effective for the year ended August 31, 2016.

(b) Approval of the condensed interim consolidated financial statements

The consolidated financial statements of the Company for the period ended November 30, 2016 were approved and authorized for issuance by the Board of Directors on January 30, 2017.

(c) Foreign currencies

The reporting currency is the Canadian dollar (“CAD”), which is the functional currency of Breathtec, and the functional currency of Breathtec US is the United States dollar (“US”). Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction, except depreciation and amortization, which are translated at the rates of exchange applicable to the related assets, and share-based compensation expense, which is translated at the rates of exchange applicable at the date of grant of the share-based compensation through profit or loss. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Foreign currency translation differences are recognized in profit or loss, except for differences on the translation of available-for-sale investments, which are recognized in other comprehensive income.

On consolidation, the assets and liabilities of foreign operations are translated into the functional currency at the rate of exchange at the reporting date and the consolidated statements of operations and comprehensive loss are translated at the average exchange rates for the year. The exchange differences arising on translation for consolidation purposes are recognized in other comprehensive income.

BREATHTEC BIOMEDICAL, INC.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)

2. Basis of presentation (continued)

(d) Critical accounting estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from these estimates, and as such, the estimates and underlying assumptions are reviewed on an ongoing basis. Key estimates made by management with respect to the areas noted previously have been disclosed in the notes to these condensed consolidated interim financial statements as appropriate.

Significant areas requiring the use of management estimates include:

License - Useful life

Following initial recognition, the Company carries the value of the license at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on the straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of the technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense.

Recoverability of deferred tax assets

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement. In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

Inputs to the Black-Scholes option pricing model

The fair value of equity instruments are subject to the limitations of the Black-Scholes option pricing model, as well as other pricing models that incorporate market data and involves uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Fair value of consideration to acquire Breathtec

The fair value of consideration to acquire Breathtec comprised common shares and warrants. Common shares were valued on the date of issuance of the shares, and the warrants were valued using the Black-Scholes option pricing model. The Company applied IFRS 2 *Share-based Payment* in accounting for and assessing the Merger.

BREATHTEC BIOMEDICAL, INC.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)

2. Basis of presentation (continued)

Significant judgments requiring the usage of management's judgments include:

Treatment of development costs

(e) Use of judgments

Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the product is technically and economically feasible, the Company has the intention and ability to use the asset, and how the asset will generate future benefits. Management assessed the capitalization of development costs based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The Company has not capitalized any development costs as at November 30, 2016.

Determination of control in the Merger

The determination of the acquirer in the Merger is subject to judgment and requires the Company to determine which party obtains control of the combining entities. Management applies judgment in determining control by assessing the following three factors: whether the Company has power over Breathtec; whether the Company has exposure or rights to variable returns from its involvement with Breathtec; and whether the Company has the ability to use its powers over the Breathtec to affect the amount of its returns. In exercising this judgment, management reviewed the representation on the board of directors and key management personnel, the party that initiated the transaction, and each of the entities' activities. Breathtec US was deemed to be the acquirer in the Merger.

The assessment of whether an acquisition constitutes a business is also subject to judgment and requires the Company to review whether the acquired entity contain all three elements of a business including inputs, processes and the ability to create output.

Determination of the functional currency

In concluding that the Canadian dollar is the functional currency of Breathtec, and the United States dollar is the functional currency of Breathtec US, management considered the currency that mainly influences the cost of providing goods and services in the primary economic environment in which each entity operates, or if there has been a change in events or conditions that determined the primary economic environment.

Recoverability of deferred tax assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements.

BREATHTEC BIOMEDICAL, INC.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)

2. Basis of presentation (continued)

License - Recoverability

The Company assesses at each reporting date if the license has indicators of impairment. In determining whether the license is impaired, the Company assesses certain criteria including observable decreases in value, significant changes with adverse effect on the entity, a change in market interest rates, evidence of technological obsolescence, and future plans.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures and to meet its liabilities for the ensuing year, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

3. Significant accounting policies

(a) Basis of consolidation

As a result of the reverse acquisition described in note 5, the condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary, Breathtec US. Subsidiaries are fully consolidated from the date of acquisition being the date that the Company obtains control. All intercompany transactions and balances have been eliminated on consolidation.

A wholly owned subsidiary is an entity over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

(b) Cash and cash equivalents

Cash includes deposits held with banks that are available on demand. Cash also includes cash equivalents, if any, which are defined as financial instruments that are readily convertible to a known amount of cash and are subject to insignificant changes in value.

(c) Furniture and equipment

Furniture and equipment is recorded at cost less accumulated amortization. The Company provides for amortization on a straight-line basis over a period of five years.

(d) Share issuance costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred share issue costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to capital stock when the related shares are issued.

BREATHTEC BIOMEDICAL, INC.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)

3. Significant accounting policies (continued)

(e) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except for items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income (loss) in the period in which the change is enacted or substantively enacted.

The amount of deferred tax reflects the expected manner of realization or settlement of the carrying amount of assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets that are recognized 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.

(f) Financial instruments

All financial instruments are classified into one of the following five categories: held-to-maturity, loans and receivables, available-for-sale financial assets ("AFS"), fair value through profit or loss ("FVTPL"), or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification.

(i) Held-to-maturity financial assets are recognized on a trade-date basis and are initially measured at fair value using the effective interest rate method. The Company has no assets classified as held-to-maturity.

BREATHTEC BIOMEDICAL, INC.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)

3. Significant accounting policies (continued)

(f) Financial instruments (continued)

(ii) Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss on receivables is based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate method. Accounts receivable is included in this category of financial assets. Included in loans and receivables are amounts due from Cannabix Technologies Inc. (“Cannabix”).

(iii) AFS financial assets are non-derivatives that are either designated as AFS or not classified in any of the other financial assets categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity. The Company has no assets classified as AFS.

(iv) Financial assets are classified as FVTPL when the financial asset is held-for-trading or it is designated as FVTPL. A financial asset is classified as FVTPL when it has been acquired principally for the purpose of selling in the near future; it is part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking or if it is a derivative that is not designated and effective as a hedging instrument. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Included in FVTPL is cash and cash equivalents.

(v) Other financial liabilities are recognized at amortized cost. Included in other financial liabilities is accounts payable and accrued liabilities.

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company’s financial instruments approximate their fair value due to their short terms to maturity.

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

BREATHTEC BIOMEDICAL, INC.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)

3. Significant accounting policies (continued)

(g) Share-based payments

The Company has a stock option plan that is described in note 8(a) and grants share options to acquire common shares of the Company to directors, officers, employees and consultants. Share-based payments to employees are measured at the fair value of the instruments granted. Share-based payments are measured at the fair value of the goods or services received or the fair value of the equity instruments issued as calculated using the Black-Scholes option pricing model. The offset to the recorded expense is to share-based payment reserve.

Consideration received on the exercise of stock options is recorded as capital stock and the related share-based payment reserve is transferred to capital stock. For those options that expire, the recorded fair value in share-based payment reserve is transferred to deficit.

(h) Loss per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method.

Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year.

However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. As at November 30, 2016 and August 31, 2016, outstanding equity instruments were anti-dilutive, and therefore, basic and fully diluted EPS are equal.

(i) License

Licenses acquired separately are measured on initial recognition at fair value.

Following initial recognition, licenses with finite useful lives are carried at cost less any accumulated amortization and accumulated impairment losses, if any. The Company amortizes its license over five years using the straight-line basis.

At each reporting date, the Company assesses whether there is objective evidence that the license is impaired. If such evidence exists, the Company recognizes an impairment loss. The loss is the difference between the carrying value and recoverable value, which is the higher of fair value less costs of disposal and value in use. The carrying amount of the license is reduced by this amount. Impairment losses are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event or condition occurring after the impairment was recognized. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
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3. Significant accounting policies (continued)

(j) Capital stock

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

(k) Unit offering

Warrants issued by the Company typically accompany an issuance of shares in the Company (a "unit"), and entitle the warrant holder to exercise the warrants for a stated price for a stated number of common shares in the Company. The fair value of the components of the units sold are measured using the relative fair value approach, based on the calculated fair value of the stand-alone shares through reference to the quoted market price at the completion of the financing and the fair value of the stand-alone warrant, using the Black-Scholes option pricing model. Consideration received on the exercise of warrants is recorded as capital stock and the recorded amount to reserve is transferred to capital stock.

(l) Research and development expenditures

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset.

Expenditures capitalized may include the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss when incurred.

(m) New accounting pronouncements not yet adopted

IFRS 9 *Financial Instruments*

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9. Management has not yet evaluated the impact of the application of this standard.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)

3. Significant accounting policies (continued)

(m) New accounting pronouncements not yet adopted (continued)

- *Classification and measurement of financial assets:*
Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- *Classification and measurement of financial liabilities:*
When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- *Impairment of financial assets:*
An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- *Hedge accounting:*
Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

Applicable to the Company's annual period beginning September 1, 2018.

(m) New accounting pronouncements not yet adopted

IFRS 16 Leases

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers*.

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease. Management has not yet evaluated the impact of the application of this standard.

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3. Significant accounting policies (continued)

(m) New accounting pronouncements not yet adopted (continued)

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Applicable to the Company's annual period beginning September 1, 2019.

4. Financial instruments and risk management

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk exists with respect to the Company's cash, cash equivalents and accounts receivable. The Company limits exposure to credit risk by maintaining its cash and funds held in trust with large financial institutions in the US and Canada. For other receivables, the Company estimates, on a continuing basis, the probable losses and provides a provision for losses based on the estimated realizable value.

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4. Financial instruments and risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. At November 30, 2016, the Company had cash of \$1,428,633 (August 31, 2016 - \$686,228) and cash equivalents of \$711,500 (August 31, 2016 - \$911,500) available to meet short-term business requirements and current liabilities of \$164,509 (August 31, 2016 - \$150,378). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk. The Company is not exposed to significant interest rate risk and other price risk.

Foreign currency risk

The Company is exposed to foreign currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the Canadian dollar (primarily US). As at November 30, 2016, the Company had monetary assets of US\$327,203 or \$439,401 (August 31, 2016– US\$472,047 or \$619,137) at the Canadian dollar equivalent and monetary liabilities of US\$84,441 or \$113,395 (August 31, 2016- US\$70,466 or \$92,423) at the Canadian dollar equivalent.

For the period ended November 30, 2016, the Company's sensitivity analysis suggests that a change in the absolute rate of exchange in US by 10% will increase or decrease other comprehensive loss by approximately \$32,601 (August 31, 2016 - \$40,158). The Company has not entered into any foreign currency contracts to mitigate this risk.

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5. Reverse takeover

The following summarizes the reverse takeover of Breathtec by Breathtec US and the assets acquired and the liabilities assumed on October 26, 2015, the Merger date:

Net tangible assets acquired:	
Cash and cash equivalents	\$ 1,371,792
Funds held in trust	171,038
Prepays	328,529
Accounts payable	(201,493)
	<u>\$ 1,669,866</u>
Consideration paid:	
Shares of Breathtec US issued	\$ 4,918,977
Warrants issued to Breathtec US shareholders	700,348
	<u>\$ 5,619,325</u>

The transaction is considered a reverse takeover since the legal acquiree is the accounting acquirer and its former shareholders end up controlling the consolidated entity after the completion of this transaction. Consequently, the historical results of operations are those of Breathtec US.

At the time of the Merger, Breathtec's assets consisted primarily of cash, and it did not have any processes capable of generating outputs; therefore, Breathtec did not meet the definition of a business. Accordingly, as Breathtec did not qualify as a business in accordance with IFRS 3 *Business Combinations*, the Merger did not constitute a business combination; however, by analogy it has been accounted for as a reverse takeover. Therefore, Breathtec US, the legal subsidiary, has been treated as the accounting parent company, and Breathtec, the legal parent, has been treated as the accounting subsidiary in these condensed consolidated interim financial statements. As Breathtec US was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these financial statements at their historical carrying values.

As the acquisition was not considered a business combination, the excess value of consideration paid over the net assets acquired together with the estimated fair value of warrants granted to Breathtec US shareholders (note8(c)) are expensed as transaction expenses in the consolidated statement of operations and comprehensive loss:

Consideration paid	\$ 5,619,325
Net intangible assets acquired	(1,669,866)
	<u>\$ 3,949,459</u>

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6. License

1. Technion Research and Development Foundation Ltd.

On April 11, 2016, the Company signed a license agreement with Technion Research and Development Foundation Ltd., an Israeli private company and wholly owned subsidiary of the Technion – Israeli Institute of Technology (“Technion”), with respect to a non-exclusive license to certain Technion patents and related know-how in connection with the detection of the following indications from exhaled breath: Streptococcus; Methicillin resistant (MRSA); Staphylococcus; Enterococcus; Vancomycin resistant (VRE); Pneumococcus; Hemophilus influenza (HiB); Chickenpox; and common cold (the “License - Technion”).

In consideration for the License, the Company paid Technion an up-front fee of US\$75,000 (\$97,358 at the Canadian dollar equivalent) and issued 1,000,000 common shares of the Company fair valued at \$480,000. In addition, upon meeting certain development, regulatory and commercialization milestones, the Company will pay Technion up to a further US\$105,000, issue shares with a market value of up to US\$285,000, pay a royalty rate of 6% of all net sales, and pay an annual maintenance fee of up to US\$37,500, reduced by any royalty payable for that year. All shares issued to Technion will be subject to a four-month hold period pursuant to applicable securities laws.

Cost	
Balance, August 31, 2015	\$ -
Acquisition of Technion License	577,358
Balance at August 31 and November 30, 2016	\$ 577,358

Accumulated Amortization	
Balance, August 31, 2015	\$ -
Amortization expense	44,868
Balance, August 31, 2016	44,868
Amortization expense	28,868
Balance at November 30, 2016	\$ 73,736

Carrying Amounts	
August 31, 2016	\$ 532,490
November 30, 2016	\$ 503,622

For the period ended on November 30, 2016, included in research and development expense is \$28,868 (November 30, 2015- \$nil) in amortization relating to the License – Technion.

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6. License (continued)

2. University of Florida Research Foundation

On June 18, 2016, the Company signed a license agreement with the University of Florida Research Foundation, a nonprofit Florida corporation ("UFRF"), with respect to an exclusive royalty-bearing license to certain UFRF patent rights and a non-exclusive royalty bearing license to certain UFRF know-how to enable commercial advancements in the field of infections detection (the "License - UFRF").

Pursuant to the terms of the License Agreement, the Company has been granted the License - UFRF for a period of ten years after the first commercial sale of a licensed product (with an option to extend for additional five year terms).

In consideration for the License - UFRF, the Company paid UFRF a license issue fee of US\$1,000 (\$1,288) and issued 468,162 common shares of the Company fair valued at \$121,722. In addition, the Company will pay an annual license maintenance fee and will make payments upon meeting certain development, regulatory and commercialization milestones. Upon commencement of commercial production, the Company will pay a royalty between 2 to 4% on all net sales. All shares issued to UFRF will be subject to a four-month hold period pursuant to applicable securities laws.

Cost	
Balance, August 31, 2015	\$ -
Acquisition of UFRF License	121,722
Balance at November 30, 2016	\$ 121,722

Accumulated Amortization	
Balance, August 31, 2015	\$ -
Balance, August 31, 2016	-
Amortization expense	6,086
Balance at November 30, 2016	\$ 6,086

Carrying Amounts	
August 31, 2016	\$ -
November 30, 2016	\$ 115,636

For the period ended on November 30, 2016, included in research and development expense is \$6,086 (November 30, 2015- \$nil) in amortization relating to the License – UFRF.

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7. Furniture and equipment

Cost	
Balance, August 31, 2015	\$ -
Balance at August 31, 2016	30,930
Additions: Equipment	75,564
Balance at November 30, 2016	\$ 106,494
Accumulated Amortization	
Balance, August 31, 2015	\$ -
Amortization expense in the year ended August 31, 2016	3,093
Balance at August 31, 2016	3,093
Amortization expense for the period ended November 30, 2016	3,562
Balance at November 30, 2016	\$ 6,655
Carrying Amounts	
August 31, 2016	\$ 27,837
November 30, 2016	\$ 99,839

Included in general and administrative expense is \$3,562 (November 30, 2015- \$nil) in amortization relating to equipment.

8. Capital stock

Authorized

100,000,000 common shares without par value.

Issued and Outstanding

During the period ended November 30, 2016:

- On September 1, 2016, the Company issued 468,162 common shares fair valued at \$121,722 to the University of Florida Research Foundation with respect to an exclusive license and a non-exclusive know-how license (note 6).
- On September 2, 2016, the Company issued 60,000 common shares fair valued at 15,600 to a consultant pursuant to a 6-month consulting services agreement, as partial consideration for his services. Of this amount, \$1,300 (November 30, 2015 - \$nil) is included in prepaid expenses and deposits.
- On November 25, 2016, the Company closed a private placement whereby it issued 14,498,664 units at a purchase price of \$0.075 per unit for gross proceeds of \$1,087,400. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one common share at a price of \$0.15 per share for a period of three years from the closing of the private placement.

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8. Capital stock (continued)

During the year ended August 31, 2016:

- In connection with the Merger, 22,477,298 shares of the Company were issued.
- On May 4, 2016, the Company issued 1,000,000 common shares fair valued at \$480,000 to Technion with respect to a non-exclusive license (note6).
- On June 8, 2016, the Company issued 60,000 common shares fair valued at \$15,750 to a consultant pursuant to a 12-month consulting services agreement, as partial consideration for his services. Of this amount, \$5,000 (November 30, 2015- \$nil) is included in prepaid expenses and deposit as at November 30, 2016.
- 302,500 common shares were issued in connection with the exercise of 40,000 agent warrants at a price of \$0.25 per warrant and 262,500 share purchase warrants at \$0.40 per warrant, for gross proceeds of \$115,000.
- 280,000 shares were issued in connection with the exercise of 280,000 stock options at a price of \$0.25 per option for gross proceeds of \$70,000.

Escrow Shares

In connection with the Merger, the Company issued 7,756,700 escrow shares.

As at November 30, 2016, the Company had 5,812,500 (2016- 6,593,195) shares held in escrow. Under the escrow agreement, 10% of the total shares are released upon listing with the Canadian Securities Exchange and 15% of the shares will be released every six months following listing.

Other

(a) Stock options

Stock options to purchase common shares have been granted to directors, employees, contractors and consultants at exercise prices determined by reference to the market value on the date of the grant. The number of shares available for options to be granted under the Company's rolling stock option plan is 10% of the number of shares outstanding (the "Plan"). Options granted under the Plan vest immediately or over a period of time at the discretion of the Board of Directors.

Under the plan, the number of shares reserved for issuance to any one optionee will not exceed 5% of the then issued and outstanding shares and the number of shares reserved for issuance to consultants will not exceed 2% of the then issued and outstanding shares. The options are non-assignable and non-transferable and will be exercisable up to 10 years from the date of grant. The minimum exercise price of an option granted under the Plan must not be less than the Discounted Market Price (as such term is defined in the policies of the Canadian Securities Exchange and other applicable regulatory authorities).

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8. Capital stock (continued)

On October 19, 2016, the Company cancelled a total of 975,000 incentive stock options granted under the Company's stock option plan to a director and officer of the Company. The cancelled options were voluntarily surrendered by the holder thereof for no consideration. The cancelled options were originally granted on October 26, 2015 with an exercise price of \$0.25 per common share.

On October 20, 2016, the Company granted 750,000 incentive stock options to a director and officer of the Company with an exercise price of \$0.17 per share. The options expire on October 20, 2021.

A summary of the status of the Company's stock options for the period ended November 30, 2016 and the year ended at August 31, 2016 and changes are as follows:

	Number of options	Weighted average exercise price
Outstanding and exercisable at January 22, 2015 and August 31, 2015	-	-
Granted	4,000,000	\$ 0.25
Exercised	(280,000)	0.25
Outstanding and exercisable at August 31, 2016	3,720,000	\$ 0.25
Cancelled	(975,000)	0.25
Granted	750,000	0.17
Outstanding and exercisable at November 30, 2016	3,495,000	0.23

The following summarizes information about stock options outstanding and exercisable at November 30 2016:

Year of expiry	Number of options	Weighted average exercise price
2020	2,495,000	\$ 0.25
2021	1,000,000	0.19

The weighted average remaining contractual life of exercisable options outstanding as at November 30, 2016 is 4.17 years.

(b) Share-based payment

During the period ended November 30, 2016, the Company granted 750,000 stock options to a director and officer of the Company with a weighted average exercise price of \$0.17 per share, which can be exercised for a period of up to five years. The stock options vested immediately. Total fair value of options granted in the period ended November 30, 2016 was \$90,278 which was recognised as share-based payment for the period.

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8. Capital stock (continued)

(b) Share-based payments (continued)

The fair value of stock options to calculate the expense is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2016
Risk-free interest rate	0.67-68%
Expected dividend yield	0.0%
Expected stock price volatility	136%
Expected option life in years	5.0

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in these input assumptions can materially affect the fair value estimate.

(c) Share purchase warrants

At November 30, 2016, the Company had outstanding warrants to purchase an aggregate of 26,029,676 common shares as follows:

Expiry Date	Exercise Price	Outstanding at Aug 31, 2015	Issued	Exercised	Expired	Outstanding at November 30, 2016
October 14, 2017	\$ 0.40	-	3,550,700	(250,000)	-	3,288,200
October 14, 2017	0.25	-	480,112	(40,000)	-	440,112
October 26, 2017	0.40	-	7,802,700	(12,500)	-	7,802,700
November 25, 2019	0.15	-	14,498,664	-	-	14,498,664
Total		-	26,332,176	(302,500)	-	26,029,676

At November 30, 2016, the weighted average remaining contractual life of the warrants is 2.05 years and the weighted average exercise price of the warrants is \$0.26.

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9. Research and development

During the year ended August 31, 2015, Breathtec US entered into a research agreement (the "Agreement") with the University of Florida and was committed to fund a maximum amount of US \$111,844 in accordance with the schedule below after receipt of an invoice.

Date or Event	Amount
Upon execution of the Agreement (paid)	US \$ 27,961
April 15, 2015 or delivery of first progress report (paid)	27,961
August 15, 2015 or delivery of second progress report (paid)	27,961
January 15, 2016 (paid)	27,961
	US \$ 111,844

The Agreement was amended to extend for another year starting January 16, 2016 through January 15, 2017. Under the amended Agreement, the Company is responsible for expenses as they are incurred as well as payments totaling US \$87,836 as follows:

Date or Event	Amount
Upon execution of the amended Agreement (paid)	US \$ 21,959
April 15, 2016 or delivery of fourth progress report (paid)	21,959
August 15, 2016 or delivery of fifth progress report (paid)	21,959
January 15, 2017	21,959
	US \$ 87,836

10. Related party transactions and key management compensation

The Company entered into the following transactions with companies controlled by directors or officers. All services provided are considered to be in the normal course of business.

As at November 30, 2016, the Company was owed \$nil (August 31, 2016 - \$21,641) from Cannabix, a company with a common director relating to reimbursement of shared research costs.

Key management personnel are considered to be those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management includes directors and officers of the Company. In addition to the above, short-term key management compensation consists of the following:

	November 30, 2016	November 30, 2015
Short-term benefits	\$ 125,994	\$ 76,248
Share-based payment (note 8)	90,278	-
	\$ 216,272	\$ 76,248

As at November 30, 2016, included in accounts payable and accrued liabilities is \$1,802 (August 31, 2016- \$4,039) relating to outstanding balances for expense reimbursements and \$14,000 (August 31, 2016- \$21,237) to the directors and officers for management fees.

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10. Related party transactions and key management compensation (continued)

On October 19, 2016, a total of 975,000 incentive stock options granted under the Company's stock option plan to a director and officer of the Company were voluntarily surrendered by the holder thereof for no consideration. The cancelled options were originally granted on October 26, 2015 with an exercise price of \$0.25 per share.

On October 20, 2016, the Company granted a total of 750,000 stock options to a director and officer of the Company at a fair value of \$90,278.

11. Risk and capital management

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to manage its capital to be able to sustain the future development of the Company's business. The Company currently has no source of revenues, and therefore, is dependent upon external financings to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended November 30, 2016. The Company is not subject to externally imposed capital requirements

12. Commitments

The Company entered into a research agreement (the "Agreement") with the University of Florida in which the Company was committed to fund a maximum amount of US\$111,844 (paid) in accordance with the schedule below after receipt of an invoice.

Date or Event	Amount
Upon execution of the Agreement (paid)	US \$ 27,961
April 15, 2015 or delivery of first progress report (paid)	27,961
August 15, 2015 or delivery of second progress report (paid)	27,961
January 15, 2016 (paid)	27,961
	US \$ 111,844

The Agreement was amended to extend for another year starting January 16, 2016 through January 15, 2017. Under the amended Agreement, the Company is responsible for expenses as they are incurred as well as payments totaling US \$87,836 as follows:

Date or Event	Amount
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August 15, 2016 or delivery of fifth progress report (paid)	21,959
January 15, 2017	21,959

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US \$ 87,836

12. Commitments (continued)

During the period ended November 30, 2016, the Company signed a one-year rental space lease agreement. The facility will be used for clinical trials.

	2016	2017	2018	2019	2020	Total
Office Lease	\$30,838	\$10,280	\$ -	\$ -	\$ -	\$ 41,118

13. Segmented disclosures

The Company has one operating segment, the development of health-related technology in the United States.

The Company's long-term assets are located as follows:

	Canada	United States	Total
Incorporation costs	\$ -	\$ 1,371	\$ 1,371
License agreement	619,258	-	619,258
Furniture and equipment	26,290	73,549	99,839
	\$ 645,548	\$ 74,920	\$ 720,468