

BREATHTEC BIOMEDICAL, INC.

Condensed Consolidated Interim Financial Statements (Unaudited)

For the six months ended February 28, 2017 and 2016
(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.

Unaudited Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian dollars)

As at February 28, 2017 and 2016

	Note	February 28, 2017	August 31, 2016
Assets			
Current assets			
Cash and cash equivalents	3	\$ 1,920,999	\$ 1,597,728
Accounts and advances receivable		11,013	34,397
Prepaid expenses		94,386	79,300
Total current assets		2,026,398	1,711,425
Non-current assets			
Incorporation costs		1,371	1,371
License agreement	5	584,303	532,490
Furniture and equipment		76,520	27,837
Total assets		\$ 2,688,592	\$ 2,273,123
Current liabilities			
Accounts payable		\$ 95,151	\$ 150,378
Total liabilities		95,151	150,378
Shareholders' equity			
Capital stock	6	7,968,228	7,235,508
Share-based expense reserve	6	2,638,393	2,060,834
Accumulated other comprehensive income		134,097	128,960
Deficit		(8,147,277)	(7,302,557)
Total shareholders' equity		\$ 2,593,441	\$ 2,122,745
Total liabilities and shareholders' equity		\$ 2,688,592	\$ 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.

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

	Note	Three months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 28, 2017	Six months ended February 29, 2016
EXPENSES					
General and administrative		\$ 89,141	\$ 159,559	\$ 178,581	\$ 216,462
Marketing		8,116	-	56,362	-
Professional fees		136,705	123,290	271,186	257,328
Research and development	5,7	78,459	-	224,383	(61,780)
Share-based payment	6	-	1,702,324	90,278	1,702,324
Shareholder communications		13,266	38,042	26,558	69,522
		325,687	2,023,215	847,348	2,183,856
Interest income		(1,090)	(168)	(2,628)	(354)
Transaction expense	4	-	-	-	3,949,459
Loss for the Period		324,597	2,023,047	844,720	6,132,961
Foreign exchange loss (gain)		4,495	(20,669)	(5,137)	(38,004)
Comprehensive Loss for the period		\$ 329,092	\$ 2,002,378	\$ 839,583	\$ 6,094,957
Loss per share, basic and fully diluted		\$ 0.01	\$ 0.04	\$ 0.02	\$ 0.20
Weighted average number of common shares outstanding		51,624,025	45,278,980	43,398,931	30,442,190

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

BREATHTEC BIOMEDICAL, INC.Unaudited Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian dollars)

	Six Months Ended February 28, 2017	Six Months Ended February 29, 2016
Operating activities		
Loss for period	\$ (844,720)	\$ (6,132,961)
Items not involving the use of cash		
Amortization	77,299	-
Share-based payment	90,278	1,702,324
Unrealized foreign exchange loss (gain)	(15,014)	-
Shares issued for services	15,600	-
Transaction expense	-	3,949,459
	(676,557)	(481,178)
Changes in non-cash operating working capital		
Accounts and advances receivable	23,384	(36,869)
Prepaid expenses	(15,086)	113,004
Accounts payable and accrued liabilities	(55,226)	(140,286)
	(723,485)	(545,329)
Investing activities		
Purchase of furniture and equipment	(35,923)	(30,930)
Cash acquired from Breathtec	-	1,371,792
	(35,923)	1,340,862
Financing activities		
Shares issued for Private Placement – net of financing costs	1,082,679	110,000
	1,082,679	110,000
Effect of exchange rate fluctuations on cash held	-	38,004
Increase in cash and cash equivalents	323,271	943,537
Cash and cash equivalents, beginning of period	1,597,728	1,399,835
Cash and cash equivalents, end of period	\$ 1,920,999	\$ 2,343,372
Supplemental cash flow information		
Non-cash investing and financing includes:		
Shares issued for services	\$ 15,600	\$ -
Shares issued for license	121,722	-

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

BREATHTEC BIOMEDICAL, INC.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
Balance at 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 cancelled on reverse acquisition	(15,605,400)	-	-	-	-	-
Shares issued on reverse acquisition	15,605,400	-	-	-	-	-
Exercise of warrants	290,000	110,000	-	-	-	110,000
Stock-based payment	-	-	1,702,324	-	-	1,702,324
Other comprehensive loss	-	-	-	38,004	-	38,004
Net loss for the period	-	-	-	-	(6,132,961)	(6,132,961)
Balance at February 29, 2016	38,372,698	\$ 6,558,722	\$ 2,402,672	\$ 161,868	\$ (6,558,730)	\$ 2,564,532
Balance at 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	595,398	487,281	-	-	1,082,679
Share-based payment	-	-	90,278	-	-	90,278
Other comprehensive income	-	-	-	5,137	-	5,137
Net loss for the year	-	-	-	-	(844,720)	(844,720)
Balance at February 28, 2017	54,752,024	\$ 7,968,228	\$ 2,638,393	\$ 134,097	\$ (8,147,277)	\$ 2,593,441

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

BREATHTEC BIOMEDICAL, INC.

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 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.

BREATHTEC BIOMEDICAL, INC.

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

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 February 28, 2017 were approved and authorized for issuance by the Board of Directors on April 25, 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.

(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.

BREATHTEC BIOMEDICAL, INC.

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

2. Basis of presentation (continued)

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 is 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.

(e) Use of judgments

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

Treatment of development costs

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 February 28, 2017.

BREATHTEC BIOMEDICAL, INC.

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

2. Basis of presentation (continued)

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.

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.

BREATHTEC BIOMEDICAL, INC.

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

3. 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.

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 February 28, 2017, the Company had a working capital surplus of \$1,931,247 compared to working capital at August 31, 2016 of \$1,561,047. This included cash and cash equivalents of \$1,920,999 (August 31, 2016 - \$1,597,728) available to meet short-term business requirements and current liabilities of \$95,151 (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 dollars "US"). As at February 28, 2017, the Company had monetary assets of US\$173,276 or \$230,128 (August 31, 2016 - US\$472,047 or \$619,137) at the Canadian dollar equivalent and monetary liabilities of US\$31,677 or \$42,070 (August 31, 2016 - US\$70,466 or \$92,423) at the Canadian dollar equivalent.

For the period ended February 28, 2017, 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 \$18,806 (August 31, 2016 - \$40,158). The Company has not entered into any foreign currency contracts to mitigate this risk.

BREATHTEC BIOMEDICAL, INC.

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

4. 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 (note6(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>

BREATHTEC BIOMEDICAL, INC.

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

5. Licenses

(a) 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.

(b) 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 issued to UFRF 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.

BREATHTEC BIOMEDICAL, INC.

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

5. License (continued)

	Technion License	UFRF License	Total
Costs			
August 31, 2015	\$ -	\$ -	\$ -
Additions	577,358	-	577,358
August 31, 2016	577,358	-	577,358
Additions	-	121,722	121,722
February 28, 2017	577,358	121,722	699,080
Accumulated Amortization			
August 31, 2015	-	-	-
Amortization Expense	44,868	-	44,868
August 31, 2016	44,868	-	44,868
Amortization Expense	57,736	12,172	69,908
February 28, 2017	102,604	12,172	114,776
Carrying Amounts			
August 31, 2016	532,490	-	532,490
February 28, 2017	474,754	109,550	584,304

For the period ended on February 28, 2017, included in research and development expense is a total of \$69,908 (February 29, 2016- \$nil) in amortization relating to both licenses.

6. Capital stock*Authorized*

100,000,000 common shares without par value.

Issued and Outstanding

During the six months ended February 28, 2017:

- 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 5).
- 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.
- 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.

BREATHTEC BIOMEDICAL, INC.

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

6. Capital stock (continued)

During the year ended August 31, 2016:

- In connection with the Merger (note 4), 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 February 28, 2017, the Company had 4,654,020 (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).

During the six months ended February 28, 2017:

- 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

BREATHTEC BIOMEDICAL, INC.

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

6. Capital stock (continued)

(a) Stock options (continued)

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 outstanding and exercisable for the period ended February 28, 2017 and the year ended at August 31, 2016 and changes are as follows:

	Number of options	Weighted average exercise price
Outstanding and exercisable at 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 February 28, 2017	3,495,000	0.23

The following summarizes information about stock options outstanding and exercisable at February 28, 2017:

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 February 28, 2017 is 3.93 years.

(b) Share-based payment

During the six months ended February 28, 2017, 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 February 28, 2017 was \$90,278 which was recognised as share-based payment for the period.

BREATHTEC BIOMEDICAL, INC.

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6. Capital stock (continued)

(b) Share-based payment (continued)

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

	Six months ended February 28, 2017
Risk-free interest rate	0.68%
Expected dividend yield	0.00%
Expected stock price volatility	136%
Expected option life in years	5.0
Forfeiture rate	0.00%

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 February 28, 2017, the Company had outstanding warrants to purchase an aggregate of 26,029,676 common shares as follows:

	Number of warrants	Weighted average exercise price
Outstanding at August 31, 2015	-	\$ -
Issued	11,833,512	0.39
Exercised	(302,500)	0.38
Outstanding at August 31, 2016	11,531,012	0.39
Issued	14,498,664	0.15
Outstanding at February 28, 2017	26,029,676	0.26

As at February 28, 2017, the Company had the following warrants outstanding:

Date of expiry	Exercise Price	Number of warrants
October 14, 2017	\$ 0.40	3,300,700
October 14, 2017	0.25	440,112
October 26, 2017	0.40	7,790,200
November 25, 2019	0.15	14,498,664

The weighted average remaining contractual life of the warrants as at February 28, 2017 is 1.81 years.

7. Research and development

Breathtec US has an agreement ("Agreement") with the University of Florida ("UF") whereby UF assists the Company with research and development that is extended annually. The current Agreement is for the period January 16, 2017 to January 15, 2018 and requires the Company to make quarterly payments of US\$13,902 for a total of US\$55,608 (US\$13,902 paid). For the period of January 16, 2016 to January 15, 2017 the Company paid a total of US\$87,306.

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8. 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 February 28, 2017, 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:

	February 28, 2017	February 29, 2016
Short-term benefits	\$ 264,420	\$ 169,330
Share-based payment (note 6)	90,278	1,032,850
	<u>\$ 336,698</u>	<u>\$ 1,202,180</u>

As at February 28, 2017, included in accounts payable and accrued liabilities is \$nil (August 31, 2016 - \$4,039) relating to outstanding balances for expense reimbursements and \$4,200 (August 31, 2016 - \$21,237) to the directors and officers for management fees.

During the six months ended February 28, 2017:

- 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.

9. 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 February 28, 2017. The Company is not subject to externally imposed capital requirements

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10. 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	584,303	-	584,303
Furniture and equipment	800	75,720	76,520
	\$ 585,103	\$ 77,091	\$ 662,194