BREATHTEC BIOMEDICAL, INC.

Consolidated Financial Statements

For the years ended August 31, 2017 and 2016
(Expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Breathtec Biomedical Inc. (the "Company") are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and reflect management's best estimates and judgments based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls through its Audit Committee, which is comprised of non-management directors. The Audit Committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

"Michael Sadhra" (signed)	***"Dr. Raj Attariwala" (signed)***
Michael Sadhra	Dr. Raj Attariwala
Director and Chief Financial Officer	Director

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BREATHTEC BIOMEDICAL, INC.

We have audited the accompanying consolidated financial statements of Breathtec Biomedical, Inc., which comprise the consolidated statements of financial position as at August 31, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Breathtec Biomedical, Inc. as at August 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
December 21, 2017

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BREATHTEC BIOMEDICAL, INC.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at August 31	Note	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	*4*	$ 1,392,514	$ 1,597,728
Accounts and advances receivable	*7*	9,231	34,397
Prepaid expenses		68,105	79,300
Total current assets		1,469,850	1,711,425
Non-current assets			
Incorporation costs		1,371	1,371
License agreements	*6*	97,378	532,490
Furniture and equipment	*8*	67,959	27,837
Total non-current assets		166,708	561,698
TOTAL ASSETS		$ 1,636,558	$ 2,273,123
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	*12*	$ 47,750	$ 150,378
Total liabilities		47,750	150,378
Shareholders' equity			
Share capital	*9*	7,989,797	7,235,508
Share-based expense reserve	*9*	2,291,687	2,060,834
Accumulated other comprehensive income		131,254	128,960
Deficit		(8,823,930)	(7,302,557)
Total shareholders' equity		1,588,808	2,122,745
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 1,636,558	$ 2,273,123

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

Approved on behalf of the Board:

"Michael Sadhra" (signed)
Michael Sadhra
Director

"Dr. Raj Attariwala" (signed)
Dr. Raj Attariwala
Director

BREATHTEC BIOMEDICAL, INC.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

Years ended August 31	Note	2017	2016
EXPENSES			
General and administrative	*8*	$ 378,355	$ 181,484
Marketing		62,576	436,607
Professional fees	*12*	460,505	536,286
Research and development	*6, 10*	354,474	195,492
Share-based payment	*9, 12*	138,440	1,466,522
Shareholder communications		57,619	118,108
		1,451,969	2,934,499
Interest income		(7,250)	(7,170)
Transaction expense	*5*	-	3,949,459
Impairment of license agreement	*6*	445,886	-
Net loss for the year		1,890,605	6,876,788
OTHER COMPREHENSIVE INCOME			
Item that will not be classified into profit or loss:			
Foreign exchange gain on translation to reporting currency		(2,294)	(5,096)
Comprehensive loss for the year		$ 1,888,311	$ 6,871,692
Loss per common share			
Basic and fully diluted		$ 0.04	$ 0.20
Weighted average number of common shares outstanding		51,334,289	35,264,222

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

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

Years ended August 31	2017	2016
OPERATING ACTIVITIES		
Net loss for the year	$ (1,890,605)	$ (6,876,788)
Items not involving cash		
Amortization	127,538	47,961
Share-based payment	138,440	1,466,522
Unrealized foreign exchange (gain) loss	9,342	(1,370)
Shares issued for services	24,350	7,000
Transaction expense	-	3,949,459
Impairment of license agreement	445,886	-
	(1,145,049)	(1,407,216)
Changes in non-cash operating working capital		
Accounts and advances receivable	25,166	(34,397)
Prepaid expenses	2,445	260,003
Accounts payable and accrued liabilities	(103,549)	(226,084)
	(1,220,987)	(1,407,694)
INVESTING ACTIVITIES		
Purchase of furniture and equipment	(86,624)	(30,930)
Proceeds from sale of furniture and equipment	26,290	-
License agreement	-	(97,358)
Cash received on acquisition of Breathtec	-	1,542,830
	(60,334)	1,414,542
FINANCING ACTIVITIES		
Shares issued for private placement – net of financing costs	1,078,612	-
Shares issued upon stock option exercise	-	70,000
Shares issued upon warrants exercise	-	115,000
	1,078,612	185,000
Effect of exchange rate fluctuations on cash held	(2,505)	6,045
Increase (decrease) in cash and cash equivalents	(205,214)	197,893
Cash and cash equivalents, beginning of year	1,597,728	1,399,835
Cash and cash equivalents, end of year	$ 1,392,514	$ 1,597,728
Supplemental cash flow information		
Non-cash investing and financing includes:		
Shares issued included in prepaid expenses and deposit	$ -	$ 8,750
Shares issued for license	$ 121,722	$ 480,000

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

BREATHTEC BIOMEDICAL, INC.
Consolidated Statement of Changes in Equity
(Expressed in Canadian dollars)

Description	Number of Shares	Share Capital	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	-	-	-	-	-
Shares issued for license-Technion	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)
Balance at August 31, 2016	**39,725,198**	**$ 7,235,508**	**$ 2,060,834**	**$ 128,960**	**$ (7,302,557)**	**$ 2,122,745**

Description	Number of Shares	Share Capital	Share-Based Expense Reserve	Accumulated Comprehensive Income	Deficit	**Total**
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, net of issue costs	14,498,664	616,967	461,645	-	-	1,078,612
Share-based payment	-	-	138,440	-	-	138,440
Cancellation of stock options	-	-	(369,232)	-	369,232	-
Other comprehensive income	-	-	-	2,294	-	2,294
Net loss for the year	-	-	-	-	(1,890,605)	(1,890,605)
Balance at August 31, 2017	**54,752,024**	**$ 7,989,797**	**$ 2,291,687**	**$ 131,254**	**$ (8,823,930)**	**$ 1,588,808**

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

1. NATURE AND GOING CONCERN

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, 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 consolidated 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 may cast significant doubt on the Company’s ability to continue as a going concern. These consolidated 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 consolidated 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 annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). They have been prepared on a historical cost basis, except for certain financial instruments, which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for the cash flow information.

The significant accounting policies set out in note 3 have been applied consistently to the periods presented.

(b) Approval of the consolidated financial statements

The consolidated financial statements of the Company for the year ended August 31, 2017 were approved and authorized for issuance by the Board of Directors on December 21, 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 amortization, which is translated at the rates of exchange applicable to the related assets. 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 entities on consolidation, which are recognized in other comprehensive income.

On consolidation, the assets and liabilities of entities are translated into the reporting currency at the rate of exchange at the reporting date and the consolidated statements of loss 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 consolidated financial statements as appropriate.

2. BASIS OF PRESENTATION (continued)

(d) Critical accounting estimates (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 areas requiring the use 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.

2. BASIS OF PRESENTATION (continued)

(e) Use of judgments (continued)

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 August 31, 2017.

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 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 contains all three elements of a business, including inputs, processes and the ability to create output.

Determination of the functional currency

In concluding that the CAD is the functional currency of Breathtec, and US 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.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

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 equivalents are financial instruments that are readily convertible to a known amount of cash immediately 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.

At each reporting date, the Company assesses whether there is objective evidence that the furniture and equipment 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 furniture and equipment 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.

(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 share capital when the related shares are issued.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income taxes (continued)

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.

(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 and advances receivable is included in this category of financial assets.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(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.

(g) Share-based payments

The Company has a stock option plan that is described in note 9 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 expense reserve.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 August 31, 2017 and 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.

(j) Share capital

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 share capital and the recorded amount to reserve is transferred to share capital.

(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:

- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- 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.

IFRS 16 *Leases*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 cash equivalents 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 August 31, 2017, the Company had working capital of $1,422,100 compared to working capital at August 31, 2016 of $1,561,047. This included cash and cash equivalents of $1,392,514 (2016 - $1,597,728) available to meet short-term business requirements and current liabilities of $47,750 (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 risks. The Company is not exposed to significant interest rate risk and other price risk.

(Expressed in Canadian dollars)

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 CAD (primarily US$). As at August 31, 2017, the Company had monetary assets of US$99,708 or $124,994 (2016 - US$472,047 or $619,137) at the CAD equivalent and monetary liabilities of US$23,066 or $28,915 (2016 - US$70,466 or $92,423) at the CAD equivalent.

For the year ended August 31, 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 $9,608 (2016 - $40,158). The Company has not entered into any foreign currency contracts to mitigate this risk.

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
Prepaids			328,529
Accounts payable			(201,493)
		$	1,669,866

Consideration paid:			
Shares of Breathtec US issued		$	4,918,977
Warrants issued to Breathtec US shareholders			700,348
	-	$	5,619,325

The transaction was 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 consolidated 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 consolidated financial statements at their historical carrying values.

(Expressed in Canadian dollars)

5. REVERSE TAKEOVER (continued)

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 (note 9) are expensed as a transaction expense in the consolidated statement of loss and comprehensive loss:

Consideration paid	$	5,619,325
Net tangible assets acquired		(1,669,866)
	$	3,949,459

6. 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 - Technion, the Company paid Technion an up-front fee of US$75,000 ($97,358) 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.

On June 8, 2017, the Company and Technion mutually terminated the license agreement, and accordingly, indicators of impairment existed leading to an assessment of the recoverable amount of the license. The Company wrote-down the carrying value of the license agreement with Technion to $nil and recognized an impairment loss of $445,886. A value in use calculation is not applicable, as the Company does not have any expected cash flows from using the license. In estimating the fair value less costs of disposal, management did not have observable or unobservable inputs to estimate a recoverable amount greater than $nil. As this valuation technique requires management's judgment and estimates of the recoverable amount, it is classified within Level 3 of the fair value hierarchy.

(b) University of Florida Research Foundation ("UFRF")

On June 18, 2016, the Company signed a license agreement with the UFRF, a non-profit Florida corporation, 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 License - UFRF is effective from June 18, 2016 to the later of the date that no patent right remains enforceable and ten years after the first commercial sale of a licensed product (with an option to extend for additional five-year terms).

(Expressed in Canadian dollars)

6. LICENSES (continued)

(b) University of Florida Research Foundation ("UFRF") (continued)

In consideration for the License - UFRF, the Company issued to UFRF 468,162 common shares of the Company fair valued at $121,722. Starting in June 2017, an annual license maintenance fee of US$2,000 would be paid by the Company and every year thereafter until the first commercial sale. In addition, the Company will also make payments upon meeting certain development, regulatory and commercialization milestones. Upon commencement of commercial production, the Company will pay a royalty between 2% and 4% on all net sales. All shares issued to UFRF will be subject to a four-month hold period pursuant to applicable securities laws.

	Technion License	UFRF License	Total
Cost			
Balance at August 31, 2015	$ -	$ -	$ -
Additions	577,358	-	577,358
Balance at August 31, 2016	577,358	-	577,358
Additions	-	121,722	121,722
Impairment	(577,358)	-	(577,358)
Balance at August 31, 2017	$ -	$ 121,722	$ 121,722
Accumulated Amortization			
Balance at August 31, 2015	$ -	$ -	$ -
Amortization	44,868	-	44,868
Balance at August 31, 2016	44,868	-	44,868
Amortization	86,604	24,344	110,948
Impairment	(131,472)	-	(131,472)
Balance at August 31, 2017	$ -	$ 24,344	$ 24,344
Carrying Amounts			
August 31, 2016	$ 532,490	$ -	$ 532,490
August 31, 2017	$ -	$ 97,378	$ 97,378

For the year ended August 31, 2017, included in research and development expense is a total of $110,948 (2016 - $44,868) in amortization expense.

(Expressed in Canadian dollars)

7. ACCOUNTS AND ADVANCES RECEIVABLE

		2017		2016
Accounts receivable	$	2,000	$	-
Accrued interest receivable		4,257		6,065
GST receivable		2,974		6,691
Due from Cannabix[1]		-		21,641
	$	9,231	$	34,397

[1] Cannabix is a company with a common director relating to reimbursement of shared research costs.

8. FURNITURE AND EQUIPMENT

		Total
Cost		
Balance at August 31, 2015	$	-
Additions		30,930
Balance at August 31, 2016		30,930
Additions		86,624
Disposal		(30,930)
Foreign translation impact		(4,342)
Balance at August 31, 2017	$	82,282
Accumulated Amortization		
Balance at August 31, 2015	$	-
Amortization		3,093
Balance at August 31, 2016		3,093
Amortization		16,590
Disposal		(4,640)
Foreign translation impact		(720)
Balance at August 31, 2017	$	14,323
Carrying Amounts		
August 31, 2016	$	27,837
August 31, 2017	$	67,959

For the year ended August 31, 2017, included in general and administrative expense is a total of $16,590 (2016 - $3,093) in amortization expense.

9. SHARE CAPITAL AND RESERVES

Share capital

Authorized

100,000,000 common shares without par value.

Issued and outstanding

During the year ended August 31, 2017:

- On September 1, 2016, the Company issued 468,162 common shares fair valued at $121,722 to the UFRF 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 six-month consulting services agreement, as partial consideration for 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 for a period of three years from the closing of the private placement. The warrants were valued using the relative fair value method at $461,645. The Company incurred $8,788 of share issues costs for filing and legal fees.

During the year ended August 31, 2016:

- In connection with the Merger (note 5), 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 (note 6).

- 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 services.

- 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 August 31, 2017, the Company had 3,490,515 (2016 - 5,817,525) shares held in escrow. Under the escrow agreement, 15% of the total shares are released upon listing with the Canadian Securities Exchange (“CSE”) and 10% of the shares will be released every six months following listing.

(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

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 CSE and other applicable regulatory authorities.

During the year ended August 31, 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 thereof for no consideration. The cancelled options were originally granted on February 1, 2016 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.

- On May 18, 2017, the Company granted a total of 700,000 incentive stock options to directors, officers and consultants of the Company with an exercise price $0.15 per share. The options expire on May 18, 2022.

The changes in stock options outstanding are as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance at August 31, 2015	-	$ -
Granted	4,000,000	$ 0.25
Exercised	(280,000)	$ 0.25
Balance at August 31, 2016	3,720,000	$ 0.25
Granted	1,450,000	$ 0.16
Cancelled	(975,000)	$ 0.25
Balance at August 31, 2017	4,195,000	$ 0.22

(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

As at August 31, 2017, the Company had the following stock options outstanding and exercisable:

Date of Grant	Date of Expiry	Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
February 1, 2016	February 1, 2021	2,495,000	$ 0.25	3.42
August 30, 2016	August 30, 2021	250,000	$ 0.25	4.00
October 20, 2016	October 20, 2021	750,000	$ 0.17	4.14
May 18, 2017	May 18, 2022	700,000	$ 0.15	4.72
Total		4,195,000	$ 0.22	3.80

As at August 31, 2016, the Company had the following stock options outstanding and exercisable:

Date of Grant	Date of Expiry	Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
February 1, 2016	February 1, 2021	3,470,000	$ 0.25	4.42
August 30, 2016	August 30, 2021	250,000	$ 0.25	5.00
Total		3,720,000	$ 0.22	4.46

Share-based payments

When the Company issues stock options, it records a share-based payment expense in the year or period which the options are granted and/or vested. The expense is estimated using the following assumptions. The expected volatility assumption is based on the historical and implied volatility of the Company's common share price on the CSE. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the expected life of the stock options. The Company used historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The Company has not paid and does not anticipate paying dividends on its common shares. Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 0% in determining the share-based payment expense recorded in the accompanying consolidated statements of loss and comprehensive loss.

During the year ended August 31, 2017, the Company granted 1,450,000 stock options to directors, officers and consultants of the Company with a weighted average exercise price of $0.16 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 year ended August 31, 2017 was $138,440 (2016 - $1,466,522), which was recognized as share-based payment expense for the year.

(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Share-based payments (continued)

The Company uses the Black-Scholes option pricing model to determine the fair value of the options granted with the following weighted average assumption:

	2017	2016
Risk-free interest rate	0.80%	0.68%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	104%	100%
Expected option life in years	5.0	5.0
Forfeiture rate	0.00%	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.

Share purchase warrants

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at August 31, 2015	-	$ -
Issued	11,833,512	$ 0.39
Exercised	(302,500)	$ 0.39
Balance at August 31, 2016	11,531,012	$ 0.39
Issued	14,498,664	$ 0.15
Balance at August 31, 2017	26,029,676	$ 0.26

As at August 31, 2017, the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
October 14, 2017	$ 0.40	3,300,700	0.12
October 14, 2017	$ 0.25	440,112	0.12
October 26, 2017	$ 0.40	7,790,200	0.15
November 25, 2019	$ 0.15	14,498,664	2.24
Total	$ 0.26	26,029,676	1.19

(Expressed in Canadian dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Share purchase warrants (continued)

As at August 31, 2016, the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
October 14, 2017	$ 0.40	3,300,700	1.12
October 14, 2017	$ 0.25	440,112	1.12
October 26, 2017	$ 0.40	7,790,200	1.15
Total	$ 0.26	11,531,012	1.14

During the year ended August 31, 2016, in connection with the Merger (note 5), the Company issued:

- 3,550,700 share purchase warrants to Breathtec shareholders entitling the holders thereof to purchase one common share of the Company at a price of $0.40 until October 14, 2017;
- 480,112 agent warrants entitling the holders thereof to purchase one common share of the Company at a price of $0.25 until October 14, 2017; and
- 7,802,700 share purchase warrants to the shareholders of Breathtec US (the “Breathtec US Warrants”) with a fair value of $700,348. Each Breathtec US Warrant entitles the holder thereof to purchase one common share of Breathtec at a price of $0.40 until October 26, 2017.

10. RESEARCH AND DEVELOPMENT

Breathtec US has an agreement (the “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$41,706 paid or $55,069). For the period January 16, 2016 to January 15, 2017 the Company paid a total of US$87,836 or $116,507.

(Expressed in Canadian dollars)

11. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.00% (2016 - 26.00%) to income before income taxes. The reasons for the differences are as follows:

		2017		2016
Loss before income taxes	$	(1,890,605)	$	(6,876,788)
Statutory income tax rate		26.00%		26.00%
Income tax benefit computed at statutory tax rate		(491,557)		(1,787,965)
Permanent differences				
Share-based payment		35,994		381,296
Transaction expense		-		1,026,859
Other		32,630		3,150
Differences attributable to income tax rates of other countries		(48,084)		(34,566)
Unrecognized benefit of deferred income tax assets		471,017		411,226
Income tax benefit	$	-	$	-

Significant unrecognized tax benefits and unused tax losses for which no deferred tax asset is recognized as of August 31, 2017 and 2016 are as follows:

		2017		2016
Non-capital losses carried forward	$	3,173,000	$	1,964,000
Share issuance costs		79,000		104,000
License agreement		457,000		45,000
	$	3,709,000	$	2,113,000

The Company’s unrecognized unused non-capital losses have the following expiry dates:

2035	$	364,000
2036		1,632,000
2037		1,177,000
	$	3,173,000

(Expressed in Canadian dollars)

12. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

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 senior officers and directors of the Company.

Compensation to key management personnel is as follows:

Years ended August 31	2017	2016
Short-term benefits	$ 284,337	$ 173,872
Share-based payment (note 9)	129,675	756,363
	$ 414,012	$ 930,235

Related party transactions not included in compensation to key management personnel are as follows:

Years ended August 31	2017	2016
Consulting fees – other (1)	$ 197,950	$ 248,225
Rent (2)	14,000	-
	$ 211,950	$ 248,225

(1) Short-term compensation of $116,000 (2016 - $201,236) to a company owned by the Company's former president and which a senior officer is the president;

Short-term compensation of $48,000 (2016 - $45,309) to a company owned by the Chief Financial Officer;

Fees of $30,000 (2016 - $nil) paid to company owned by a director relating to the use of work space and computer equipment; and

Fees of $3,950 (2016 - $1,680) for tax services to a partnership that senior officer and director is a partner.

(2) Fees paid for office space to a company that a senior officer and director is a principal.

Accounts payable and accrued liabilities include the following amounts due to related parties:

	2017	2016
Key management personnel – expense reimbursements	$ 436	$ 4,039
Key management personnel – management fees	-	21,237
	$ 436	$ 25,276

(Expressed in Canadian dollars)

13. 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 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 year ended August 31, 2017. The Company is not subject to externally imposed capital requirements.

14. SEGMENTED DISCLOSURES

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

As at August 31, 2017, the Company's long-term assets are located as follows:

	Canada	United States	Total
Incorporation costs	$ -	$ 1,371	$ 1,371
License agreement	-	97,378	97,378
Furniture and equipment	-	67,959	67,959
	$ -	$ 166,708	$ 166,708

As at August 31, 2016, the Company's long-term assets were located as follows:

	Canada	United States	Total
Incorporation costs	$ -	$ 1,371	$ 1,371
License agreement	-	532,490	532,490
Furniture and equipment	27,837	-	27,837
	$ 27,837	$ 533,861	$ 561,698

15. SUBSEQUENT EVENTS

Subsequent to the year ended August 31, 2017:

- 11,531,012 warrants expired with a weighted average exercise price of $0.39 per warrant.
- 1,100,000 stock options expired with a weighted average exercise price of $0.19 per option following the resignation of a director.