

BREATHTEC BIOMEDICAL, INC.

Condensed Interim Consolidated Financial Statements (Unaudited)

For the six months ended February 28, 2018 and 2017
(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 interim consolidated financial statements of the Company have been prepared by management and approved by the Board of Directors of the Company. These condensed interim consolidated financial statements have not been reviewed by the Company's external auditors.

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

	Note	February 28, 2018	August 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents	4	\$ 1,461,757	\$ 1,392,514
Accounts and advances receivable	6	5,141	9,231
Prepaid expenses		42,932	68,105
Total current assets		1,509,830	1,469,850
Non-current assets			
Incorporation costs		1,371	1,371
License agreements	5	85,205	97,378
Furniture and equipment	7	61,113	67,959
Total non-current assets		147,689	166,708
TOTAL ASSETS		\$ 1,657,519	\$ 1,636,558
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	10	\$ 34,389	\$ 47,750
Total liabilities		34,389	47,750
Shareholders' equity			
Share capital	8	8,459,618	7,989,797
Share-based expense reserve	8	1,371,170	2,291,687
Accumulated other comprehensive income		135,017	131,254
Deficit		(8,342,675)	(8,823,930)
Total shareholders' equity		1,623,130	1,588,808
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 1,657,519	\$ 1,636,558

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

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

	Note	Three months ended February 28, 2018	Three months ended February 28, 2017	Six months ended February 28, 2018	Six months ended February 28, 2017
EXPENSES					
General and administrative	7	\$ 48,808	\$ 89,141	\$ 130,863	\$ 178,581
Marketing		500	8,116	500	56,362
Professional fees	10	66,498	136,705	137,317	271,186
Research and development	5, 9	22,536	78,459	59,037	224,383
Share-based payment	8, 10	-	-	-	77,082
Shareholder communications		22,521	13,266	29,405	26,558
		160,863	325,687	357,122	834,152
Interest income		(2,925)	(1,090)	(5,881)	(2,628)
Net loss for the year		157,938	324,597	351,241	831,524
OTHER COMPREHENSIVE INCOME					
Item not classified into profit or loss:					
Foreign exchange gain on translation to reporting currency		(43)	4,495	(3,763)	(5,137)
Comprehensive loss for the year		\$ 157,895	\$ 329,092	\$ 347,478	\$ 826,387
Loss per common share					
Basic and fully diluted		\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.02
Weighted average number of common shares outstanding		55,684,613	51,624,025	55,215,742	43,398,931

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

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

Six Months ended February 28	2018	2017
OPERATING ACTIVITIES		
Net loss for the year	\$ (351,241)	\$ (831,524)
Items not involving cash		
Amortization	20,346	77,299
Share-based payment	-	77,082
Unrealized foreign exchange (gain) loss	58	(15,014)
Shares issued for services	-	24,350
	(330,837)	(667,807)
Changes in non-cash operating working capital		
Accounts and advances receivable	4,090	(23,384)
Prepaid expenses	25,173	(23,836)
Accounts payable and accrued liabilities	(12,917)	(55,226)
	(314,491)	(723,485)
INVESTING ACTIVITIES		
Purchase of furniture and equipment	-	(35,923)
	-	(35,923)
FINANCING ACTIVITIES		
Shares issued for private placement – net of financing costs	-	1,082,678
Proceeds from warrants exercised	363,050	-
Proceeds from stock options exercised	18,750	-
	381,800	1,082,678
Effect of exchange rate fluctuations on cash held	1,934	-
Increase (decrease) in cash and cash equivalents	69,243	323,271
Cash and cash equivalents, beginning of year	1,392,514	1,597,728
Cash and cash equivalents, end of year	\$ 1,461,757	\$ 1,920,999
Supplemental cash flow information		
Non-cash investing and financing includes:		
Shares issued for license	\$ -	\$ 121,722

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

BREATHTEC BIOMEDICAL, INC.

Unaudited Condensed Interim 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, 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	621,035	461,645	-	-	1,082,680
Share-based payment	-	-	77,082	-	-	77,082
Cancellation of stock options	-	-	(369,232)	-	369,232	-
Other comprehensive income	-	-	-	5,137	-	5,137
Net loss for the period	-	-	-	-	(831,524)	(831,524)
Balance at February 28, 2017	54,752,024	\$ 7,993,865	\$ 2,230,329	\$ 134,097	\$ (7,764,849)	\$ 2,593,442
Balance at August 31, 2017	54,752,024	\$ 7,989,797	\$ 2,291,687	\$ 131,254	\$ (8,823,930)	\$ 1,588,808
Cancellation of stock options	-	-	(132,148)	-	132,148	-
Expiration of warrants	-	-	(700,348)	-	700,348	-
Exercise of stock options	125,000	29,707	(10,957)	-	-	18,750
Exercise of warrants	2,420,333	440,115	(77,065)	-	-	363,050
Other comprehensive income	-	-	-	3,763	-	3,763
Net loss for the period	-	-	-	-	(193,303)	(194,303)
Balance at February 28, 2018	57,297,357	\$ 8,459,618	\$ 1,371,170	\$ 135,017	\$ (8,342,675)	\$ 1,623,130

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

BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended February 28, 2018 and 2017
(Expressed in Canadian dollars)

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.

BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended February 28, 2018 and 2017
(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with international Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using accounting policies consistent 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.

These condensed interim consolidated financial statements have been prepared in accordance with the same accounting policies and methods of application as the most recent audited financial statements for the year ended August 31, 2017, except that they do not include all the disclosures required for the annual audited financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements for the Company for year ended August 31, 2017.

(b) Approval of the condensed interim consolidated financial statements

The condensed interim consolidated financial statements of the Company for the period ended February 28, 2018 were approved and authorized for issuance by the Board of Directors on April 20, 2018.

(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) Use of accounting estimates and judgements

The preparation of condensed interim 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.

BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended February 28, 2018 and 2017
(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

(d) Use of accounting estimates and judgements (continued)

There have been no material revisions to the nature and amount of changes in estimates of amounts reported in its audited consolidated financial statements for the year ended August 31, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company has applied the same accounting policies and methods of computation in its condensed interim consolidated financial statements as in its audited consolidated financial statements for the year ended August 31, 2017.

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 February 28, 2018, the Company had working capital of \$1,475,441 compared to working capital at August 31, 2017 of \$1,422,100. This included cash and cash equivalents of \$1,461,757 (August 31, 2017 - \$1,392,514) available to meet short-term business requirements and current liabilities of \$34,389 (August 31, 2017 - \$47,750). 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.

BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended February 28, 2018 and 2017
(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 February 28, 2018, the Company had monetary assets of US\$70,842 or \$90,741 (August 31, 2017 - US\$99,708 or \$124,994) at the CAD equivalent and monetary liabilities of US\$12,951 or \$16,588 (Augusts 31, 2017 - US\$23,066 or \$28,915) at the CAD equivalent.

For the period ended February 28, 2018, 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 \$7,415 (August 31, 2017 - \$9,608). The Company has not entered into any foreign currency contracts to mitigate this risk.

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 numerous diseases from exhaled breath (the "License - Technion").

On June 8, 2017, the Company and Technion mutually terminated the license agreement. The Company wrote-down the carrying value of the license agreement with Technion to \$nil and recognized an impairment loss of \$445,886.

(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).

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.

BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
 For the Six Months Ended February 28, 2018 and 2017
 (Expressed in Canadian dollars)

5. LICENSES (continued)**(b) University of Florida Research Foundation ("UFRF") (continued)**

	Technion License	UFRF License	Total
Cost			
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
Additions	-	-	-
Balance at February 28, 2018	\$ -	\$ 121,722	\$ 121,722
Accumulated Amortization			
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
Amortization	-	12,173	12,173
Balance at February 28, 2018	\$ -	\$ 36,517	\$ 36,517
Carrying Amounts			
August 31, 2017	\$ -	\$ 97,378	\$ 97,378
February 28, 2018	\$ -	\$ 85,205	\$ 85,205

For the period ended February 28, 2018, included in research and development expense is a total of \$12,173 (February 28, 2017 - \$69,908) in amortization expense.

BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 28, 2018 and 2017

(Expressed in Canadian dollars)

6. ACCOUNTS AND ADVANCES RECEIVABLE

	Six Months Ended February 28, 2018	Year Ended August 31, 2017
Accounts receivable	\$ -	\$ 2,000
Accrued interest receivable	599	4,257
GST receivable	4,542	2,974
	\$ 5,141	\$ 9,231

7. FURNITURE AND EQUIPMENT

	Total
Cost	
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
Foreign translation impact	974
Balance at February 28, 2018	\$ 83,256
Accumulated Amortization	
Balance at August 31, 2016	\$ 3,093
Amortization	16,590
Disposal	(4,640)
Foreign translation impact	(720)
Balance at August 31, 2017	14,323
Amortization	8,173
Foreign translation impact	(353)
Balance at February 28, 2018	\$ 22,143
Carrying Amounts	
August 31, 2017	\$ 67,959
February 28, 2018	\$ 61,113

For the period ended February 28, 2018, included in general and administrative expense is a total of \$8,173 (February 28, 2017 - \$7,390) in amortization expense.

BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended February 28, 2018 and 2017
(Expressed in Canadian dollars)

8. SHARE CAPITAL AND RESERVES

Share capital

Authorized

100,000,000 common shares without par value.

Issued and outstanding

During the six months ended February 28, 2018:

- 2,420,333 common shares were issued in connection with the exercise of 2,420,333 share purchase warrants at \$0.15 per warrant for gross proceeds of \$363,050.
- 125,000 common shares were issued in connection with the exercise of 125,000 stock options at a price of \$0.15 per option for gross proceeds of \$18,750.

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.

Escrow shares

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

As at February 28, 2018, the Company had 2,327,010 (August 31, 2017 – 3,490,515) shares held in escrow. Under the escrow agreement, 10% of the total shares were released upon listing with the Canadian Securities Exchange (“CSE”) and 15% of the shares would be released every six months following listing. The last release occurred on February 1, 2018. The next release is scheduled on August 1, 2018.

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.

BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 28, 2018 and 2017

(Expressed in Canadian dollars)

8. SHARE CAPITAL AND RESERVES (continued)**Stock options (continued)**

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 six months ended February 28, 2018:

- On October 19, 2017, the Company cancelled a total of 1,100,000 incentive stock options granted under the Company's stock option plan following the resignation of a director and officer. The cancelled options included 250,000 originally granted on August 30, 2016 with an exercise price of \$0.25 per share, 750,000 granted on October 20, 2016 with an exercise price of \$0.17 per share and 100,000 granted on May 18, 2017 with an exercise price of \$0.15 per share.

The changes in stock options outstanding are as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance at August 31, 2016	3,720,000	\$ 0.25
Granted	1,450,000	\$ 0.16
Exercised	(975,000)	\$ 0.25
Balance at August 31, 2017	4,195,000	\$ 0.22
Cancelled	(1,100,000)	\$ 0.19
Exercised	(125,000)	\$ 0.15
Balance at February 28, 2018	2,970,000	\$ 0.23

As at February 28, 2018, 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	2.93
May 18, 2017	May 18, 2022	475,000	\$ 0.15	4.22
Total		2,970,000	\$ 0.23	3.14

BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
 For the Six Months Ended February 28, 2018 and 2017
 (Expressed in Canadian dollars)

8. SHARE CAPITAL AND RESERVES (continued)**Share-based payments**

There were no stock options granted during the six-month period ended February 28, 2018.

Total fair value of options granted in the year ended August 31, 2017 was \$138,440 which was recognized as share-based payment expense for the year.

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

	Year Ended August 31, 2017
Risk-free interest rate	0.80%
Expected dividend yield	0.00%
Expected stock price volatility	104%
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.

Share purchase warrants

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
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
Expired	(11,531,012)	\$ 0.39
Exercised	(2,420,333)	\$ 0.15
Balance at February 28, 2018	12,078,331	\$ 0.15

As at February 28, 2018, the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
November 25, 2019	\$ 0.15	12,078,331	1.74
Total	\$ 0.15	12,078,331	1.74

BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended February 28, 2018 and 2017
(Expressed in Canadian dollars)

9. 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, a no-cost extension, is for the period April 16, 2018 to July 15, 2018. For the period January 16, 2017 to January 15, 2018 the Company paid a total of US\$55,608 or \$71,820 at the Canadian dollar equivalent.

10. 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:

Six Months Ended February 28	2018	2017
Short-term benefits ⁽¹⁾	\$ 86,757	\$ 162,420
Share-based payment	-	77,082
	\$ 86,757	\$ 239,502

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

Six Months Ended February 28	2018	2017
Consulting fees – other ⁽²⁾	\$ 85,300	104,000
Rent ⁽³⁾	12,000	2,000
	\$ 97,300	\$ 106,000

⁽¹⁾ Short-term benefits paid to management personnel:

- \$30,176 to former Chief Executive Officer (February 28, 2017 - \$63,542) who resigned from his position on September 19, 2017;
- \$56,581 to Chief Technology Officer (February 28, 2017 - \$60,878).

⁽²⁾ Fees paid to companies related to management personnel:

- \$48,000 (February 28, 2017 - \$68,000) to a company owned by the Company's former President/Director who resigned from his positions on May 18, 2017 and which a senior officer who took on the position with the Company on May 18, 2017, is the president;
- \$24,000 (February 28, 2017 - \$24,000) to a company owned by the Chief Financial Officer;
- \$9,000 (February 28, 2017 - \$12,000) paid to company owned by a director relating to the use of work space and computer equipment;
- \$4,300 (February 28, 2017 - \$nil) for tax services paid to a partnership which a senior officer and director is a partner.

⁽³⁾ Rent:

- \$12,000 (February 28, 2017 - \$2,000) paid for corporate office space to a company that a senior officer and director is a principal.

BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended February 28, 2018 and 2017
(Expressed in Canadian dollars)

10. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION (Continued)

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

	Six Months Ended February 28, 2018	Year ended August 31, 2017
Key management personnel – expense reimbursements	\$ 522	\$ 436
Key management personnel – management fees	-	-
	\$ 522	\$ 436

11. RISK AND CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to manage its capital to be able to sustain the future development of the Company's business. The Company currently has no source of revenues, and therefore, is dependent upon external financings to fund activities. In order to carry future projects and pay 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, 2018. The Company is not subject to externally imposed capital requirements.

12. SEGMENTED DISCLOSURES

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

As at February 28, 2018, the Company's long-term assets are located as follows:

	Canada	United States	Total
License agreement	-	\$ 85,205	\$ 85,205
Furniture and equipment	-	61,113	61,113
	\$ -	\$ 146,318	\$ 146,318

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

	Canada	United States	Total
License agreement	-	\$ 97,378	\$ 97,378
Furniture and equipment	-	67,959	67,959
	\$ -	\$ 165,337	\$ 165,337

BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended February 28, 2018 and 2017
(Expressed in Canadian dollars)

13. SUBSEQUENT EVENTS

Subsequent to the six-month period ended February 28, 2018:

- 1) On March 01, 2018, the Company granted a total of 1,325,000 incentive stock options to directors, officers and consultants of the Company with an exercise price of \$0.24 per share. The options expire on March 01, 2023.
- 2) Subsequent to February 28, 2018, 66,666 warrants were exercised for gross proceeds of \$10,000.