# BREATHTEC BIOMEDICAL, INC.

**Consolidated Financial Statements**

For the years ended August 31, 2018 and 2017
(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) 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, 2018 and 2017 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, 2018 and 2017, 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 12, 2018



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

| As at | Note | August 31, 2018 | August 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | $ 1,251,058 | $ 1,392,514 |
| Accounts and advances receivable | *6* | 11,269 | 9,231 |
| Prepaid expenses | | 32,367 | 68,105 |
| **Total current assets** | | 1,294,694 | 1,469,850 |
| **Non-current assets** | | | |
| Incorporation costs | | 1,371 | 1,371 |
| License agreements | *5* | 73,033 | 97,378 |
| Furniture and equipment | *7* | 53,801 | 67,959 |
| **Total non-current assets** | | 128,205 | 166,708 |
| **TOTAL ASSETS** | | $ 1,422,899 | $ 1,636,558 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | *11* | $ 57,034 | $ 47,750 |
| **Total liabilities** | | 57,034 | 47,750 |
| **Shareholders' equity** | | | |
| Share capital | *8* | 8,568,723 | 7,989,797 |
| Reserves | *8* | 1,587,162 | 2,291,687 |
| Accumulated other comprehensive income | | 139,008 | 131,254 |
| Deficit | | (8,929,028) | (8,823,930) |
| **Total shareholders' equity** | | 1,365,865 | 1,588,808 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | $ 1,422,899 | $ 1,636,558 |

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 | 2018 | 2017 |
|---|---|---|---|
| **EXPENSES** | | | |
| General and administrative | *7,11* | $ 222,459 | $ 378,355 |
| Marketing | | - | 62,576 |
| Professional fees | *11* | 347,758 | 460,505 |
| Research and development | *5, 9* | 93,816 | 354,474 |
| Share-based payment | *8, 11* | 235,097 | 138,440 |
| Shareholder communications | | 49,425 | 57,619 |
| | | 948,555 | 1,451,969 |
| Interest income | | (10,961) | (7,250) |
| Impairment of assets | *5* | - | 445,886 |
| **Net loss for the year** | | 937,594 | 1,890,605 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Item will be classified into profit or loss:** | | | |
| Foreign exchange gain on translation to reporting currency | | (7,754) | (2,294) |
| **Comprehensive loss for the year** | | $ 929,840 | $ 1,888,311 |
| **Loss per common share** | | | |
| Basic and fully diluted | | $ 0.02 | $ 0.04 |
| Weighted average number of common shares outstanding | | 28,164,607 | 25,667,145 |

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 | 2018 | 2017 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss for the year | $ (937,594) | $ (1,890,605) |
| | | |
| **Items not involving cash** | | |
| Amortization | 40,950 | 127,538 |
| Share-based payment | 235,097 | 138,440 |
| Unrealized foreign exchange loss | 1,417 | 9,342 |
| Shares issued for services | - | 24,350 |
| Impairment of license agreement | - | 445,886 |
| | (660,130) | (1,145,049) |
| **Changes in non-cash operating working capital** | | |
| Accounts and advances receivable | (2,038) | 25,166 |
| Prepaid expenses | 35,738 | 2,445 |
| Accounts payable and accrued liabilities | 9,923 | (103,549) |
| | (616,507) | (1,220,987) |
| | | |
| **INVESTING ACTIVITIES** | | |
| Purchase of furniture and equipment | - | (86,624) |
| Proceeds from sale of furniture and equipment | - | 26,290 |
| | - | (60,334) |
| | | |
| **FINANCING ACTIVITIES** | | |
| Shares issued for private placement – net of financing costs | - | 1,078,612 |
| Proceeds from warrants exercised | 453,050 | - |
| Proceeds from stock options exercised | 18,750 | - |
| | 471,800 | 1,078,612 |
| | | |
| Effect of exchange rate fluctuations on cash held | 3,251 | (2,505) |
| | | |
| Decrease in cash and cash equivalents | (141,456) | (205,214) |
| Cash and cash equivalents, beginning of year | 1,392,514 | 1,597,728 |
| **Cash and cash equivalents, end of year** | $ 1,251,058 | $ 1,392,514 |
| | | |
| **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 consolidated financial statements.

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

| Description | Number of Shares | Share Capital | Reserves | Accumulated Other Comprehensive Income | Deficit | **Total** |
|---|---|---|---|---|---|---|
| **Balance at August 31, 2016** | 19,862,599 | $ 7,235,508 | $ 2,060,834 | $ 128,960 | $ (7,302,557) | $ 2,122,745 |
| Shares issued for license | 234,081 | 121,722 | - | - | - | 121,722 |
| Shares issued for services | 30,000 | 15,600 | - | - | - | 15,600 |
| Shares issued for cash, net of issue costs | 7,249,332 | 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** | **27,376,012** | **$ 7,989,797** | **$ 2,291,687** | **$ 131,254** | **$ (8,823,930)** | **$ 1,588,808** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Balance at August 31, 2017** | 27,376,012 | $ 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 | 62,500 | 29,707 | (10,957) | - | - | 18,750 |
| Exercise of warrants | 1,510,166 | 549,219 | (96,169) | - | - | 453,050 |
| Share-based payment | - | - | 235,097 | - | - | 235,097 |
| Other comprehensive income | - | - | - | 7,754 | - | 7,754 |
| Net loss for the year | - | - | - | - | (937,594) | (937,594) |
| **Balance at August 31, 2018** | **28,948,678** | **$ 8,568,723** | **$ 1,587,162** | **$ 139,008** | **$ (8,929,028)** | **$ 1,365,865** |

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.

On October 17, 2018, the Company consolidated its common shares on the basis of 2 pre-consolidation shares for 1 post-consolidation common share. All the figures as to the number of common shares, stock options, warrants, prices of issued shares, exercise prices of stock options and warrants, as well as loss per share, in the consolidated financial statements are post-consolidation amounts and the prior year comparatives have been retroactively restated to present the post-consolidation amounts.

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 years presented.

### (b) Approval of the consolidated financial statements

The consolidated financial statements of the Company for the year ended August 31, 2018 were approved and authorized for issuance by the Board of Directors on December 12, 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) 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:

*Furniture and equipment*

The Company has acquired furniture and equipment for use in its research and business activities. Amortization is recognized using the straight-line basis based upon management's estimate of the useful life.

*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.

### (e) Use of judgments

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

*Treatment of development costs*

Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 Intangible Assets are met. Those criteria require that the product is technically and economically feasible, the Company has the intention and ability to use the asset, and how the asset will generate future benefits. Management assessed the capitalization of development costs based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions.

## 2. BASIS OF PRESENTATION (continued)

### (e) Use of judgements (continued)

Management considers these factors in aggregate and applies significant judgment to determine whether the product is technically and economically feasible. The Company has not capitalized any development costs as at August 31, 2018.

*Determination of the functional currency*

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

*Recoverability of deferred tax assets*

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

*License - Recoverability*

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

*Going concern*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of consolidation

As a result of the reverse acquisition described in note 1, the consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Breathtec US. Subsidiaries are fully consolidated from the date of acquisition being the date that the Company obtains control. All intercompany transactions and balances have been eliminated on consolidation.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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 or 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 substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Income taxes (continued)

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Loss per share (continued)

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, 2018 and 2017, 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, estimated 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. The Company has evaluated the impact of IFRS 9 on the consolidated financial statements and does not anticipate significant changes on adoption.

**IFRS 15 *Revenue from Contracts with Customers***

This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue — Barter Transactions Involving Advertising Services*.

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

- Revenue is recognized based on a five-step model:
  1. Identify the contract with customer;
  2. Identify the performance obligations;
  3. Determine the transaction price;
  4. Allocate the transaction price to the performance obligations; and,
  5. Recognize revenue when (or as) the performance obligations are satisfied.
- New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The new standard is effective to the Company's annual period beginning September 1, 2018. The Company has evaluated the impact of IFRS 15 on the consolidated financial statements and does not anticipate significant changes on adoption.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

**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.

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. The impact of IFRS 16 on the Company's consolidated financial statements has not yet been determined.

**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.

## 4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements.

At August 31, 2018, the Company had working capital of $1,237,660 (August 31, 2017 - $1,422,100). This included cash and cash equivalents of $1,251,058 (August 31, 2017 - $1,392,514) available to meet short-term business requirements and current liabilities of $57,034 (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.

### 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, 2018, the Company had monetary assets of US$31,492 or $41,113 (August 31, 2017 - US$99,708 or $124,994) at the CAD equivalent and monetary liabilities of US$3,271 or $4,270 (August 31, 2017 - US$23,066 or $28,915) at the CAD equivalent.

For the year ended August 31, 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 $3,684 (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.

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.

(Expressed in Canadian dollars)

**5. LICENSES** (continued)

**(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 234,081 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, 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 August 31, 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 | | 24,345 | 24,345 |
| Balance at August 31, 2018 | $ - | $ 48,689 | $ 48,689 |
| | | | |
| **Carrying Amounts** | | | |
| August 31, 2017 | $ - | $ 97,378 | $ 97,378 |
| August 31, 2018 | $ - | $ 73,033 | $ 73,033 |

For the year ended August 31, 2018, included in research and development expense is a total of $24,345 (August 31, 2017 - $110,948) in amortization expense.

(Expressed in Canadian dollars)

## 6. ACCOUNTS AND ADVANCES RECEIVABLE

| As at August 31 | 2018 | 2017 |
|---|---|---|
| Accounts receivable | $ - | $ 2,000 |
| Accrued interest receivable | 5,668 | 4,257 |
| GST receivable | 5,601 | 2,974 |
| | $ 11,269 | $ 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 | 2,573 |
| Balance at August 31, 2018 | $ 84,855 |
| | |
| **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 | 16,605 |
| Foreign translation impact | 126 |
| Balance at August 31, 2018 | $ 31,054 |
| | |
| **Carrying Amounts** | |
| August 31, 2017 | $ 67,959 |
| August 31, 2018 | $ 53,801 |

For the year ended August 31, 2018, included in general and administrative expense is a total of $16,605 (August 31, 2017 - $16,590) in amortization expense.

## 8. SHARE CAPITAL AND RESERVES

### Share capital

*Authorized*

100,000,000 common shares without par value.

*Issued and outstanding*

During the year ended August 31, 2018:

- 1,510,166 common shares were issued in connection with the exercise of 1,510,166 share purchase warrants at $0.30 per warrant for gross proceeds of $453,050.

- 62,500 common shares were issued in connection with the exercise of 62,500 stock options at a price of $0.30 per option for gross proceeds of $18,750.

During the year ended August 31, 2017:

- On September 1, 2016, the Company issued 234,081 common shares fair valued at $121,722 to the UFRF with respect to an exclusive license and a non-exclusive know-how license (note 5).

- On September 2, 2016, the Company issued 30,000 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 7,249,332 units at a purchase price of $0.15 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 $0.30 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 3,878,350 escrow shares.

As at August 31, 2018, the Company had 581,753 (August 31, 2017 – 1,745,258) 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 August 1, 2018. The next release is scheduled on February 1, 2019.

## 8. 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, 2018:

- On October 19, 2017, the Company cancelled a total of 550,000 incentive stock options granted under the Company's stock option plan following the resignation of a director and officer. The cancelled options included 125,000 originally granted on August 30, 2016 with an exercise price of $0.50 per share, 375,000 granted on October 20, 2016 with an exercise price of $0.34 per share and 50,000 granted on May 18, 2017 with an exercise price of $0.30 per share.

- On March 1, 2018, the Company granted a total of 662,500 incentive stock options to directors, officers and consultants of the Company with an exercise price of $0.48 per share. The options expire on March 1, 2023.

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.

(Expressed in Canadian dollars)

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

**Stock options** (continued)

The changes in stock options outstanding are as follows:

| | Number of Stock Options | Weighted Average Exercise Price |
|---|---|---|
| **Balance at August 31, 2016** | 1,860,000 | $ 0.50 |
| Granted | 725,000 | $ 0.32 |
| Exercised | (487,500) | $ 0.50 |
| **Balance at August 31, 2017** | 2,097,500 | $ 0.44 |
| Granted | 662,500 | $ 0.48 |
| Cancelled | (550,000) | $ 0.38 |
| Exercised | (62,500) | $ 0.30 |
| **Balance at August 31, 2018** | 2,147,500 | $ 0.48 |

As at August 31, 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 | 1,247,500 | $ 0.50 | 2.42 |
| May 18, 2017 | May 18, 2022 | 237,500 | $ 0.30 | 3.72 |
| March 1, 2018 | March 1, 2023 | 662,500 | $ 0.48 | 4.50 |
| Total | | 2,147,500 | $ 0.48 | 3.21 |

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 | 1,247,500 | $ 0.50 | 3.42 |
| August 30, 2016 | August 30, 2021 | 125,000 | $ 0.50 | 4.00 |
| October 20, 2016 | October 20, 2021 | 375,000 | $ 0.34 | 4.14 |
| May 18, 2017 | May 18, 2022 | 350,000 | $ 0.30 | 4.72 |
| Total | | 2,097,500 | $ 0.44 | 3.80 |

(Expressed in Canadian dollars)

## 8. SHARE CAPITAL AND RESERVES (continued)

### 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, 2018, the Company granted 662,500 stock options to directors, officers and consultants of the Company with a weighted average exercise price of $0.48 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, 2018 was $235,097 (2017 - $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 during the year with the following weighted average assumption:

| | 2018 | 2017 |
|---|---|---|
| Risk-free interest rate | 1.99% | 0.80% |
| Expected dividend yield | 0.00% | 0.00% |
| Expected stock price volatility | 116% | 104% |
| 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, 2016** | 5,765,506 | $ 0.78 |
| Issued | 7,249,332 | $ 0.30 |
| **Balance at August 31, 2017** | 13,014,838 | $ 0.52 |
| Expired | (5,765,506) | $ 0.78 |
| Exercised | (1,510,166) | $ 0.30 |
| **Balance at August 31, 2018** | 5,739,166 | $ 0.30 |

(Expressed in Canadian dollars)

## 8. SHARE CAPITAL AND RESERVES (continued)

**Share purchase warrants** (continued)

As at August 31, 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 | $ 0.30 | 5,739,166 | 1.24 |

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 | $ 0.80 | 1,650,350 | 0.12 |
| October 14, 2017 | $ 0.50 | 220,056 | 0.12 |
| October 26, 2017 | $ 0.80 | 3,895,100 | 0.15 |
| November 25, 2019 | $ 0.30 | 7,249,332 | 2.24 |
| Total | $ 0.52 | 13,014,838 | 1.19 |

## 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, was for the period January 16, 2018 to August 15, 2018. Additionally, a no cost extension was also signed for the period August 16, 2018 to October 14, 2018. For the period January 16, 2017 to January 15, 2018 the Company paid to UF a total of US$55,608 or $71,820 (2017 – US$87,836 or $116,507).

Subsequent to year end, the Company amended its research agreement (the “Amending Agreement”) with UF, whereby UF has undertaken to advance the FAIMS V3 prototype, or future iterations, through its final stages of prototype development. The Amending Agreement is for the period October 15, 2018 to October 15, 2019, and requires the Company to make payments totaling US$165,877.

(Expressed in Canadian dollars)

## 10. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.67% (2017 - 26.00%) to income before income taxes. The reasons for the differences are as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Loss before income taxes | $ | (937,594) | $ | (1,890,605) |
| Statutory income tax rate | | 26.67% | | 26.00% |
| Income tax benefit computed at statutory tax rate | | (250,056) | | (491,557) |
| Permanent differences | | | | |
| Share-based payment | | 62,693 | | 35,994 |
| Change in deferred tax rates | | 138,766 | | - |
| Other | | (967) | | 32,630 |
| Differences attributable to income tax rates of other countries | | 2,374 | | (48,084) |
| Unrecognized benefit of deferred income tax assets | | 47,190 | | 471,017 |
| Income tax expense | $ | - | $ | - |

Significant unrecognized tax benefits and unused tax losses for which no deferred tax asset is recognized as of August 31, 2018 and 2017 are as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Non-capital losses carried forward | $ | 3,917,000 | $ | 3,173,000 |
| Share issuance costs | | 53,000 | | 79,000 |
| License agreement | | 482,000 | | 457,000 |
| Other | | 33,000 | | - |
| | $ | 4,485,000 | $ | 3,709,000 |

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

| | | |
|---|---|---|
| 2035 | $ | 377,000 |
| 2036 | | 1,647,000 |
| 2037 | | 1,203,000 |
| 2038 | | 690,000 |
| | $ | 3,917,000 |

(Expressed in Canadian dollars)

## 11. 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 | 2018 | 2017 |
|---|---|---|
| Short-term benefits (1) | $ 128,818 | $ 284,337 |
| Share-based payment | 212,918 | 129,675 |
| | $ 341,736 | $ 414,012 |

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

| Years ended August 31 | 2018 | 2017 |
|---|---|---|
| Consulting fees – other (2) | $ 115,300 | $ 197,950 |
| Rent (3) | 24,000 | 14,000 |
| | $ 139,300 | $ 211,950 |

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

- $30,656 to former Chief Executive Officer (2017 - $126,758) who resigned from his position on September 19, 2017;
- $98,162 to Chief Technology Officer (2017 - $119,579) who resigned from his position on June 15, 2018 and continued on as a Scientific Advisor on a consulting basis.
- $nil to a director of the Company (2017 - $38,000).

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

- $nil (2017 - $116,000) to a company controlled by the Company's former President/Director who resigned from his positions on May 18, 2017.
- $54,000 (2017 - $nil) to a company controlled by the Chief Executive Officer who took on the position with the Company on March 1, 2018;
- $48,000 (2017 - $48,000) to a company controlled by the Chief Financial Officer;
- $9,000 (2017 - $30,000) to a company controlled by a director relating to the use of work space and computer equipment;
- $4,300 (2017 - $3,950) for tax services paid to a partnership where a senior officer and director is a partner.

(3) Rent:

- $24,000 (2017 - $14,000) paid for corporate office space to a company where a senior officer and director is a principal.

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

| As at August 31 | 2018 | 2017 |
|---|---|---|
| Key management personnel – expense reimbursements | $ 2,660 | $ 436 |
| Key management personnel – management fees | 3,655 | - |
| | $ 6,315 | $ 436 |

## 12. 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, 2018. The Company is not subject to externally imposed capital requirements.

## 13. SUBSEQUENT EVENTS

Pursuant to the signing of a LOI on August 2, 2018 to acquire 100% of the shares of Nash Pharmaceuticals Inc. ("Nash Pharma"):

- The Company entered into a definitive agreement whereby the Company, prior to the closing of the Transaction on October 19, 2018, completed a consolidation of its securities on a 2-to-1 basis on October 17, 2018. This resulted in the Company having 28,948,678 common shares, 5,739,166 outstanding warrants and 2,147,500 outstanding options.

- Upon the closing of the Transaction, the Company acquired all of the issued and outstanding common shares of Nash Pharma in consideration for the issuance by the Company of 15,800,000 common shares of the Company and issued an additional 14,800,000 warrants at a price equal to the exercise price of the Nash Pharma warrants.

- Concurrent with the Transaction, on October 23, 2018, the Company closed a private placement whereby it issued 2,083,334 units at a purchase price of $0.24 per unit for gross proceeds of $500,000. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one common share at a price of $0.50 for a period of two years from the closing of the private placement.