ASEP MEDICAL HOLDINGS INC.

(formerly TRENCHANT LIFE SCIENCES INVESTMENT CORP.)

Consolidated Financial Statements

For the Period from Incorporation on January 20, 2021 to December 31, 2021

Expressed in Canadian Dollars

manning elliott

17th floor, 1030 West Georgia St., Vancouver, BC, Canada V6E 2Y3

Tel: 604. 714. 3600 **Fax:** 604. 714. 3669 **Web:** manningelliott.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of ASEP Medical Holdings Inc.

Opinion

We have audited the consolidated financial statements of ASEP Medical Holdings Inc. (formerly Trenchant Life Sciences Investment Corp.) and its subsidiaries (the "Company") which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of comprehensive loss, changes in equity and cash flows for the period from incorporation on January 20, 2021 to December 31, 2021, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Michael Ryan Ayre.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia, Canada
May 30, 2022

(Expressed in Canadian Dollars)

	Notes	December 31, 2021
ASSETS		
Current assets		
Cash	13	$ 5,290,070
GST receivable	13	73,398
Prepaids and deposits		390,761
		5,754,229
Non-current assets		
Equipment	6	64,043
Intangible assets	6	24,897,860
		24,961,903
TOTAL ASSETS		**$ 30,716,132**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	13	$ 124,916
Interest payable	7, 13	19,288
TOTAL LIABILITIES		**144,204**
EQUITY		
Share capital	8	19,467,132
Warrants reserve	8	35,921
Stock option reserve	8	956,227
Deficit		(2,200,086)
Total equity attributable to ASEP shareholders		18,259,194
Non-controlling interest	9	12,312,734
TOTAL EQUITY		30,571,928
TOTAL LIABILITIES AND EQUITY		**$ 30,716,132**

Nature of operations (Note 1)

Subsequent event (Note 14)

On behalf of the board:

"Derrold Norgaard"
Derrold Norgaard, Chairman of the Audit Committee and Independent Director

"Timothy Murphy"
Timothy Murphy, Independent Director

(Expressed in Canadian Dollars)

	Note		For the period from January 20, 2021 (incorporation) to December 31, 2021
Expenses			
Accretion		$	76,389
Amortization	6		177,177
Compensation	10		81,961
Consulting	10		191,205
General and administrative			112,006
Interest			25,610
Patent fees			7,117
Professional fees			378,333
Research and development costs			73,599
Share-based compensation	8, 10		956,227
Total expenses			2,079,624
Loss before other expenses			(2,079,624)
Foreign exchange loss			(1,238)
Loss on derivative liability	7		(262,701)
Net loss and comprehensive loss for period		**$**	**(2,343,563)**
Net loss attributable to:			
Shareholders of ASEP		$	(2,200,086)
Non-controlling interest	9		(143,477)
		$	**(2,343,563)**
Loss per share – basic and fully diluted		**$**	**(0.10)**
Weighted average number of common shares outstanding – basic and fully diluted			**21,357,895**

ASEP Medical Holdings Inc. (formerly Trenchant Life Sciences Investment Corp.)
Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

	Share Capital							
	Issued shares	**Amount**	**Warrants reserve**	**Stock options reserve**	**Deficit**	**Equity attributable to ASEP shareholders**	**Non-controlling interest (Note 9)**	**Total**
Balance at January 20, 2021	**-**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Issuance of common shares for cash (Note 8)	17,000,000	140,500	-	-	-	140,500	-	140,500
Share issuance cost (Note 8)	-	(2,801)	-	-	-	(2,801)	-	(2,801)
Issuance of special warrants (Note 8)	-	-	5,865,750	-	-	5,865,750	-	5,865,750
Warrant issuance costs (Note 8)	-	-	(145,721)	-	-	(145,721)	-	(145,721)
Issuance of brokers warrants (Note 8)	-	-	35,921	-	-	35,921	-	35,921
Issued on acquisition of ASEP Medical Inc. (Note 5, 8)	25,540,626	12,770,313	-	-	-	12,770,313	-	12,770,313
Recognize the NCI's proportionate interest in assets acquired (Note 9)	-	-	-	-	-	-	12,456,211	12,456,211
Conversion of special warrants (Note 8)	11,731,500	5,720,029	(5,720,029)	-	-	-	-	-
Conversion of convertible debentures (Note 7, 8)	1,858,218	839,091	-	-	-	839,091	-	839,091
Share based compensation	-	-	-	956,227	-	956,227	-	956,227
Comprehensive loss	-	-	-	-	(2,200,086)	(2,200,086)	(143,477)	(2,343,563)
Balance at December 31, 2021	**56,130,344**	**$ 19,467,132**	**$ 35,921**	**$ 956,227**	**$ (2,200,086)**	**$ 18,259,194**	**$ 12,312,734**	**$ 30,571,928**

(Expressed in Canadian Dollars)

	For the period from January 20, 2021 (incorporation) to December 31, 2021
Operating activities	
Net loss	$ (2,343,563)
Adjustments for items not affecting cash:	
Accretion	76,389
Amortization	177,177
Loss on derivative liability	262,701
Share-based compensation	956,227
Changes in non-cash working capital items:	
GST receivable	(73,398)
Prepaid expenses	(390,761)
Accounts payable and accrued liabilities	124,876
Interest payable	19,288
Net cash flows used in operating activities	**(1,191,064)**
Investing activities	
Net assets acquired from acquisition of ASEP Medical Inc., ABT and Sepset	261,804
Purchase of equipment	(65,414)
Website development costs capitalized	(50,308)
Net cash flows from investing activities	**146,082**
Financing activities	
Common shares issued for cash	140,500
Special warrants issued for cash	5,865,750
Share issuance costs paid in cash	(2,801)
Transaction costs incurred for the Acquisition of ASEP Medical Inc. (Note 5)	(58,597)
Warrant issuance costs paid in cash	(109,800)
Convertible debentures issued for cash	500,000
Net cash flows from financing activities	**6,335,052**
Increase in cash	5,290,070
Cash, opening	-
Cash, ending	**$ 5,290,070**

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. The following transactions have been excluded from the statements of cash flows:

The Company issued 25,540,626 common shares with a value of $12,770,313 to the shareholders of ASEP Medical Inc. in connection with the Transaction(Note 5).

The Company issued 187,200 finder’s warrants with a value of $35,921 (Note 8).

1. Nature of operations

ASEP Medical Holdings Inc. (formerly Trenchant Life Sciences Investment Corp.) (the "Company" or "ASEP") was incorporated under the British Columbia Business Corporations Act on January 20, 2021. On November 22, 2021, the Company commenced trading on the Canadian Securities Exchange (the "CSE") as a life sciences issuer under the trading symbol "ASEP". The Company's head office is located at Unit 420, 730 View Street, Victoria, BC V8W 3Y7. ASEP is in the business of acquiring research and development assets, technologies and/or businesses in area of life sciences and medical diagnostics.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations.

2. Statement of compliance with International Financial Reporting Standards

These consolidated financial statements of the Company and its subsidiaries are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). These consolidated financial statements were approved for issuance by the Board of Directors on May 30, 2022.

3. Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared on an accrual basis and on an historical cost basis. The preparation of the consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3. These consolidated financial statements are prepared in Canadian dollars, with all amounts rounded to the nearest dollar, unless otherwise stated.

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are all entities 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. Subsidiaries are consolidated from the date on which control is transferred to the Company and are deconsolidated from the date that control ceases.

All intercompany transactions, balances and unrealized gains and losses from intercompany transactions in Canada are eliminated on consolidation. The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar. The principal subsidiaries of ASEP and their geographic locations at December 31, 2021, are as follows:

	Principal Activity	**Location**	**Percentage owned December 31, 2021**
ASEP Medical Inc.	Life Sciences	Canada	100%
ABT Innovations Inc. ("ABT")	Life Sciences	Canada	50.1%
Sepset Biosciences Inc. ("Sepset")	Life Sciences	Canada	50.1%

3. Significant accounting policies (cont'd)

The Company's subsidiary, ABT, owns 100% of ABT Peptides Inc, an inactive company incorporated in British Columbia, Canada.

Non-controlling interest

Non-controlling interest represents equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interest is presented as a component of equity. The loss and each component of other comprehensive income are attributed to non-controlling interests where applicable.

Financial instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classification of the Company's financial instruments under IFRS 9:

Financial assets/liabilities	Classification - IFRS 9
Cash	FVTPL
Derivative asset	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Interest payable	Amortized cost
Convertible debenture	Amortized cost
Derivative liability	FVTPL

Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statement of comprehensive loss in the period in which they arise.

3. Significant accounting policies (cont'd)

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk of the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are recognized in the statements of comprehensive loss.

Impairment of Non-Financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, however the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years.

3. Significant accounting policies (cont'd)

Financing Costs

The costs related to equity transactions are deferred until the closing of the equity transactions. These costs are accounted for as a deduction from equity. Transaction costs of abandoned equity transactions are recognized in the statement of comprehensive loss.

Equipment

Equipment is stated at historical cost less accumulated amortization and accumulated impairment losses. Cost includes costs paid to acquire assets from third parties as well as costs incurred in internally constructed assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss. Amortization is calculated as follows:

Computer equipment is amortized on a straight-line basis over its estimated useful lives of 36 months starting when the asset is available for use. Lab equipment is amortized on a straight-line basis over its estimated useful lives of 60 months starting when the asset is available for use. No amortization is recorded where an asset is in development and not yet ready for its intended use.

Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangible assets is recognized on a straight-line basis over their 20-year estimated useful lives.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

3. Significant accounting policies (cont'd)

Deferred income tax:

Deferred income tax is provided using the asset and liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Research and development

Research costs are expensed when incurred. Internally-generated technology costs are capitalized as intangible assets when the Company can demonstrate that the technical feasibility of the project has been established; the Company intends to complete the asset for use or sale and has the ability to do so; the asset can generate probable future economic benefits; the technical and financial resources are available to complete the development; and the Company can reliably measure the expenditure attributable to the intangible asset during its development. After initial recognition, internally generated intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses.

The Company did not have any development costs that met the capitalization criteria for the period from incorporation on January 20, 2021 to December 31, 2021.

Share capital

i. The proceeds from the exercise of stock options and warrants, in addition to the estimated fair value attributable to these equity instruments, are recorded as share capital when exercised. Warrants issued are recorded at the estimated fair value using the Black-Scholes pricing model.

ii. Share capital issued for non-monetary consideration is recorded at an amount based on estimated fair market value reduced by an estimate of transaction costs incurred when issuing shares for cash.

iii. On unit offerings, the Company prorates the proceeds between the relative fair values of the shares issued and the Black-Scholes value of the warrants issued.

Share-based compensation

The Company grants stock options to directors, officers, employees and service providers. Each tranche in an award is considered a separate award with its own vesting period and fair values. The Company applies the fair-value method of accounting for share-based compensation. The fair value is calculated using the Black-Scholes option-pricing model.

3. Significant accounting policies (cont'd)

Share-based compensation *(cont'd)*

Share-based compensation for employees and others providing similar services are determined based on the grant date fair value. Share-based compensation for non-employees is determined based on the fair value of the goods or services received or option granted measured at the date on which the Company obtains such goods or services.

Share-based compensation expense is recognized over each tranche's vesting period, in the consolidated statements of loss or capitalized as appropriate, based on the number of awards that vest less the estimated forfeitures. The number of forfeitures likely to occur is estimated on grant date. If and when stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the earnings (loss) attributable to common shareholders of ASEP by the weighted average number of common shares outstanding in the period. Diluted loss per share is calculated by 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 period.

Foreign currency translation

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive loss in the statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive loss. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Patent costs

Patent costs include patent filing fees and patent maintenance fees and are expensed when incurred.

Significant estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

3. Significant accounting policies (cont'd)

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the useful lives of intangible assets, fair value measurements for financial instruments and the recoverability, share-based payments and measurement of deferred tax assets.

Significant judgements

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's accounting policies in these financial statements were:

- Evaluating whether or not costs incurred by the Company meet the criteria for capitalization as intangible assets.
- The Company assesses the carrying values of its tangible and intangible assets for events and circumstances indicating impairment at the end of each reporting period, or more frequently if warranted by a change in circumstances. If it is determined that carrying values of assets cannot be recovered, the unrecoverable amounts are charged against current earnings. Recoverability is dependent upon assumptions and judgments regarding market conditions, costs of production and sustaining capital requirements. Other assumptions used in the calculation of recoverable amounts are discount rates and future cash flows. A material change in assumptions may significantly impact the potential impairment of these assets.
- Management determines whether assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. The Company completed the acquisitions of ASEP Medical Inc., ABT Innovations Inc. ("ABT"), and Sepset Biosciences Inc. ("Sepset") on November 10, 2021 (Note 5) and concluded that the acquired entities did not qualify as a business combination under IFRS 3, "Business Combinations". Accordingly, the acquisition has been accounted for as an asset acquisition. In determining the value of the underlying assets of ASEP Medical Inc., ABT and Sepset, it was concluded that they could not be reliably measured and the assets were valued at the purchase price.
- The determination of whether the intangible assets acquired in the transaction with ASEP Medical Inc. (Note 5) were reliably measured. Management determined that the intangible assets were not reliably measurable due to the stage od development of the technology and certain other facts and circumstances. Accordingly, the assets were measured with reference to the shares issued as consideration for the assets.

Other significant judgments in applying the Company's accounting policies relate to the assessment of the Company's ability to continue as a going concern (Note 1), the recoverability of deferred tax assets, functional currency determinations and the classification of its financial instruments.

4. Adoption of New Accounting Standards, Interpretations and Amendments
New accounting standards adopted in the current year

The Company has performed an assessment of new standards issued by the IASB that are not yet effective.

Standards issued but not yet effective
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 In August 2020, the IASB issued amendments to IFRS 9, Financial Instruments (IFRS 9), IAS 39, Financial Instruments: Recognition and Measurement (IAS 39), IFRS 7, Financial Instruments: Disclosures (IFRS 7),

4. Adoption of New Accounting Standards, Interpretations and Amendments (cont'd)
Standards issued but not yet effective (cont'd)

IFRS 4, Insurance Contracts (IFRS 4) and IFRS 16, as a result of Phase 2 of the IASB's Interest Rate Benchmark Reform project. The amendments address issues arising in connection with reform of benchmark interest rates, including the replacement of one benchmark rate with an alternative one. The amendments were effective January 1, 2021. For the year ended December 31, 2021, these amendments did not affect the Company's financial statements.

The amendments are not expected to have a material impact on the Company.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16:
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

Amendments to IAS 1: Classification of Liabilities as Current or Non – current:
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
• What is meant by a right to defer settlement
• That a right to defer must exist at the end of the reporting period
• That classification is unaffected by the likelihood that an entity will exercise its deferral right
• That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.
The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice.

The amendments are not expected to have a material impact on the Company.

Reference to the Conceptual Framework – Amendments to IFRS 3:
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

4. Adoption of New Accounting Standards, Interpretations and Amendments (cont'd)
Standards issued but not yet effective (cont'd)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. The amendments are not expected to have a material impact on the Company.

IFRS 9 Financial Instruments:

Fees in the '10 per cent' test for derecognition of financial liabilities - As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

5. Acquisition of ASEP Medical Inc.

On June 3, 2021, ASEP entered into the Amalgamation Agreement (the "Amalgamation Agreement") with ASEP Medical Inc. and 1295277 B.C. Ltd., pursuant to which ASEP Medical Holdings Inc., ASEP Medical Inc., and 1295277 B.C. Ltd. agreed to combine their respective entities by way of a three-cornered amalgamation under the provisions of the BC Business Corporations Act ("BCBCA"). Upon completion of the Transaction on November 10, 2021 (being the completion of the amalgamation, the exercise of both of the ABT and Sepset options and conditional approval to the list the common shares of ASEP on the CSE) the resulting entity of the amalgamation, is a wholly-owned subsidiary of the Company and the continuing entity carries on the activities of ASEP Medical Inc. Upon completion of the amalgamation, the Company changed its name from Trenchant Life Sciences Investment Corp. to ASEP Medical Holdings Inc.

ABT Option Agreement Exercise

On May 14, 2021, ASEP Medical Inc. entered into an option agreement with ABT. Under the option agreement, ASEP Medical Inc. was granted the option to acquire 50.1% of the common shares of ABT in exchange for aggregate cash consideration of $2,500,000. On November 10, 2021, the Company exercised the ABT Option to acquire 50.1% of the common shares of the ABT, on a fully diluted basis, in exchange for aggregate cash consideration of $2,500,000. In connection with the option exercise and full payment of $2,500,000, ASEP Medical Inc. received 2,032,861 ABT shares, representing a 50.1% fully diluted equity interest in ASEP Medical Inc..

5. Acquisition of ASEP Medical Inc. (cont'd)

Sepset Option Agreement Exercise

On May 14, 2021, ASEP Medical Inc. entered into an option agreement with Sepset. Under the option agreement, the Company was granted the option to acquire 50.1% of the common shares of Sepset in exchange for aggregate cash consideration of $2,500,000. On November 10, 2021, ASEP Medical Inc. exercised the Sepset Option to acquire 50.1% of the common shares of Sepset, on a fully diluted basis, in exchange for aggregate cash consideration of $2,500,000. In connection with the option exercise and full payment of $2,500,000, ASEP Medical Inc. received 11,155,645 Sepset Shares, representing a 50.1% fully diluted equity interest in Sepset.

Additional Options to Acquire Remaining Interests in ABT and Sepset ("Additional Options")

In connection with the Acquisition, ASEP Medical Inc. was granted the option to purchase all of the remaining issued and outstanding shares owned by the shareholders of each of ABT and Sepset, such that ASEP Medical Inc. would hold a 100% fully-diluted interest in each of ABT and Sepset. The options are exercisable for a period of three years following the acquisition of 50.1% of ABT and 50.1% of Sepset, as applicable, and each have a purchase price equal to $20,000,000. Upon completion of the Transaction and as at December 31, 2021, the Company estimated fair value the Additional Options to be nominal.

Closing of the Transaction

The Transaction closed on November 10, 2021 and ASEP has been identified as the acquirer. At the date of acquisition, the Company determined that Asep Medical Inc., ABT and Sepset did not constitute a business as defined under IFRS 3, Business Combinations, and the acquisition was accounted for as an asset acquisition. Accordingly, as a result of the Transaction, the consolidated statement of financial position has been adjusted for the elimination of ASEP Medical Inc., Sepset and ABT's share capital and ASEP, ABT's and Sepset's accumulated deficits. The consideration transferred in the acquisition has been measured at fair value using the share price in the concurrent special warrant financing of $0.50 per share (Note 8) as the special warrant financing was completed in contemplation of the Acquisition. The Company capitalized transaction costs relating to the asset acquisition of $58,597.

In connection with the Transaction with ASEP Medical Inc., the Company issued 25,540,626 common shares were issued to the existing shareholders of Asep Medical Inc., in exchange for all of the outstanding share capital of ASEP Medical Inc.;

ASEP acquired ASEP Medical Inc., ABT and Sepset for share consideration. The fair value of shares issued being $12,770,313, the non-controlling interest's proportionate interest in assets acquired being $12,456,211, and the allocation of the consideration for purposes of the consolidated statement of financial position is as follows:

(Expressed in Canadian Dollars)

5. Acquisition of ASEP Medical Inc. (cont'd)

	Total
Net assets (liabilities) acquired:	
Cash	$ 456,042
Amounts receivable	65,382
Prepaid expenses	3,455
Equipment	4,327
Other intangible assets (website and trademark)	40,976
Accounts payable and accrued liabilities	(306,005)
Net assets (liabilities) acquired	$ 264,177

Consideration given:	
Common shares	$ 12,770,313
Net (assets) liabilities acquired	(264,177)
Transaction costs	58,597
NCI's proportionate interest in assets acquired	12,456,211
Intangible assets acquired	$ 25,020,944

The intangible assets acquired include Sepset's exclusive worldwide license for the use and sublicense of intellectual property and patents related to a diagnostic test for sepsis; and ABT's exclusive worldwide license for the use and sublicense intellectual property of of patents related to peptide therapeutics.

6. Equipment and intangible assets

	Equipment	Intangible Assets
Balance, January 20, 2021	$ -	$ -
Additions	65,414	25,073,757
Amortization	(1,371)	(175,897)
Balance, December 31, 2021	$ 64,043	$ 24,897,860

Net book value of intangible assets of the Company consists of $24,847,511 of rights to use intellectual property from the acquisition of ASEP Medical Inc., ABT and Sepset (Note 5); $46,979 of website asset; and $3,370 trademark asset.

7. Convertible Debentures

On May 25, 2021, the Company issued $500,000 in convertible debentures to unrelated parties of the Company (the "Convertible Debentures). The Convertible Debentures bear interest at a rate of 8% per annum payable at maturity, mature one year from the date of issuance, and are secured by all of the property and undertaking of the Company.

7. Convertible Debentures (cont'd)

Pursuant to the terms of the Convertible Debentures, upon a liquidity event ("Liquidity Event"), being the first to occur of: (a) an equity raise by the Company resulting in aggregate proceeds of no less than $5,000,000; or (b) the completion of a go public transaction and listing on a recognized stock exchange, the outstanding amount of the Convertible Debentures including interest accrued hereunder) shall automatically convert, in whole without any further action by the holder of the Convertible Debentures into one common share of the Company (a "Common Share") at a conversion price equal to the lesser of (i) 75% of the offering price per share of the stock sold by the Company on the Liquidity Event or (ii) the price equal to the quotient of $8,000,000 divided by the aggregate number of outstanding shares of the Company's common shares on the Liquidity Event (assuming full conversion or exercise of all convertible and exercisable securities then outstanding other than the Convertible Debentures). The "Conversion Price" will be subject to adjustment for stock splits, consolidations, dividends and similar events.

In July 2021, in connection with the completion of the transactions contemplated under the Amalgamation Agreement, the holders of the Convertible Debentures agreed to amend the terms of the Convertible Debentures such that all principal payable under the Convertible Debentures would convert into ASEP A Shares on a certain date to be determined by the directors of the Company, calculated by dividing (A) by (B), where (A) is $8,000,000, and where (B) is the product obtained by adding (x) the number of ASEP A Shares that are issued and outstanding as of the date of the conversion on a fully diluted basis assuming conversion of all outstanding convertible securities of the Company other than the Convertible Debentures, with (y) the number of common shares issuable by TLS in connection with its non-brokered special warrant financing. All accrued interest payable in connection with the Convertible Debentures is to be paid in cash. As at December 31, 2021 the accrued interest payable balance was $19,288.

The conversion feature of the Convertible Debentures has been identified as an embedded derivative. On May 29, 2021, the fair value of the derivative component was calculated using 75% of the offering price per share of the stock sold by the Company and was determined to be $166,667, the residual value of $333,333 allocated to convertible debenture. In July 2021, the derivative liability was revalued due to an amendment to the conversion price. The fair value of the derivative component was calculated using the Black–Scholes pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 100%, risk-free rate of 0.16% and expected life of 3 months. The resulting fair value gain of $67,880 was recognized in the statement of loss. During the period from incorporation on January 20, 2021 to December 31, 2021, the Company recorded accretion expense of $76,389 to reflect the unwinding of the discount.

Upon completion of the Transaction (Note 4), the Convertible Debentures were converted pursuant to the terms of the Convertible Debentures. On the conversion date, the derivative liability was revalued using the Black–Scholes pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 100%, risk-free rate of 0% and expected life of 0 months. The resultant fair value loss of $330,582 was recognized in the statement of loss. The Convertible Debentures were converted at a price of $0.269 resulting in the issuance of 1,858,218 common shares of the Company. On conversion, the fair value of the derivative liability of $429,368 and the carrying value of the convertible debentures of $409,723 were transferred to common shares.

As at December 31, 2021, no Convertible Debenture notes remained outstanding.

8. Share capital

Authorized share capital

Unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

Issued share capital

(a) On January 20, 2021 the Company issued 2,500,000 common shares at $0.001 per share for proceeds of $2,500.
(b) On April 14, 2021 the Company issued 8,000,000 common shares at $0.001 per share for proceeds of $8,000.
(c) On April 16, 2021 the Company issued 6,500,000 common shares at $0.02 per share for proceeds of $130,000.
(d) On November 9, 2021, in connection with the Amalgamation, the Company issued 25,540,626 common shares with estimated fair value of $12,770,313 to the shareholders of ASEP Medical Inc. Of these shares, 7,076,073 are subject to a contractual lock-up whereby the shares are released in ten equal tranches of 10% each month, starting 2 months after the listing date of ASEP.
(e) On November 10, 2021, the Company converted 11,731,500 special warrants that were issued for total proceeds of $5,865,750 to 11,731,500 common shares.
(f) On November 10, 2021, the Company converted the total outstanding convertible debentures of $500,000 at a conversion price of $0.269 resulting in 1,858,218 common shares being issued (Note 7). The shares issued from the conversion are subject to a contractual lock-up whereby the shares are released in ten equal tranches of 10% each month, starting 2 months after the listing date of ASEP.

For the period ended December 31, 2021, total share issuance cost incurred were $2,801.

As at December 31, 2021, there were 56,130,344 issued and outstanding common shares.

Special warrants

Pursuant to the Amalgamation Agreement, the Company completed a private placement ("Private Placement") and issued 11,731,500 special warrants ("Special Warrants") at a price of $0.50 per warrant for aggregate gross proceeds of $5,865,750. Each Special Warrant entitled the holder to acquire, without payment of any consideration in addition to that paid for the Special Warrant and without any action by the holder, subject to the Penalty Provision (as defined herein), 1 Common Share on the earlier of: (i) the day on which the Company has been issued the final receipt of the prospectus by the British Columbia Securities Commission (the "Qualification Condition"), or (ii) the 180th day following the date of issuance of the Special Warrants (the "Qualification Deadline"). On November 10, 2021, 11,731,500 Special Warrants were converted into 11,731,500 common shares of the Company.

In connection with the Special Warrants private placement, the Company paid a finder's fee of $109,800 (cash) and issued 187,200 finder's warrants ("Finder's warrants") at a price of $0.50 per Finder's Warrant for a period of 1 year following the closing. If, for at least 20 consecutive trading days, the volume weighted average price at which the Company's shares trade on the Canadian Securities Exchange (or such other recognized Canadian stock exchange on which the Company's shares are listed for trading at the relevant time) each day is or exceeds $1.00 per share, the Company may issue a notice via news release to

(Expressed in Canadian Dollars)

8. Share capital (cont'd)

***Special warrants** (cont'd)*

the holders of the Finder's Warrants and, in such case, the Finder's Warrants will expire on the 30th day after the news release was disseminated by the Company. The Finder's warrants were valued using Black-Scholes model based on the following assumptions: expected dividend yield of 0%, expected volatility of 100%, risk-free rate of 0.28% and expected life of 1 year.

Stock options

In July 2021, the Company adopted a stock option plan ("Plan"), which provides that the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company stock options to purchase common shares, provided that the number of common shares reserved for issuance under the Plan shall not exceed 10% of the issued and outstanding common shares at the time of grant. The Board of Directors shall determine the exercise price and the term of the stock options at the time of grant. If the shares are listed on a stock exchange, then the exercise price for the options granted will not be less than the minimum prevailing price permitted by the stock exchange. If the shares are not listed, posted and trading on any stock exchange or quoted on any quotation system, the exercise price will be determined by the Board at the time of granting.

On November 18, 2021, the Company granted stock options (collectively, the "Options") to certain directors, officers, employees and consultants of the Company to purchase up to 4,540,000 common shares, pursuant to the Company's Plan. The stock options entitle the holders to acquire 4,540,000 common shares at a price of $0.50 per common share for a period of 10 years. A total of 1,490,000 stock options vested immediately upon the date of grant, 1,900,000 vest quarterly over a 12 month period and 1,150,000 stock options vest quarterly over a 24 month period. The grant date estimated fair value of these options was $2,033,260. The stock options were valued using Black-Scholes model based on the following assumptions: expected dividend yield of 0%, expected volatility of 100%, risk-free rate of 1.74% and expected life of 10 years.

During the year ended December 31, 2021, the Company had recognized $956,227 of share-based compensation for the vesting of these stock options.

A continuity of stock options for the period from January 20, 2021 (incorporation) to December 31, 2021 is as follows:

	Number of options	**Exercise price**
Options outstanding, opening	-	-
Granted	4,540,000	$ 0.50
Options outstanding, ending	4,540,000	$ 0.50

The following stock options are outstanding at December 31, 2021:

Number of options	**Exercisable**	**Exercise price**	**Expiry Date**
4,540,000	1,781,575	$ 0.50	18-Nov-31

(Expressed in Canadian Dollars)

9. Non-controlling interests

ASEP holds a 50.1% equity interest in ABT and Sepset with the remaining 49.9% held by various other parties.

At December 31, 2021, the non-controlling interest consisted of the following:

	December 31, 2021
ABT	$ 6,167,361
Sepset	6,145,373
Total	$ 12,312,734

The following are the summarized statements of financial position of ABT and Sepset as at December 31, 2021:

	ABT	Sepset
NCI percentage	49.9%	49.9%
Assets	$ 14,488,841	$ 14,399,802
Liabilities	(3,057)	(72,812)
Total net assets	$ 14,485,784	$ 14,326,990

The following table summarizes comprehensive income (loss) incurred by the Company's subsidiaries that have non-controlling interest for the period November 10, 2021 (date of acquisition) to December 31, 2021:

	ABT	Sepset	Total
Operating expenses	$ 121,733	$ 164,558	$ 286,291
Loss before other income	(121,733)	(164,558)	(286,291)
Other loss	-	(1,238)	(1,238)
Net loss	$ (121,733)	$ (165,796)	$ (287,529)
Net loss allocated to NCI	$ (60,745)	$ (82,732)	$ (143,477)

The net change to non-controlling interest for the period November 10, 2021 (date of acquisition) to December 31, 2021:

	ABT	Sepset	Total
Balance – January 20, 2021	$ -	$ -	$ -
NCI's proportionate interest in assets acquired	6,228,106	6,228,105	12,456,211
Non-controlling interests share of loss	(60,745)	(82,732)	(143,477)
Balance – December 31, 2021	$ 6,167,361	$ 6,145,373	$ 12,312,734

(Expressed in Canadian Dollars)

10. Related party transactions

Key management personnel compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

			December 31, 2021
CEO consulting fees	(a)	$	59,900
Management salaries	(b)		66,667
Share-based compensation	(c)		285,368
		$	**411,935**

(a) CEO consulting fees consist of the following:

$20,000 paid to current CEO of the Company.

$39,900 paid to the Company's former Chief Executive Officer and former director.

(b) Management salaries

$30,000 paid to current Chief Business Development Officer of the Company for the period November 10, 2021 (date of amalgamation) – December 31, 2021.

$25,000 paid to current Chief Financial Officer of the Company for the period November 10, 2021 (date of amalgamation) – December 31, 2021.

$11,667 paid to current Chief Scientific Officer of the Company for the period November 10, 2021 (date of amalgamation) – December 31, 2021.

(c) Share-based compensation

During the period ended December 31, 2021, the Company had recognized $285,368 of share-based compensation for the vesting of stock options for directors and officers of the Company. The terms of the options are disclosed in Note 8.

11. Income tax expense and deferred tax assets and liabilities

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

		From January 20, 2021 (incorporation) to December 31, 2021
Net loss	$	(2,343,563)
Statutory tax rate		27%
Expected income tax recovery at the statutory tax rate		(632,762)
Non-deductible items and other		(46,117)
Change in valuation allowance		678,879
Income tax recovery	$	-

(Expressed in Canadian Dollars)

11. Income tax expense and deferred tax assets and liabilities (cont'd)

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

		From January 20, 2021 (incorporation) to December 31, 2021
Non-capital loss carry-forwards	$	597,484
Share issuance and transaction costs		44,738
Equipment and intangible assets		36,657
	$	678,879

		Canadian non-capital losses
2041		2,343,563
	$	2,343,563

12. Commitments

(a) On December 30, 2021, ASEP entered into a 6-month programmatic digital advertising campaign with Native Ads Inc. ("Native Ads"). The terms of the agreement provide that ASEP prepay Native the full contract value of $250,000 which Asep paid in full on January 14, 2022. The campaign is expected to start in Q3 2022 and will run until budget exhaustion.

(b) On January 1, 2022, ASEP finalized and entered into a 6-month social media consulting agreement with Triomphe Holdings Ltd. (DBA: Capital Analytica). The terms of the agreement are that Asep prepay $150,000 for a period of services from January 1, 2022 to June 30, 2022. ASEP paid the amount in full on January 14, 2022.

13. Financial risk and capital management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

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. The Company's primary exposure to credit risk is on its cash held in a bank account. The cash is deposited in a bank account held with a major bank in Canada. As the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. Credit risk is assessed as low. As at December 31, 2021, the Company's maximum exposure to credit risk was $5,290,070.

(Expressed in Canadian Dollars)

13. Financial risk and capital management (cont'd)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's sole source of funding has been the issuance of equity and debenture securities for cash. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity and debt funding. Liquidity risk is assessed as high.

As of December 31, 2021, the Company had working capital surplus of $5,610,025.

The Company's contractual obligations at December 31, 2021 are as follows:

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	$ 124,916	$ -	$ -	$ 124,916
Accrued interest	19,288	-	-	19,288
Total	$ 144,204	$ -	$ -	$ 144,204

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company had no exposure to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash on hand is subject to minimal interest rate risk and the debentures had fixed interest rates. Interest rate risk is assessed as low.

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital and working capital. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	December 31, 2021
Financial assets at FVTPL:	
Cash	$ 5,290,070

(Expressed in Canadian Dollars)

13. Financial risk and capital management (cont'd)

Classification of financial instruments (cont'd)

Financial liabilities included in the statement of financial position are as follows:

		December 31, 2021
Financial liabilities at amortized cost:		
Accounts payable and accrued liabilities	$	124,916
Interest payable		19,288
	$	144,204

Fair value

The fair values of the Company's financial assets and liabilities approximates the carrying amounts.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Financial instruments classified as level 1 – quoted prices in active markets include cash.

14. Subsequent event

On April 8, 2022, Sepset entered into a 12-month Collaborative Research Agreement with the University of British Columbia (UBC). The terms of the agreement are that Sepset prepay $549,094 for a period of services from April 8, 2022 to May 2, 2023. ASEP paid the amount in full on May 2, 2022.