

ASEP MEDICAL HOLDINGS INC.

(formerly TRENCHANT LIFE SCIENCES INVESTMENT CORP.)

Consolidated Financial Statements

**For the Year Ended December 31, 2022 and the Period from January 20, 2021 (incorporation) to
December 31, 2021**

Expressed in Canadian Dollars



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. and its subsidiaries (the "Company") which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year ended December 31, 2022 and 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 (together, the "Financial Statements").

In our opinion, the accompanying Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the year ended December 31, 2022 and the period from incorporation on January 20, 2021 to December 31, 2021 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the Financial Statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, the key audit matter to be communicated in our auditors' report is as follows:

Impairment of intangible assets

We draw attention to Notes 3 and 7 of the Financial Statements. At the end of each reporting period, the Company assesses whether there is any indication that its intangible assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of an impairment loss, if any. Estimating the recoverable amount of an intangible asset is complex and is subject to significant estimates and judgment used by management. Significant estimates and judgments used by management to estimate the recoverable amounts include the valuation approach, historical expenditures on intangible assets and market-based multiples applied to these expenditures.

We identified the evaluation of the impairment of intangible assets as a key audit matter as significant auditor judgment and the involvement of professionals with specialized skill and knowledge were required to evaluate the Company's methods and estimates, assumptions and judgments in estimating the recoverable amounts of the intangible assets.

Our audit response to the key audit matter was as follows:

- We obtained an understanding of management's impairment analysis process;
- We obtained and evaluated management's assessment of impairment of intangible assets including the calculation of their recoverable amounts;
- We assessed the competence, capability and objectivity of management's valuation specialist;
- We involved our valuation specialists to assess whether the valuation approach used in estimating the recoverable amounts was appropriate and to assess the reasonableness of key assumptions used therein including market-based multiples;
- We assessed the reasonableness of management's historical expenditures on intangible assets used in the estimate.

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 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 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 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 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 Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 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 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 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 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 Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are, therefore, the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

May 1, 2023

ASEP Medical Holdings Inc. (formerly Trenchant Life Sciences Investment Corp.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	December 31, 2022	December 31, 2021
Assets			
Current assets			
Cash		\$ 2,130,390	\$ 5,290,070
GST receivable		114,619	73,398
Deposits and prepaid expenses		1,153,636	390,761
		<u>3,398,645</u>	<u>5,754,229</u>
Non-current assets			
Equipment	6	50,204	64,043
Intangible assets	5,7	23,629,740	24,897,860
		<u>23,679,944</u>	<u>24,961,903</u>
TOTAL ASSETS		\$ 27,078,589	\$ 30,716,132
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 528,161	\$ 144,204
TOTAL LIABILITIES		<u>528,161</u>	<u>144,204</u>
Equity			
Share capital	5,9	19,842,132	19,467,132
Other components of equity	8,9	2,352,934	992,148
Deficit		(6,725,067)	(2,200,086)
		<u>15,469,998</u>	<u>18,259,194</u>
Non-controlling interests	10	11,080,429	12,312,734
TOTAL EQUITY		<u>26,550,427</u>	<u>30,571,928</u>
TOTAL LIABILITIES AND EQUITY		\$ 27,078,589	\$ 30,716,132

Nature of operations and going concern (Note 1)

Subsequent events (Note 14)

On behalf of the board:

(signed) Derrold Norgaard

Derrold Norgaard, Chairman of the Audit
Committee and Independent Director

(signed) Richard Heinzl

Dr. Richard Heinzl, Independent Director

ASEP Medical Holdings Inc. (formerly Trenchant Life Sciences Investment Corp.)
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	Notes	For the year ended December 31, 2022	For the period from January 20, 2021 (incorporation) to December 31, 2021
Expenses			
Accretion		\$ -	\$ 76,389
Amortization		1,282,394	177,177
Compensation		556,550	81,961
Consulting		246,946	191,205
General & administrative		336,693	64,756
Investor relations		845,950	47,250
Patent fees		155,401	7,117
Professional fees		284,606	378,333
Research & development costs		615,040	73,599
Share-based compensation		1,119,072	956,227
		<u>5,442,653</u>	<u>2,054,014</u>
Operating loss		(5,442,653)	(2,054,014)
Other income (expenses)			
Borrowing costs		(814)	(25,610)
Foreign exchange gain (loss)		(2,399)	(1,238)
Loss on derivative liability		-	(262,701)
SafeCoat Medical Inc. acquisition expense	5	(400,521)	-
Loss before deferred tax recovery		<u>(5,846,386)</u>	<u>(2,343,563)</u>
Deferred tax recovery		89,100	-
Loss and comprehensive loss for period		<u>\$ (5,757,286)</u>	<u>\$ (2,343,563)</u>
Net loss and comprehensive loss attributable to:			
Shareholders		\$ (4,524,981)	\$ (2,200,086)
Non-controlling interests		(1,232,305)	(143,477)
		<u>\$ (5,757,286)</u>	<u>\$ (2,343,563)</u>

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

	Share Capital		Other components of equity			Deficit	Equity Attributable to Shareholders	Non- Controlling Interest	Total Equity
	Shares	Amount	Convertible Debenture	Warrants	Contributed Surplus				
Balance - January 20, 2021	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of common shares for cash	17,000,000	140,500	-	-	-	-	140,500	-	140,500
Share issuance cost		(2,801)	-	-	-	-	(2,801)	-	(2,801)
Issuance of special warrants		-	-	5,865,750	-	-	5,865,750	-	5,865,750
Warrant issuance costs		-	-	(145,721)	-	-	(145,721)	-	(145,721)
Issuance of brokers warrants		-	-	35,921	-	-	35,921	-	35,921
Issued on acquisition of Asep Medical Inc.	25,540,626	12,770,313	-	-	-	-	12,770,313	-	12,770,313
Recognition of NCI's proportionate interest in assets acquired		-	-	-	-	-	-	12,456,211	12,456,211
Conversion of special warrants	11,731,500	5,720,029	-	(5,720,029)	-	-	-	-	-
Conversion of convertible debentures	1,858,218	839,090	-	-	-	-	839,090	-	839,090
Share-based compensation		-	-	-	956,227	-	956,227	-	956,227
Net loss and comprehensive loss for period	-	-	-	-	-	(2,200,086)	(2,200,086)	(143,477)	(2,343,563)
Balance - 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
Issuance of common shares for non cash consideration	6,000,000	375,000	-	-	-	-	375,000	-	375,000
Issuance of convertible debenture for cash		-	330,000	-	-	-	330,000	-	330,000
Deferred tax liability		-	(89,100)	-	-	-	(89,100)	-	(89,100)
Borrowing costs		-	814	-	-	-	814	-	814
Expiration of warrants		-	-	(35,921)	35,921	-	-	-	-
Share-based compensation		-	-	-	1,119,072	-	1,119,072	-	1,119,072
Net loss and comprehensive loss for period		-	-	-	-	(4,524,981)	(4,524,981)	(1,232,305)	(5,757,286)
Balance - December 31, 2022	62,130,344	\$ 19,842,132	\$ 241,714	\$ -	\$ 2,111,220	\$ (6,725,067)	\$ 15,469,998	\$ 11,080,429	\$ 26,550,427

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

ASEP Medical Holdings Inc. (formerly Trenchant Life Sciences Investment Corp.)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Notes	For the year ended December 31, 2022	For the period from January 20, 2021 (incorporation) to December 31, 2021
Cash provided by (used for) operating activities			
Loss for period		\$ (5,757,286)	\$ (2,343,563)
Items not involving cash			
Accretion		-	76,389
Amortization		1,282,394	177,177
Borrowing costs		814	-
Consulting		(150,752)	-
Deferred tax recovery		(89,100)	-
Loss on derivative liability		-	262,701
SafeCoat acquisition expenses		400,521	
Share-based compensation		1,119,072	956,227
Changes in operating assets and liabilities			
GST receivable		(41,220)	(73,398)
Deposits and prepaid expenses		(762,875)	(390,761)
Accounts payable and accrued liabilities		383,956	144,164
		(3,614,476)	(1,191,064)
Cash flows provided by (used for) investing activities			
Net assets acquired from acquisition of SafeCoat Medical Inc.		125,231	-
Net assets acquired from acquisition of ASEP Medical Inc., ABT Innovations Inc. and Sepset Biosciences Inc.		-	261,804
Purchase of equipment		-	(65,414)
Trademark costs		(435)	-
Website development costs capitalized		-	(50,308)
		124,796	146,082
Cash flows provided by (used for) financing activities			
Convertible debenture		330,000	500,000
Common shares issued for cash		-	140,500
Issuance of special warrants		-	5,865,750
Share issue costs		-	(2,801)
Transaction costs incurred for the acquisition of ASEP Medical Inc.		-	(58,597)
Warrant issue costs		-	(109,800)
		330,000	6,335,052
Increase (decrease) in cash and cash equivalents		(3,159,680)	5,290,070
Cash and cash equivalents- beginning of period		5,290,070	-
Cash and cash equivalents- end of period		\$ 2,130,390	\$ 5,290,070
Non cash investing and financing activities			
Consideration given to acquire SafeCoat Medical Inc.	5	\$ 525,752	\$ -
Shares issued to shareholders of Asep Medical Inc.	5	\$ -	\$ 12,770,313
Finder's warrants issued	9	\$ -	\$ 35,921

1. Nature of operations and going concern

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 the area of life sciences and medical diagnostics.

These consolidated financial statements are prepared on a going concern basis, which contemplates that the Company will continue in operation for at least the next twelve months from December 31, 2022 and will be able to realize on its assets and discharge its liabilities in the normal course of business. For the year ended December 31, 2022, the Company incurred a net loss of \$5,757,286 and used cash in operating activities of \$3,614,476. As at December 31, 2022, the Company had an accumulated deficit of \$6,725,067 and working capital of \$2,870,484.

Based on the Company’s financial position as at December 31, 2022, the available funds are not considered adequate to meet requirements for the estimated operations and development activities on the Company’s technologies in the coming twelve-month period. These requirements may be adversely impacted by an absence of normal available financing due to the continued uncertainty in the markets. To address its financing requirements, the Company will seek financing through and not limited to debt financing, equity financing and strategic alliances. However, there is no assurance that such financing will be available. This material uncertainty casts significant doubt upon the Company’s ability to continue as a going concern. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets, liabilities, the reported income and expenses and the consolidated statement of financial position classifications used. Such adjustments could be material.

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 by the Board of Directors on April 26, 2023.

3. Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared on an accrual basis and on a 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.

ASEP Medical Holdings Inc. (formerly Trenchant Life Sciences Investment Corp.)
 Consolidated Notes to the Financial Statements
 For the periods ended December 31, 2022 and 2021
 (Expressed in Canadian Dollars)

3. Significant accounting policies (con't)

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, 2022, are as follows:

	Principal Activity	Location	Percentage ownership
Asep Medical Inc. ("ASEP Medical")	Life Sciences	Canada	100%
ABT Innovations Inc. ("ABT")	Life Sciences	Canada	50.1%
Sepset Biosciences Inc. ("Sepset")	Life Sciences	Canada	50.1%
SafeCoat Medical Inc. ("SafeCoat")	Life Sciences	Canada	100%

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

Non-controlling interest

Non-controlling interest ("NCI") 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.

ASEP Medical Holdings Inc. (formerly Trenchant Life Sciences Investment Corp.)
 Consolidated Notes to the Financial Statements
 For the periods ended December 31, 2022 and 2021
 (Expressed in Canadian Dollars)

3. Significant accounting policies (cont'd)

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

Financial assets/liabilities	Classification - IFRS 9
Cash and cash equivalents	FVTPL
Accounts payable and accrued liabilities	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.

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.

3. Significant accounting policies (cont'd)

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.

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.

3. Significant accounting policies (cont'd)

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.

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 year ended December 31, 2022 and the period from incorporation on January 20, 2021 to December 31, 2021.

3. Significant accounting policies (cont'd)

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.

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.

Restricted share units

The Company has established a restricted share plan under which share units are granted to directors, officers, key executive and non-executive employees, consultants and advisory board members. The restricted share units are considered equity-settled and are measured using the grant date fair value. Share-based compensation expense is recognized over the vesting period in the consolidated statement of loss with a corresponding amount recognized in equity.

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. Contingently returnable shares are excluded from the calculation of weighted average number of common shares outstanding. 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.

3. Significant accounting policies (cont'd)

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.

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, market multiples utilized in the determination of recoverable amounts of intangible assets, fair value measurements for financial instruments, 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 at the end of each reporting period for indicators of impairment. If it is determined that there are indicators of impairment, the Company determines the recoverable amount of the related cash generating units. Recoverability is dependent upon assumptions and judgments regarding historical R&D costs and market multiples. 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.

3. Significant accounting policies (cont'd)

- 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 acquisition of SafeCoat Medical Inc. ("SafeCoat") on December 12, 2022 and concluded that the acquired entity did not qualify as a business combination under IFRS 3, "Business Combinations". Accordingly, the acquisition has been accounted for as an asset acquisition.

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.

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

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 recognizes 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. For the year ended December 31, 2022, these amendments did not affect the Company's financial statements.

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.

4. Adoption of New Accounting Standards, Interpretations and Amendments (cont'd)

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.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. For the year ended December 31, 2022, these amendments did not affect the Company's financial statements.

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. For the year ended December 31, 2022, these amendments did not affect the Company's financial statements.

Standards issued but not yet effective

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

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.

Amendment to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

In February 2021, the IASB issued amendments to IAS 1, Presentation of Financial Statements and IFRS Practice Statement 2 Making Material Judgements to accounting policy disclosures. The amendments to IAS 1 replace the requirement to disclose significant accounting policies requirement to disclose material accounting policies. Guidance and illustrative examples are added in the Practice Statement to assist in the application of materiality concept when making judgements about accounting policy disclosure amendments are effective January 1, 2023, with early adoption permitted. Prospective application is required on adoption. These amendments are not expected to have a material impact on the Company.

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5. Acquisitions

SafeCoat Medical Inc.

On December 1, 2022, the Company entered into an Earn-In and Option Agreement (the “Agreement”) with SafeCoat Medical Inc. (“SafeCoat”) and the securityholders of SafeCoat (the “Securityholders”). Pursuant to the terms of the Agreement, the Company will earn a 50.1% interest of the voting equity securities of SafeCoat in consideration for services the Company provides to SafeCoat in connection with the grant of a term sheet (the “Term Sheet”) by the University of British Columbia (“UBC”) to SafeCoat for the use, development and commercialization of a peptide medical device coating technology (the “Technology”).

The Securityholders also granted the Company the option to acquire their collective 49.9% equity interest in SafeCoat.

On December 8, 2022, the Company earned a 50.1% equity interest in SafeCoat in consideration of the services provided in connection with the grant of a License to SafeCoat by UBC for the use, development and commercialization of a peptide medical device coating technology. The estimated fair value of the 6,526,052 common shares issued to Asep being \$150,752.

On December 12, 2022, the Company exercised its option to acquire the remaining 49.9% equity interest in SafeCoat from the Securityholders. The Option was exercised by the Company issuing 6,000,000 common shares from treasury of which 4,500,000 common shares are contingently returnable, as they are subject to a Voluntary Escrow Agreement. Release from escrow is based on certain milestones being met, as follows:

- i. 25% will be released on the date of the option exercise (released);
- ii. 25% will be released on the date the Company and UBC enter into a definitive License Agreement;
- iii. 25% will be released on the date that a patent with respect to the Technology is published in Google Patents (note 14(i)); and,
- iv. 25% will be released on the date the Company confirms that SafeCoat has reasonably demonstrated activity of antifouling on surfaces.

The estimated fair value of the 1,500,000 shares issued was \$375,000.

At the date of acquisition, the Company determined that SafeCoat did not constitute a business as defined under IFRS 3, Business Combinations, and the acquisition was accounted for as an asset acquisition. Accordingly, the consolidated statement of financial position has been adjusted for the elimination of SafeCoat’s share capital and accumulated deficit. The consideration has been measured at fair value using the closing market price at the date the option was exercised of \$0.25 per share (Note 8).

Net assets (liabilities) acquired on December 8, 2022:

Cash	\$	132,618
Accounts payable and accrued liabilities		(7,388)
Net assets (liabilities) acquired	\$	125,231

Consideration given:

Common shares	\$	375,000
Services		150,752
		525,752
Net (assets) liabilities acquired		(125,231)
SafeCoat acquisition expense	\$	400,521

The intangible asset that will be acquired when the license to the use, development and commercialization of a peptide medical device coating technology is granted to SafeCoat by the University of British Columbia.

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5. Acquisitions (cont'd)

ASEP Medical Inc.

On June 3, 2021, ASEP entered into the Amalgamation Agreement (the "Amalgamation Agreement") with ASEP Medical Inc. and 1295255 B.C. Ltd., pursuant to which ASEP Medical Holdings Inc., ASEP Medical Inc., and 1295255 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 (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 business 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, the Company entered into an option agreement with ABT. Under the option agreement, the Company 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, the Company received 2,032,861 ABT shares, representing a 50.1% fully diluted equity interest in the Company.

Sepset Option Agreement Exercise

On May 14, 2021, the Company 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, the Company 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, the Company received 11,155,645 Sepset Shares, representing a 50.1% fully diluted equity interest in the Company.

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

In connection with the Acquisition, ASEP 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 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 has a purchase price equal to \$20,000,000. At the time of the Acquisition and as at December 31, 2021, the Company valued the Additional Options at zero.

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5. Acquisitions (cont'd)

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 9) as the special warrant financing was completed in contemplation of the Acquisition. The Company capitalized transaction costs relating to the Acquisition of \$58,597.

In connection with the amalgamation 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:

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)
<u>Net assets (liabilities) acquired</u>	<u>\$</u>	<u>264,177</u>
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
<u>Intangible assets acquired</u>	<u>\$</u>	<u>25,020,944</u>

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

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6. Equipment

	December 31, 2022	December 31, 2021
Cost	\$ 65,414	\$ 65,414
Accumulated amortization	(15,210)	(1,371)
	<u>\$ 50,204</u>	<u>\$ 64,043</u>

7. Intangible assets

	Intellectual Property	Website	Trademarks	Total
Cost				
Balance - January 20, 2021	\$ -	\$ -	\$ -	\$ -
Acquisitions	25,020,943	49,404	6,225	25,076,572
Balance-December 31, 2021	25,020,943	49,404	6,225	25,076,572
Acquisitions	-	-	435	435
Balance -December 31, 2022	<u>\$ 25,020,943</u>	<u>\$ 49,404</u>	<u>\$ 6,660</u>	<u>\$ 25,077,007</u>
Accumulated amortization				
Balance - January 20, 2021	\$ -	\$ -	\$ -	\$ -
Amortization	173,349	5,269	94	178,712
Balance-December 31, 2021	173,349	5,269	94	178,712
Amortization	1,251,454	16,468	633	1,268,555
Balance -December 31, 2022	<u>\$ 1,424,804</u>	<u>\$ 21,737</u>	<u>\$ 727</u>	<u>\$ 1,447,267</u>
Net carrying value - December 31, 2021	<u>\$ 24,847,594</u>	<u>\$ 44,135</u>	<u>\$ 6,131</u>	<u>\$ 24,897,860</u>
Net carrying value - December 31, 2022	<u>\$ 23,596,140</u>	<u>\$ 27,667</u>	<u>\$ 5,933</u>	<u>\$ 23,629,741</u>

8. Convertible debentures

On December 22, 2022, the Company issued a \$330,000 convertible debenture ("Convertible Debenture") to an unrelated party of the Company. The Convertible Debenture is unsecured, bears interest at a rate of 10% per annum payable at the earlier of maturity, payment of principal or conversion during the term and matures two years from the date of issuance. The Convertible Debenture and accrued interest thereon, may be converted at the option of the holder at a conversion price of \$0.33 per common share until maturity. At maturity, the Company, at its option, may settle the Convertible Debenture and accrued interest thereon, in cash or common shares at a conversion price of \$0.33 per common share. The Company may also, at its option, prepay any portion of the Convertible Debenture and accrued interest thereon prior to maturity.

The Company has evaluated the Convertible Debenture, embedded conversion option and embedded prepayment option and determined that all components of the compound financial instrument meet the criteria for classification as equity. The deferred tax liability on date of issuance was \$89,100. As at December 31, 2022, borrowing costs totaled \$814.

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8. Convertible debentures (con't)

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.

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, and the fair value of the liability component determined to be \$333,333. 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.

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8. Convertible debentures (con't)

Upon completion of the Transaction (Note 5), 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 face value of the derivative liability of \$429,368 and the face value of the convertible debenture of \$409,723 was transferred to common shares. As at December 31, 2021, \$Nil of the face value of Convertible Debentures remained outstanding.

9. 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 a value of \$12,770,313 to the shareholders of Asep Medical Inc.
- (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 8).
- (g) On December 15, 2022, the Company issued 6,000,000 common shares to acquire the non-controlling interest in SafeCoat (note 5). Of the common shares 4,500,000 are being held in escrow and are considered contingently returnable shares. The fair value of the unrestricted 1,500,000 shares at date of issuance was \$375,000.

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

As at December 31, 2022, there were 62,130,344 (2021 - 56,130,344) issued and outstanding common shares and nil issued and outstanding preferred shares (2021 – nil).

Escrowed shares

As at December 31, 2022, 1,778,731 (2021 – 11,230,746) shares are being held in escrow. The shares are being released over a 36-month term that commenced on January 23, 2022.

As at December 31, 2022, 4,500,000 (2021 – Nil) shares are subject to a voluntary escrow agreement and will be released in allotments of 1,500,000 based on certain milestones being met (note 14(i)).

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9. Share capital (con't)

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 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.

During the year ended December 31, 2022, the Company granted 1,080,000 stock options with an estimated fair value of \$181,025. A total of 780,000 vested on grant date, 100,000 vest on the first anniversary from date of grant and 200,000 vest every six months over a twenty-four-month period. The stock options were valued using the Black-Scholes model based on the following assumptions:

Expected life	Volatility	Dividend yield	Risk-free interest rate	Option issued	Estimated fair value
10 years	100%	0%	1.78%	200,000	\$ 33,970
10 years	100%	0%	1.78%	200,000	27,466
10 years	100%	0%	2.90%	680,000	119,589
				<u>1,080,000</u>	<u>\$ 181,025</u>

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9. Share capital (con't)

During the period from January 20, 2021 (Incorporation) to December 31, 2021, the Company granted 4,540,000 stock options with an estimated fair value of \$2,033,260. A total of 1,490,000 stock options vested on grant date, 1,900,000 vest quarterly over a twelve month period and 1,150,000 stock options vest quarterly over a twenty four month period. The stock options were valued using Black-Scholes model based on the following assumptions:

Expected life	Volatility	Dividend yield	Risk-free interest rate	Option issued	Estimated fair value
10 years	100%	0%	1.74%	4,540,000	\$ 2,033,260

During the year ended December 31, 2022, the Company recognized \$1,119,072 (2021 - \$956,227) of share-based compensation for the vesting of stock options granted.

A continuity of stock options for the year ended December 31, 2022 and for period from January 20, 2021 (incorporation) to December 31, 2021 is as follows:

	December 31, 2022		December 31, 2021	
	Number of options outstanding	Weighted average exercise price	Number of options outstanding	Weighted average exercise price
Opening balance	4,540,000	\$ 0.50	-	-
Granted	1,080,000	\$ 0.30	4,540,000	\$ 0.50
Cancelled	(200,000)	\$ 0.50	-	-
Closing balance	5,420,000	\$ 0.46	4,540,000	\$ 0.50

The following stock options are outstanding at December 31, 2022:

Number of options outstanding	Number of options outstanding and exercisable	Weighted average exercise price of options exercisable	Weighted average remaining contractual life
4,340,000	3,832,740	\$ 0.41	7.12
200,000	125,479	\$ 0.01	0.36
200,000	24,932	\$ 0.00	0.36
680,000	680,000	\$ 0.04	1.24
5,420,000	4,663,151	\$ 0.42	9.08

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10. 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, 2022 and 2021, the NCI consisted of the following:

	December 31, 2022	December 31, 2021
ABT	\$ 5,602,460	\$ 6,167,361
Sepset	5,477,969	6,145,373
Total	\$ 11,080,429	\$ 12,312,734

The below is the summarized financial information of ABT and Sepset before inter-company eliminations:

Summary of statements of financial position

	ABT		Sepset	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
NCI percentage	49.90%	49.90%	49.90%	49.90%
Assets	\$ 13,347,551	\$ 14,488,841	\$ 13,011,037	\$ 14,399,802
Less - liabilities	(21,859)	(3,057)	(49,555)	(72,812)
Total net assets	\$ 13,325,692	\$ 14,485,784	\$ 12,961,482	\$ 14,326,990

Summary statements of loss and comprehensive loss

	For the year ended December 31, 2022		
	ABT	Sepset	Total
Loss and comprehensive loss for period	\$ (1,132,066)	\$ (1,337,483)	\$ (2,469,549)

	For the period from date of acquisition (November 10, 2021) to December 31, 2021		
	ABT	Sepset	Total
Loss and comprehensive loss for period	\$ (122,733)	\$ (165,796)	\$ (288,529)

Summary statements of cash flows

	For the year ended December 31, 2022		
	ABT	Sepset	Total
Net cash provided by (used in) operations activities	\$ (293,145)	\$ (295,335)	\$ (588,480)
Net cash provided by (used in) investing activities	-	(435)	(435)
Net cash provided by (used in) financing activities	(408,338)	(10,000)	(418,338)

	For the period from date of acquisition (November 10, 2021) to December 31, 2021		
	ABT	Sepset	Total
Net cash provided by (used in) operations activities	\$ (182,734)	\$ (93,505)	\$ (276,239)
Net cash provided by (used in) investing activities	-	(64,447)	(64,447)
Net cash provided by (used in) financing activities	2,000,000	2,000,000	4,000,000

Changes to NCI

	ABT	Sepset	Total
Balance - January 20, 2021	\$ -	\$ -	\$ -
NCI's proportionate interest in assets acquired	6,228,106	6,228,105	12,456,211
NCI's share of loss	(60,745)	(82,732)	(143,477)
Balance - December 31, 2021	6,167,361	6,145,373	12,312,734
NCI's share of loss	(564,901)	(667,404)	(1,232,305)
Balance - December 31, 2022	\$ 5,602,460	\$ 5,477,969	\$ 11,080,429

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11. 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.

	Year ended December 31, 2022	For the period from date of incorporation (January 20, 2021) to December 31, 2021
Consulting fees	\$ 267,500	\$ 59,900
Directors fees	24,000	-
Management salaries	369,742	66,667
Share-based compensation	1,051,798	285,368
	\$ 1,713,040	\$ 411,935

12. Income tax recovery and deferred tax assets and liabilities

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

	December 31, 2022	December 31, 2021
Expected rate	27%	27%
Income tax recovery (expense) computed at statutory rates	\$ 1,578,524	\$ 632,762
Share-based compensation and other permanent differences	(704,395)	46,117
Temporary income tax benefits not recognized	(785,029)	(678,879)
Recovery of (provision for) deferred income taxes	\$ 89,100	\$ -

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12. Income tax recovery and deferred tax assets and liabilities (con't)

At December 31, 2022 and 2021, the deferred tax assets are not recognized on the following temporary differences as it is not probable that sufficient future taxable profits will be available to utilize such differences:

	December 31, 2022	December 31, 2021
Deferred tax assets		
Financing costs	\$ 25,656	\$ 44,738
Non- capital losses	1,518,314	597,484
Equipment and intangible assets	115,688	36,657
Total gross deferred tax assets	1,659,658	678,879
Deferred tax assets not recognized	(1,570,558)	(678,879)
	89,100	-
Deferred tax liabilities	(89,100)	-
	\$ -	\$ -

At December 31, 2022, the Company has Canadian non capital losses, which may be carried forward to apply against future year's income for income tax purposes, subject to final determination by taxation authorities, as follows:

Year of expiry	Amount
2037	\$ 67,299
2038	34,869
2039	71,544
2040	88,516
2041	1,525,556
2042	3,835,602
	\$ 5,623,386

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, 2022, the Company's maximum credit risk was \$2,130,390.

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13. Financial risk and capital management (con't)

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, 2022, the Company had working capital of \$2,870,484 which was considered insufficient (see Note 1).

The Company's contractual obligations at December 31, 2022 are as follows:

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	\$ 528,161	\$ -	\$ -	\$ 528,161

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 convertible debenture has a fixed interest rate. Interest rate risk is assessed as low.

Capital Management

The Company's policy is to maintain a strong capital base 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, reserves and deficit. 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, 2022	December 31, 2021
Financial assets at FVTPL:		
Cash and cash equivalents	\$ 2,130,390	\$ 5,290,070
Financial assets at amortized cost:		
GST receivable	\$ 114,619	\$ 73,398

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13. Financial risk and capital management (con't)

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

	December 31, 2022	December 31, 2021
Financial liabilities at amortized cost:		
Accounts payable and accrued liabilities	\$ 528,161	\$ 144,204

Fair value

The fair values of the Company's financial assets and liabilities approximate the carrying amounts due to their short-term nature.

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 measured at fair value on a recurring basis classified as level 1 – quoted prices in active markets include cash and cash equivalents.

14. Subsequent events

From January 1, 2023 to April 26, 2023, the following events have occurred:

- i. On January 18, 2023, 1,500,000 shares were released from escrow on a milestone being met (Note 5).
- ii. On January 19, 2023, the Company granted 400,000 stock options to officers, directors and employees entitling the holders to acquire 400,000 common shares at a price of \$0.36 per share for a period of 10-years from the grant date. Of these 350,000 stock options vested on the grant date and 50,000 stock options vest as to 6,250 quarterly commencing March 1, 2023 and the last amount vesting on December 1, 2024.
- iii. On March 1, 2023, the Company granted 300,000 stock options to consultants and board advisory members entitling the holders to acquire 300,000 common shares at a price of \$0.30 per share for a period of 10-years from the grant date. Of these 100,000 vested on the grant date and 200,000 vest as to 25% every six months over a 2-year period.
- iv. The Company adopted a Long-Term Performance Incentive Plan (the "Plan"). Under the terms of the Plan, the Company has the ability to issue restricted stock units ("RSUs), performance share units ("PSUs) or deferred share units up to a maximum of 10% of the shares issued and outstanding at date of grant. On March 1, 2023, the Company granted an aggregate of 6,200,000 RSUs to certain directors, officers, key executive and non-executive employees, consultants and advisory board members in accordance with the Plan. The RSUs vest in stages, as follows: 25% on June 1, 2023, 25% on September 1, 2023, 25% on December 1, 2023 and 25% on March 1, 2024.

14. Subsequent events (con't)

All of the RSUs are subject to a deferral right whereby the holder can defer any vesting date at their option, on five days prior written notice to the Company and in accordance with the terms of the RSU grant notice, to the earlier of the date of a change of control of the Company and the date the holder ceases to provide services to the Company and to be an eligible person. The RSUs and underlying common shares are subject to shareholder approval.