Innovotech Inc.

Financial Statements
December 31, 2019 and 2018
(Expressed in Canadian Dollar)

Innovotech Inc.

Statement of Financial Position

As at December 31, 2019 and 2018

(Expressed in Canadian Dollar)

	2019 $	2018 $
Assets		
Current assets		
Cash and cash equivalents	96,671	28,808
Trade and other receivables (note 5)	101,155	147,791
Inventory (note 6)	21,531	28,148
Prepaid expenses	5,468	6,678
	224,825	211,425
Equipment (note 7)	50,057	60,905
	274,882	272,330
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	73,977	78,860
Deferred revenue	2,818	-
Due to shareholder (note 8)	-	100,000
	76,795	178,860
Due to shareholder (note 8)	100,000	-
	176,795	178,860
Shareholders' Equity (Deficiency)		
Share capital (note 9(a))	7,344,818	7,344,818
Contributed surplus	1,482,214	1,428,836
Deficit	(8,728,945)	(8,680,184)
	98,087	93,470
	274,882	272,330

Nature of operations and use of going concern assumption (note 1)

Approved by the Board of Directors

_________________________ Director _________________________ Director

(Signed) "Alan Savage" (Signed) "James Timourian"

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

Innovotech Inc.

Statement of Changes in Shareholders' Equity (Deficiency)

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollar)

	Share capital $	Warrants $	Shares to be issued $	Contributed surplus $	Deficit $	Total $
Balance – January 1, 2019	7,344,818	-	-	1,428,836	(8,680,184)	93,470
Net and comprehensive income for the year	-	-	-	-	(48,761)	(48,761)
Share based compensation (note 9(c))	-	-	-	53,378	-	53,378
Balance – December 31, 2019	7,344,818	-	-	1,482,214	(8,728,945)	98,087
Balance – January 1, 2018	6,992,335	-	352,483	1,389,240	(8,552,550)	181,508
Net and comprehensive loss for the year	-	-	-	-	(127,634)	(127,634)
Shares issued (note 9(a))	352,483	-	(352,483)	-	-	-
Share based compensation (note 9(c))	-	-	-	39,596	-	39,596
Balance – December 31, 2018	7,344,818	-	-	1,428,836	(8,680,184)	93,470

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

Innovotech Inc.

Statement of Operations and Comprehensive Income (Loss)

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollar)

	2019 $	2018 $
Revenue (note 17)		
Contract research fees	693,612	579,472
Product sales	292,613	247,463
	986,225	826,935
Cost of sales (note 11)		
Contract research	172,919	118,806
Product sales	118,193	101,808
	291,112	220,614
Gross profit	695,113	606,321
Operating expenses (note 11)		
General and administrative (note 13)	714,450	696,447
Bad debt expense	22,873	-
Sales and marketing	3,723	1,035
Research and development (note 13)	23,421	39,129
Grants	(26,593)	-
Scientific research tax credits (note 14)	-	(3,303)
	737,874	733,308
Net financing cost		
Interest expense (note 8 and 12)	(6,000)	(650)
Interest income	-	3
	(6,000)	(647)
Net income (loss) and comprehensive income (loss) for the year	(48,761)	(127,634)
	$	$
Basic and diluted income (loss) per common share (note 9(d))	0.00	0.00
	#	#
Weighted average number of common shares outstanding for the year	36,239,612	35,623,174

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

Innovotech Inc.

Statement of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollar)

	2019 $	2018 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	(48,761)	(127,634)
Adjustments for:		
Depreciation	13,285	15,368
Loss (gain) on disposal of equipment	-	1,297
Interest expense	6,000	650
Forgiveness of accounts payable (note 13)	-	(49,599)
Stock-based compensation (note 9(c))	53,378	39,595
	23,902	(120,323)
Net change in non-cash working capital items (note 13)	52,398	(160,424)
	76,300	(280,747)
Investing activities		
Purchase of equipment	(2,438)	(9,317)
	(2,438)	(9,317)
Financing activities		
Due to shareholders	-	(105,000)
Due to shareholder advance (note 8)	-	100,000
Interest paid	(5,999)	(650)
	(5,999)	(5,650)
Increase in cash and cash equivalents	67,863	(295,714)
Cash and cash equivalents – Beginning of year	28,808	324,522
Cash and cash equivalents – End of year	96,671	28,808

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

1 Nature of operations and use of the going concern assumption

Innovotech Inc. (the Company) is incorporated under the Business Corporation Act of Alberta. The primary activities of the Company are sales of its products, conducting contract research for outside customers and research and development to identify products for future commercialization. The Company's current products include human and veterinary biofilm susceptibility tests, a seed treatment designed to combat both bacterial and fungal diseases, and an assay used in growing microbial biofilms for research purposes. The Company is publicly traded and listed on the TSX Venture Exchange, and its registered office is in Edmonton, Alberta.

These financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations for the foreseeable future.

Since inception, the Company has focussed on product research, development, and more recently on commercialization activities. These efforts have been sustained by issuing share capital, obtaining grants and other government assistance, and generating revenue from the Company's contract research business and sale of products. The Company realized net loss of $48,761 (2018 – net loss of $127,634) and generated operating cash inflows of $76,300 (2018 – cash outflow of $280,747) for the year and had, a working capital of $148,030 (2018 – working capital of $32,565) and accumulated deficit of $8,728,945 at December 31, 2019 (2018 – $8,680,184). The Company's planned level of expenditures for 2020 does not exceed its committed sources of funds. However, there is still significant doubt about its ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management's current strategy is to focus on the contract research business and to exercise careful cost control to sustain operations in the near term. Management recognizes the Company's need to expand its cash reserves in the coming year if it intends to adhere to its research and development goals and has evaluated its potential sources of funds, including: increased revenue from contract research and sales of its products, additional grants to cover development expenditures, and possible equity financing options. Although management intends to assess and act on these options through the course of the year, there can be no assurance that the steps management takes will be successful.

In the event that cash flow from operations, together with the proceeds from any future financings are insufficient to cover planned expenditures, management will allocate available resources in such manner as deemed to be in the Company's best interest. This may result in a significant reduction in the scope of existing and planned operations.

These financial statements do not reflect any adjustments, which could be material, to the carrying amounts of assets and liabilities, reported revenues and expenses, and balance sheet classifications used, that would be necessary if the Company were unable to continue as a going concern.

2 Basis of preparation

These financial statements are audited and have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were approved by the Board of Directors for issue on April 28, 2020.

3 Significant accounting policies

These financial statements have, in management's opinion, been prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Basis of measurement

The financial statements have been prepared under the historical cost convention.

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less, and which are subject to an insignificant risk of changes in value.

c) Inventories

Inventories of products for resale are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price less estimated costs necessary to make the sale.

d) Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. 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 can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to earnings during the period in which they are incurred.

The major categories of equipment are depreciated on a declining balance basis as follows:

Laboratory and office equipment	20%
Computer equipment	30%

Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

e) Research and development

The Company undertakes research and development in the course of identifying and preparing products for commercialization. Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use the technology, are met, otherwise they are expensed as incurred. No development costs have been capitalized to date. The Company expenses costs incurred in pursuit of patents.

f) Impairment of non-financial assets

Equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

g) Revenue recognition

Contract research fees relate to research services provided to third-party customers. Where costs and revenues associated with a contract can be measured reliably, revenue is recognized using the percentage of completion method based on the proportion of estimated total costs of the contract incurred to date. In rare circumstances where reliable estimates cannot be made, but it is still probable that incurred costs will be recovered, revenue is only recognized to the extent of costs incurred.

Contract research fees may include milestone payments which require the Company's ongoing involvement. In these cases, revenue is recognized upon achievement of the milestone as specified in the agreement, provided payment is proportionate to the effort expended as measured by the ratio of costs expended to total estimated costs.

Unbilled revenue represents costs incurred plus estimated gross profit in excess of billings on incomplete contracts.

Revenue from product sales is recognized upon delivery of the product when persuasive evidence of an arrangement exists, the price is fixed or determinable and collection is reasonably assured.

License fees are the signing fees from potential partners in joint development or commercialization agreements. These fees are non-refundable fees received at the inception of an agreement and are recognized when the Company has no further involvement or obligation to perform under the agreement.

Grants in support of research activities are recognized as the related expenses are recognized, once there is reasonable assurance that the grant will be received and that the Company will comply with the grant conditions.

h) Stock-based compensation

The Company has a stock option plan for the benefit of certain officers, directors, employees and consultants. Awards of stock options are accounted for and measured by reference to the fair value of the equity instruments granted as share-based compensation and result in compensation expense. The amount of compensation is measured at the date of option grant. The expense is recognized in income over the service period of the employee to whom the option was granted with a corresponding amount recorded in contributed surplus. When a stock option is exercised any consideration received in addition to the amount previously recorded in contributed surplus is credited to share capital. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

i) Warrants

The Company may raise capital through the issuance of units, which include both common shares and share purchase warrants. Proceeds raised are allocated first to warrants, based on an estimate of fair value determined using the Black-Sholes option pricing model, with the residual allocated to share capital.

j) Income (loss) per share

Income (loss) per share is based on the weighted average number of common shares outstanding during the year. Diluted income (loss) per share is calculated using the treasury stock method, whereby deemed proceeds from the exercise of options and warrants with an exercise price below the average market price of the shares, is considered to be used to reacquire common shares at the average market price during the year.

k) Income taxes and refundable tax credits

Income tax comprises current and deferred tax. Income tax is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference, or unused tax loss or credit can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

Refundable scientific research and experimental development (SRED) tax credits are recorded using the cost reduction method, whereby credits are deducted from related expenses once reasonable assurance of realization is established.

l) Foreign currency translation

The Company's functional and presentation currency is the Canadian dollar.

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect as of the balance sheet date. Gains and losses are recognized in income on a current basis.

m) 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 ("FVOCI") 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 FVOCI. 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

Measurement

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 carried at FVTPL are initially recorded at fair value. 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 profit or loss in the period in which they arise. Financial assets and liabilities carried at FVOCI are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVOCI are included in compressive income or loss in the period in which they arise. On recognition, communicative gains and losses of financial assets in other comprehensive income or loss are reclassified to profit or loss.

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 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. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the statements of net (loss) income, 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.

n) Significant estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the financial statements:

Impairment of non-financial assets

Non-financial assets, including equipment is reviewed for indicators of impairment at each reporting date. Where impairment indicators are identified, the Company uses discounted cash flow models to determine the recoverable amount of the assets, which drives the conclusion of whether impairment exists, and if it does, the amount of impairment to record. These models require assumptions to be formulated about future cash flows, margins and discount rates, which are made using careful judgment, but are nonetheless subject to estimation risk.

Fair value of stock options and warrants

Determining the fair value of stock options and warrants requires judgment related to the choice of a pricing model, the estimation of expected stock price volatility, and the expected term of the instrument. Any changes in the estimates utilized to determine fair value could result in a significant change in the amount of stock based compensation charged to operations.

o) Segment reporting

While the Company has achieved commercialization of certain of its products, discrete financial information is not prepared on a segmented basis and resource allocation decisions are not based on segmented operating results. Therefore, the Company currently has no operating segments to report.

p) Leases

The Company recognizes a right-of-use asset and a lease liability for its leases. The right-of-use asset is measured at cost and depreciated over its estimated useful life. At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate. If the lease terms are subsequently changed, the present value of the lease liability is re-measured using the revised lease terms and applying the appropriate discount rate to the remaining lease payments. The Company recognizes the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognizes any remaining amount of the re-measurement in profit or loss. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

(Expressed in Canadian Dollar)

4 Accounting standards changes

New standard adopted

a) The Company has adopted IFRS 16 Leases ("IFRS 16") as of January 1, 2019. IFRS 16 requires lessees to recognize most leases on the balance sheet to reflect the right to use an asset for a period of time and the associated liability for payments. The Company has adopted IFRS 16 using the modified retrospective method, under which the cumulative effect of the initial application is recognized in deficit at January 1, 2019.

On transition to IFRS 16, the Company has elected to not recognize right of use assets and lease liabilities that have lease terms which end within 12 months of the date of initial application and leases of low-value assets.

The adoption of IFRS 16 resulted in no impact to deficit or statement of financial position on January 1, 2019.

5 Trade and other receivables

	2019 $	2018 $
Trade receivables net of allowance for doubtful accounts	97,933	143,498
Goods and services tax recoverable	3,222	4,293
	101,155	147,791

The maximum exposure to credit risk is the carrying amount of each class of receivable listed above. The Company does not hold any collateral as security. Allowance for doubtful accounts totals $nil (2018 – $4,295).

The ageing of receivables is as follows:

	2019 $	2018 $
Neither past due nor impaired	96,270	95,742
Up to 3 months past due	4,885	52,049
	101,155	147,791

Amounts that are neither past due nor impaired relate to either government reimbursements or are receivable from a number of independent customers for whom there is no recent history of default.

(Expressed in Canadian Dollar)

Customers accounting for 10% or more of the Company's revenue are as follows:

	2019 $	**2018** $
Customer #1	410,283	229,120
Customer #2	29,361	176,020

6 Inventory

The cost of inventories recognized as expense and included in cost of sales was $181,906 (2018– $116,069). Included in cost of sales is $nil (2018 – $nil) to write-down expired inventories to net realizable value.

7 Equipment

	Laboratory equipment $	**Computer equipment** $	**Office equipment** $	**2019 Total** $
Cost				
Balance – January 1, 2019	351,262	76,724	14,801	442,787
Additions	-	2,438	-	2,438
Disposal	(27,396)	-	-	(27,396)
Balance – December 31, 2019	323,866	79,162	14,801	417,829
Accumulated depreciation				
Balance – January 1, 2019	297,326	71,481	13,075	381,882
Disposal	(27,396)	-	-	(27,396)
Depreciation	10,788	2,153	345	13,286
Balance – December 31, 2019	280,718	73,634	13,420	367,772
Net book value – December 31, 2019	43,148	5,528	1,381	50,057

(Expressed in Canadian Dollar)

	Laboratory equipment $	Computer equipment $	Office equipment $	2018 Total $
Cost				
Balance – January 1, 2018	355,494	75,675	14,801	445,970
Additions	8,268	1,049	-	9,317
Disposal	(12,500)	-	-	(12,500)
Balance – December 31, 2018	351,262	76,724	14,801	442,787
Accumulated depreciation				
Balance – January 1, 2018	295,688	69,386	12,644	377,718
Disposal	(11,204)	-	-	(11,204)
Depreciation	12,840	2,096	432	15,368
Balance – December 31, 2018	297,324	71,482	13,076	381,882
Net book value – December 31, 2018	53,938	5,242	1,725	60,905

Depreciation of $10,788 (2018 – $12,839) is included in cost of sales and $2,498 (2018 – $2,529) in general and administrative expenses.

8 Due to shareholder

The amount due to a shareholder of the Company consists of a $100,000 line of credit which was repayable on demand and bears interest at 6% per annum. On July 15, 2019 the repayment terms were amended from being payable on demand to a stated repayment date on or after October 22, 2022. The amount has therefore been classified as a non current liability. Interest incurred on the loans during the year was $6,000 (2018 – $649).

(Expressed in Canadian Dollar)

9 Share capital

a) Authorized

Unlimited number of Class A common, voting shares

Issued and outstanding

	2019		2018	
	#	**$**	**#**	**$**
Opening balance at January 1	36,239,612	7,344,818	33,739,612	6,992,335
Shares issued on warrant exercise net of issuance costs	-	-	2,500,000	352,483
Closing balance	36,239,612	7,344,818	36,239,612	7,344,818

b) Shares to be issued

In December 2017, the warrant holder exercised 2,500,000 of the warrants and the Company received $250,000. At December 31, 2017, the common shares had not been issued. The shares were issued in April 2018.

c) Stock options

The Company has an incentive stock option program (the Program) pursuant to which the Board of Directors of the Company may allocate non-transferable options to purchase common shares to directors, officers, employees and consultants of the Company. The aggregate number of common shares that may be available for issuance from time to time under the Program is not to exceed ten (10%) percent of the number of common shares issued and outstanding in the capital of the Company, calculated on a fully diluted basis. Options granted under the Program must have an exercise price not less than the market value of the common shares (less any permissible discount) at the grant date and vest over a period of one year or as otherwise resolved by the Board of Directors. These options are exercisable for a period of up to ten years from the date of grant, unless otherwise resolved by the Board of Directors. For purposes of the option pricing model, expected volatility is calculated based on the most recent historical period equal to the option's expected term.

The Company recognized stock based compensation expense of $53,378 for the year ended December 31, 2019 (2018 – $39,595).

(Expressed in Canadian Dollar)

2019 transactions

On January 29, 2019, the Company granted to certain employees 36,000 stock options at an exercise price of $0.05 with an expiry date of January 29, 2024. These stock options vest on January 29, 2020. The estimated fair value of these options is $0.0696 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	243.73%
Risk-free interest rate	1.94%
Expected life of options	5 years

On August 20, 2019, the Company granted to a director 50,000 stock options at an exercise price of $0.08 with an expiry date of August 19, 2024. These stock options vest immediately. The estimated fair value of these options is $0.0794 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	238.97%
Risk-free interest rate	1.16%
Expected life of options	5 years

On October 22, 2019, the Company granted to certain directors and employees 485,000 stock options at an exercise price of $0.10 with an expiry date of October 22, 2024. These stock options vest immediately. The estimated fair value of these options is $0.0891 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	230.67%
Risk-free interest rate	1.52%
Expected life of options	5 years

On December 16, 2019, the Company granted to a director 50,000 stock options at an exercise price of $0.10 with an expiry date of December 16, 2024. These stock options vest immediately. The estimated fair value of these options is $0.0888 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	221.26%
Risk-free interest rate	1.63%
Expected life of options	5 years

(Expressed in Canadian Dollar)

2018 transactions

On February 16, 2018, the Company granted to certain directors and employees 285,000 stock options at an exercise price of $0.11 with an expiry date of February 16, 2028. These stock options vest immediately. The estimated fair value of these options is $0.1198 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	191.68%
Risk-free interest rate	2.31%
Expected life of options	10 years

On December 11, 2018, the Company granted to certain directors and employees 110,000 stock options at an exercise price of $0.05 with an expiry date of December 11, 2023. These stock options vest immediately. The estimated fair value of these options is $0.0497 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	244.75%
Risk-free interest rate	2.07%
Expected life of options	5 years

The following table summarizes information relating to stock options outstanding and exercisable under the Program at December 31, 2019 and December 31, 2018.

	2019		**2018**	
	Stock options #	**Weighted average exercise price** $	**Stock options** #	**Weighted average exercise price** $
Outstanding – Beginning of year	2,043,000	0.21	1,648,000	0.24
Granted	621,000	0.10	395,000	0.09
Expired	(62,500)	0.07	-	-
Forfeited	(496,500)	0.31	-	-
Outstanding – End of year	2,105,000	0.16	2,043,000	0.21
Exercisable – End of year	2,069,000	0.16	2,043,000	0.21

On April 7, 2020, 44,000 stock options, exercisable at $0.78, expired.

(Expressed in Canadian Dollar)

					2019
				Outstanding	**Exercisable**
Range of exercise price	**Weighted Average Exercise price**	**Number of shares**	**Weighted average contractual life (years)**		**Number of shares**
$	**$**	**#**			**#**
$0.45 to $0.78	0.58	188,000	1..35		188,000
$0.10 to $0.35	0.17	1,076,000	4.84		1,076,000
$0.05 to $0.09	0.05	841,000	5.52		841,000
	0.16	2,105,000	4.80		2,105,000

					2018
				Outstanding	**Exercisable**
Range of exercise price	**Weighted Average Exercise price**	**Number of shares**	**Weighted average contractual life (years)**		**Number of shares**
$	**$**	**#**			**#**
$0.45 to $0.78	0.59	379,500	2.17		379,500
$0.11 to $0.35	0.22	701,500	6.14		701,000
$0.05 to $0.09	0.05	962,500	6.31		962,500
	0.21	2,043,000	5.49		2,043,000

d) Income (loss) per share

	December 31, 2019 $	December 31, 2018 $
Calculation of basic income (loss) per share		
Net income (loss)	(48,761)	(127,634)
Weighted average number of common shares	36,239,612	33,739,612
Weighted average number of common shares issued on April 1, 2018	-	1,883,562
	36,239,612	35,623,174
Basic income (loss) per share	(0.00)	(0.00)

(Expressed in Canadian Dollar)

	December 31, 2019 $	December 31, 2018 $
Calculation of diluted income (loss) per share		
Adjusted net income (loss)	(48,761)	(127,634)
Weighted average number of common shares from basic income (loss) per share	36,239,612	35,623,174
Effect of dilution from:		
Share options	-	-
	35,623,174	35,623,174
Diluted income (loss) per share	(0.00)	(0.00)

For 2019, shares potentially issuable upon the exercise or conversion of stock options have been excluded for the calculation of diluted loss per share because the effect would have been anti-dilutive.

10 Income taxes

a) Income tax expense

The tax on the Company's income (loss) before tax differs from the theoretical amount that would arise using the statutory rate applicable to the Company as follows:

	2019 $	2018 $
Income (loss) before income taxes	(48,761)	(127,634)
Tax calculated at applicable statutory tax rates applicable to profit	(13,000)	(33,000)
Tax effects of:		
Tax losses and other items for which no deferred income tax asset was recognized	13,000	33,000
Adjustment in respect to prior years	-	-
Tax charge	-	-

The statutory tax rate was 25% (2018 – 26%).

(Expressed in Canadian Dollar)

b) Deferred income tax

The Company's deductible temporary differences include the following:

	2019 $	2018 $
Share issue costs	8,000	12,000
Equipment and licenses	1,187,000	1,174,000
Non-capital losses	3,193,000	3,172,000
SR&ED expenditure pool	3,205,000	3,181,000
	7,593,000	7,539,000

Deferred income tax assets are recognized for loss carry-forwards and other deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of $2,050,000 (2018 – $2,035,000) in respect of deductible temporary differences amounting to $7,593,000 (2018 – $7,539,000) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of $3,193,000 (2018 – $3,172,000) that can be carried forward to use against future taxable income. These non-capital losses expire based on the dates listed below. Also included in these deductible temporary differences are scientific research and experimental development (SR&ED) pool expenditures amounting to $3,205,000 (2018 – $3,181,000) that can be carried forward to use against future net income for tax purposes. These SR&ED pool expenditures do not expire.

The Company did not recognize the benefits of non-refundable research and development tax credits amounting to $954,000 (2018 – $950,000). These tax credits can be carried forward against future federal income tax payable.

(Expressed in Canadian Dollar)

The non-capital losses and non-refundable research and development tax credits will expire as follows:

	Non-capital loss carry-forwards $	Federal investment tax credits $
2025	147,000	29,000
2026	45,000	32,000
2027	-	52,000
2028	181,000	158,000
2029	251,000	151,000
2030	187,000	130,000
2031	517,000	147,000
2032	534,000	152,000
2033	683,000	9,000
2034	482,000	19,000
2035	-	32,000
2036	-	16,000
2037	75,000	7,000
2038	76,000	15,000
2039	15,000	4,000
	3,193,000	954,000

11 Expenses by nature

	2019 $	2018 $
Employee compensation		
Salaries and wages	474,109	503,578
Share-based payments	53,378	39,596
Short-term benefits	2,921	4,105
	530,408	547,279
Depreciation	13,285	15,368
Professional and consulting fees	141,253	164,009
Rent and maintenance	101,308	95,847
Materials and supplies	182,996	119,104
Insurance	11,298	16,640
Patent costs	-	19,231
Other	75,031	29,346
Less: Grants and tax credits	(26,593)	(3,303)
Less: Forgiveness of accounts payable	-	(49,599)
Total cost of sales and operating expenses	1,028,986	953,922

(Expressed in Canadian Dollar)

12 Related party transactions

Certain related parties provide services to the Company either directly or through companies that they control. Fees (net of GST) charged by such companies for administrative and professional services were as follows:

	Relationship	Transaction	2019 $	2018 $
Bruce Hirsche, Parlee McLaws LLP	Corporate Secretary and Legal Counsel, Director	Professional fees	-	4,196
David Tam, Parlee McLaws LLP	Corporate Secretary and Legal Counsel, Director	Professional fees	33,932	21,279
Bernard Grobbelaar	Director	Professional fees	55,850	68,290
Dr. James Timourian	Chief Executive Officer, President	Professional fees	18,000	18,000
Alan Savage	Chief Financial Officer, Director	Interest expense	6,000	650

At December 31, 2019, $631 (2018 – $13,517) remained outstanding and is included in accounts payable. These services are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

Compensation of key management

Key management include the Company's directors and officers. Compensation awarded to key management included:

	2019 $	2018 $
Salaries and short-term employee benefits	135,706	135,414
Termination benefit	-	-
Share based payments	38,844	39,595
	174,550	175,009

(Expressed in Canadian Dollar)

13 Net change in non-cash working capital items

	2019 $	2018 $
Trade and other receivables	46,636	(59,992)
Inventory	6,617	10,577
Prepaid expenses	1,210	1,289
Accounts payable and accrued liabilities	(4,883)	(161,897)
Deferred revenue	2,818	-
	52,398	(210,023)
Add back non-cash movements in accounts payable:		
Forgiveness of accounts payable included in research and development	-	49,599
	52,398	(160,424)

14 Scientific research tax credit

Investment tax credits arising from qualifying research and development costs are recorded in the period in which these tax credits are considered reasonably assured to be recovered.

During the year, the Company recorded $nil (2018 –$3,303) in scientific research and development tax credits.

15 Capital management

The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its research and development activities, corporate, administration and marketing expenses, working capital and overall capital expenditures. The Company makes every attempt to manage its liquidity to minimize shareholder dilution whenever possible.

The Company defines capital as net equity, comprised of issued common shares, warrants, contributed surplus and deficit. No quantitative targets or benchmarks are used in managing capital.

Since inception, the Company has primarily financed its liquidity through public offerings of common shares and private placements. The Company has also met its liquidity needs through non-dilutive sources, such as research grants, interest income and revenue from contract research activity. To meet future requirements, the Company intends to raise cash or improve liquidity through some or all of the following: public or private equity or debt financings. (note 1)

The Company is not subject to any externally imposed capital requirements. There have been no changes to the Company's objectives and what it manages as capital since the prior fiscal period.

16 Financial instruments

Financial instruments consist of recorded amounts of cash, accounts receivable, accounts payable and accrued liabilities and repayable contributions.

a) Fair value

The Company has determined that the carrying amount of financial instruments included in working capital is a reasonable approximation of fair value due to the short-term nature of these items.

b) Credit risk

Credit risk arises from the potential that a counterparty will cause a financial loss by failing to discharge an obligation. The Company is exposed to credit risk through its cash and accounts receivable. The Company deposits its cash with a major Canadian bank. The Company assesses its credit risk on a regular basis and records an allowance to provide for anticipated credit losses. The Company conducts business with a variety of customers, however a small number of customers may comprise a significant proportion of revenue in any given period, thereby giving rise to a concentration of credit risk. See note 5 for further details.

c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company earns a significant portion of its revenue in United States dollars. The Company also incurs expenses in United States dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company believes that the results of operations and cash flows could be affected by changes in foreign exchange rates, but would not significantly impact its ability to meet its obligations.

Gains and losses arising from fluctuations in US dollar exchange rates are reflected in general and administrative expense for the year. The Company recorded a foreign exchange loss of $9,821 in 2019 (2018 – gain of $22,409).

The following table summarizes accounts denominated in US dollars at December 31:

	2019 **$**	**2018** **$**
Cash	584	369
Accounts receivable	72,305	105,254
Accounts payable and accrued liabilities	(423)	-
Net exposure	72,889	105,623

(Expressed in Canadian Dollar)

The following exchange rates applied at December 31:

	2019 $	2018 $
US$ – CAD$	1.30659	1.36335

Based on the Company's foreign currency exposures noted above, varying the above foreign exchange rate to reflect a 10% strengthening of the Canadian dollar would have increased the net gain by $9,524 (2018 – $14,400), assuming all other variables remained constant.

An assumed 10% weakening of the Canadian dollar would have had an equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

d) Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to nominal interest rate risk arising from fluctuations in interest rates on its cash balances. Accounts receivable and accounts payable and accrued liabilities bear no interest.

e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's financial liabilities consist of accounts payable and accrued liabilities which are due within one year of the balance sheet date. The Company's planned level of expenditures for 2018 does not exceed its committed sources of funds. Even so, there is still significant doubt about its ability to continue as a going concern and, accordingly, the use of the going concern assumption as disclosed in note 1.

17 Geographic information

Geographic information about the Company's revenue is based on the product shipment destination and, for contract research, on the location of the contracting organization.

	2019 $	2018 $
Canada	90,535	46,366
United States	709,817	624,194
Rest of world	185,873	156,375
	986,225	826,935

All of the Company's equipment is located in Canada.