Innovotech Inc.

Financial Statements
December 31, 2018 and 2017
(Expressed in Canadian Dollars)

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Independent Auditor's Report

To the Shareholders of Innovotech Inc.

Opinion
We have audited the financial statements of Innovotech Inc. (the "Company"), which comprise the statement of financial position as at December 31, 2018, and the statement of operations and comprehensive income (loss), statement of changes in shareholders' equity (deficiency) and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 *Auditor's 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.

Comparative Information
The financial statements of the Company for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 30, 2018.

Material Uncertainty Related to Going Concern
We draw attention to Note 1 in the financial statements, which indicates that the Company recorded a net loss of $ 127,634 and, as at December 31, 2018, the Company had an accumulated deficit of $ 8,680,184 and a working capital of $ 32,565. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information
Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis.

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.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. 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 in this auditor's report. 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, 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Carly Bergman.

"D&H Group LLP"

Vancouver, B.C.
April 25, 2019

Chartered Professional Accountants

Innovotech Inc.

Statements of Financial Position

As at December 31, 2018 and 2017

(Expressed in Canadian Dollars)

	2018 $	2017 $
Assets		
Current assets		
Cash	28,808	324,522
Trade and other receivables (note 5)	147,791	87,799
Inventory (note 6)	28,148	38,725
Prepaid expenses	6,678	7,967
	211,425	459,013
Equipment (note 7)	60,905	68,252
	272,330	527,265
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	78,860	240,757
Due to shareholders (note 8)	100,000	105,000
	178,860	345,757
Shareholders' Equity (Deficiency)		
Share capital (note 10(a))	7,344,818	6,992,335
Shares to be issued (notes 10(b) and (d))	-	352,483
Contributed surplus	1,428,836	1,389,240
Deficit	(8,680,184)	(8,552,550)
	93,470	181,508
	272,330	527,265

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

Approved by the Board of Directors

__________________________________ Director __________________________________ Director

(Signed) "Bernard Grobbelaar" (Signed) "James Timourian"

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

Innovotech Inc.

Statements of Changes in Shareholders' Equity (Deficiency)

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

	Share capital $	Warrants $	Shares to be issued $	Contributed surplus $	Deficit $	Total $
Balance – January 1, 2018	6,992,335	-	352,483	1,389,240	(8,552,550)	181,508
Net and comprehensive income for the year	-	-	-	-	(127,634)	(127,634)
Shares issued (note 10(a))	352,483	-	(352,483)	-	-	-
Share based compensation (note 10(c))	-	-	-	39,596	-	39,596
Balance – December 31, 2018	7,344,818	-	-	1,428,836	(8,680,184)	93,470
Balance – January 1, 2017	6,714,372	-	-	1,373,088	(9,305,935)	(1,218,475)
Net and comprehensive loss for the year	-	-	-	-	753,385	753,385
Shares and warrants issued on private placement (note 10(a))	277,963	102,483	-	-	-	380,446
Shares to be issued on warrant exercise (notes 10(b) and (d))	-	-	250,000	-	-	250,000
Warrants exercised (notes 10(b) and (d))	-	(102,483)	102,483	-	-	-
Share based compensation (note 10(c))	-	-	-	16,152	-	16,152
Balance – December 31, 2017	6,992,335	-	352,483	1,389,240	(8,552,550)	181,508

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

Innovotech Inc.

Statements of Operations and Comprehensive Income (Loss)

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

	2018 $	2017 $
Revenue (note 18)		
Contract research fees	579,472	685,296
Product sales	247,463	305,047
	826,935	990,343
Cost of sales (note 12)		
Contract research	118,806	199,887
Product sales	101,808	90,673
	220,614	290,560
Gross profit	606,321	699,783
Operating expenses (note 12)		
General and administrative (note 14)	696,447	606,830
Sales and marketing	1,035	1,146
Research and development (note 14)	39,129	67,497
Scientific research tax credits (note 15)	(3,303)	(11,711)
	733,308	663,762
Net financing cost		
Interest expense (note 8, 9 and 13)	(650)	(27,872)
Interest income	3	43
Forgiveness of debt (note 9 and 14)	-	745,193
	(647)	717,364
Net income (loss) and comprehensive income (loss) for the year	(127,634)	753,385
	$	$
Basic and diluted income (loss) per common share (note 10(e))	(0.00)	0.02
	#	#
Weighted average number of common shares outstanding for the year	35,623,174	32,082,078

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

Innovotech Inc.

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

	2018 $	2017 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	(127,634)	753,385
Adjustments for:		
Depreciation (note 7)	15,368	16,827
Loss (gain) on disposal of equipment	1,297	(1,158)
Non-cash interest expense	650	27,872
Forgiveness of debt (note 9)	-	(745,193)
Forgiveness of accounts payable (note 14)	(49,599)	(112,196)
Share based compensation (note 10(c))	39,595	16,152
	(120,323)	(44,311)
Net change in non-cash working capital items (note 14)	(160,424)	(114,384)
	(280,747)	(158,695)
Investing activities		
Purchase of equipment (note 7)	(9,317)	(13,662)
Proceeds from sale of equipment	-	2,094
	(9,317)	(11,568)
Financing activities		
Issuance of shares and warrants net of issuance costs (note 10(a))	-	380,446
Shares to be issued (note 10(a))	-	250,000
Due to shareholders repayment (note 8)	(105,000)	(125,000)
Due to shareholder advance (note 8)	100,000	105,000
Interest paid	(650)	(8,830)
Repayable contributions (note 9)	-	(140,000)
	(5,650)	461,616
Increase in cash and cash equivalents	(295,714)	291,363
Cash and cash equivalents – Beginning of year	324,522	33,169
Cash and cash equivalents – End of year	28,808	324,522

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 $127,634 (2017 – net income of $753,385), generated operating cash outflows of $280,747 (2017 – cash outflow of $158,695) for the year and had, working capital of $32,565 (2017 – working capital of $113,256) and accumulated deficit of $8,680,184 at December 31, 2018 (2017 – $8,552,550). On December 5, 2018 the Company completed a debt settlement agreement with the Company's prior patent lawyer. This resulted in a gain of $49,599 (note 14). On September 7, 2017, October 10, 2017 and December 12, 2017 the Company completed debt settlement agreements with Agriculture and Agri-Food Canada (note 9), The Sick Kids Hospital and a past executive (note 14), respectively. This resulted in a gain of $857,389. Without this gain, the Company would have realized a net loss of $177,233 (2017 – $104,004). The Company's planned level of expenditures for 2019 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 and statement of compliance

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 25, 2019.

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) Share 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.

Derecognition

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. Gains and losses on derecognition are generally recognized in the statements of net (loss) income.

n) Significant estimates and critical 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 and intangible assets, are 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 share 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.

4 Accounting standards changes

New and amended standard adopted

a) IFRS 9 replaces the provisions of lAS 39 that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company adopted the standard on January 1, 2018, with the only impact being with respect to revising the Company’s impairment methodology for its trade and other receivables.

(Expressed in Canadian Dollars)

The table below summarizes the classification and carrying amount changes upon transition from IAS 39 to IFRS as at January 1, 2018.

	Original under IAS 39		**New under IFRS 9**	
	Classification	Carrying amount	Classification	Carrying amount
Cash	FVTPL	28,808	FVTPL	28,808
Trade and other receivables	Loans and receivables	147,791	Amortized cost	147,791
Accounts payable and accrued liabilities	Other financial liability	78,860	Amortized cost	78,860
Due to shareholders	Other financial liability	100,00	Amortized cost	100,000

The Company applies the practical expedient approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables. The adoption of this standard has not had a material impact on the condensed interim financial statements.

b) IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The Company adopted IFRS 15 Revenue from contracts with customers, effective January 1, 2018. The Company considered factors such as customer contracts with unique revenue recognition considerations, the nature and type of goods and services offered, the degree to which contracts include multiple performance obligations or variable consideration, and the pattern in which revenue is currently recognized, among other things.

The adoption of IFRS 15 resulted in certain procedural changes in accounting for revenue, however accounting policies and the timing of revenue recognition for all revenue streams remains the same.

New standards not yet adopted

c) IFRS 16, Leases establishes a single lease accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the approach to lessor accounting in IFRS 16 substantially unchanged from the predecessor standards IAS 17 Leases. The standard replaces IAS 17 Leases and related interpretations.

This standard is required to be applied for accounting periods beginning on or after January 1, 2019, with earlier adoption permitted.

The Company is currently assessing the impact of adopting the above standard on the financial statements. There are no other standards, amendments or interpretations to existing standards issued but not yet effective that are expected to have a material impact on the Company.

(Expressed in Canadian Dollars)

5 Trade and other receivables

	2018 $	2017 $
Trade receivables net of allowance for doubtful accounts	143,498	82,103
Goods and services tax recoverable	4,293	5,696
	147,791	87,799

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 $4,295 (2017 – $nil).

The ageing of receivables is as follows:

	2018 $	2017 $
Neither past due nor impaired	95,742	47,160
Up to 3 months past due	52,049	40,639
	147,791	87,799

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.

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

	2018 $	2017 $
Customer #1	229,120	374,828
Customer #2	176,020	-
Customer #3	-	108,164

6 Inventory

The cost of inventories recognized as expense and included in cost of sales was $116,069 (2017– $165,682). Included in cost of sales is $nil (2017 – $nil) to write-down expired inventories to net realizable value.

(Expressed in Canadian Dollars)

7 Equipment

	Laboratory equipment $	Computer equipment $	Office equipment $	2017 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

	Laboratory equipment $	Computer equipment $	Office equipment $	2016 Total $
Cost				
Balance – January 1, 2017	347,668	73,239	14,801	435,708
Additions	11,226	2,436	-	13,662
Disposal	(3,400)	-	-	(3,400)
Balance – December 31, 2017	355,494	75,675	14,801	445,970
Accumulated depreciation				
Balance – January 1, 2017	284,213	67,038	12,104	363,355
Disposal	(2,464)	-	-	(2,464)
Depreciation	13,939	2,348	540	16,827
Balance – December 31, 2017	295,688	69,386	12,644	377,718
Net book value – December 31, 2017	59,806	6,289	2,157	68,252

(Expressed in Canadian Dollars)

Depreciation of $12,839 (2017 – $13,940) is included in cost of sales and $2,529 (2017 – $2,887) in general and administrative expenses.

8 Due to shareholders

The amount due to a shareholder of the Company consists of a $100,000 line of credit which is repayable on demand and bears interest at 6% per annum. At December 31, 2017 $105,000 was due to a shareholder of the Company. The loan was repayable on demand and non-interest bearing. The loan was repaid in January 2018. Interest paid on amounts due to shareholders during the year was $650 (2017 – $8,791).

9 Repayable contributions

The Company entered into two Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements with the Agriculture and Agri-Food Canada ("AAFC") for total possible funding of $912,250 receivable over the period from June 20, 2010 through March 31, 2012.

As the contributions were non-interest bearing, the fair value at inception is estimated as the present value of the principal payments required, discounted using the prevailing market rates of interest for a similar instrument estimated to be 15% per annum. The difference between the fair value of the contributions and the cash received was accounted for as a government grant.

Under the CAAP program all refundable contributions required repayment no later than eight years from the year following the project's end date.

The balance of repayable contribution is derived as follows:

	December 31, 2018 $	December 31, 2017 $
Opening balance – January 1	-	866,151
Repayment	-	(140,000)
Forgiveness of debt	-	(745,193)
Interest expense	-	19,042
	-	-

In November 2016, CAAP informed the Company that they were exercising their right to demand payment in full, as the Company had defaulted on the payment due in 2016. Interest was charged from the date of the default at the Government of Canada prescribed rate (2017 — 5%). The Company had classified the repayable contribution, plus accrued interest at 5% per annum, as current due to the demand nature of the liability. The carrying amount of the repayable contribution had been adjusted to reflect the change in timing of the repayment terms. This change resulted in a loss of $246,437 being recorded in the statement of operations. On September 7, 2017 the Company completed a debt settlement agreement with AAFC and paid the settlement amount of $140,000.

(Expressed in Canadian Dollars)

10 Share capital

a) Authorized

Unlimited number of Class A common, voting shares

Issued and outstanding

	2018		2017	
	#	$	#	$
Opening balance at January 1	33,739,612	6,992,335	28,739,612	6,714,372
Shares issued on private placement net of issuance costs	2,500,000	352,483	5,000,000	277,963
Closing balance	36,239,612	7,344,818	33,739,612	6,992,335

The Company completed a private placement on May 2, 2017 under which 5,000,000 Units were issued at a price of $0.08 per Unit for gross proceeds of $400,000. Each Unit is comprised of one (1) common share and one half ($^1/_2$) common share purchase warrant. Each full warrant entitles the holder to purchase one (1) additional common share at a price of $0.10 per common share for a period of two (2) years following the date of closing. Issuance cost of $19,554 resulted in net proceeds of $380,446 of which $102,483 were attributed to warrants.

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.

(Expressed in Canadian Dollars)

The Company recognized share based compensation expense of $39,595 for the year ended December 31, 2018 (2017 – $16,152).

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

2017 transactions

On April 10, 2017, the Company granted to certain directors and employees 325,000 stock options at an exercise price of $0.05 with an expiry date of April 10, 2027. These stock options vested immediately. The estimated fair value of these options was $0.0497 per option and was determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	171.90%
Risk-free interest rate	1.60%
Expected life of options	10 years

(Expressed in Canadian Dollars)

The following table summarizes information relating to stock options outstanding and exercisable under the Program at December 31, 2018 and December 31, 2017.

	2018		2017	
	Stock options #	**Weighted average exercise price $**	**Stock options #**	**Weighted average exercise price $**
Outstanding – Beginning of year	1,648,000	0.24	1,323,000	0.28
Granted	395,000	0.09	325,000	0.05
Outstanding – End of year	2,043,000	0.21	1,648,000	0.24
Exercisable – End of year	2,043,000	0.21	1,648,000	0.24

				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

				2017
			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	3.19	379,500
$0.18 to $0.35	0.29	416,000	5.12	416,000
$0.05 to $0.09	0.05	852,500	7.50	852,500
	0.24	1,648,000	5.91	1,648,000

On January 29, 2019 the Company granted 36,000 stock options to employees under the Program. The options have an exercise price of $0.05 per common share and expire on January 29, 2024.

(Expressed in Canadian Dollars)

d) Warrants

A summary of the Company's warrants is as follows:

	2018			2017		
	Warrants #	**$**	**Weighted average exercise price $**	**Warrants #**	**$**	**Weighted average exercise price $**
Outstanding – Beginning of year	-	-	-	-	-	-
Issued net of issuance costs	-	-	-	2,500,000	102,483	0.10
Exercised	-	-	-	(2,500,000)	(102,483)	-
	-	-	-	-	-	-

The estimated fair value of the warrants issued on May 2, 2017 was $0.0431 per warrant and was determined using the Black-Sholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	232.70%
Risk-free interest rate	0.67%
Expected life of options	2 years
Share Price	$0.05

e) Income (loss) per share

	December 31, 2018 $	**December 31, 2017 $**
Calculation of basic income (loss) per share		
Net income (loss)	(127,634)	753,385
Weighted average number of common shares	33,739,612	28,739,612
Weighted average number of common shares issued on April 1, 2018 (May 2, 2017)	2,500,000	3,342,466
	35,623,174	32,082,078
Basic income (loss) per share	(0.00)	0.02

(Expressed in Canadian Dollars)

	December 31, 2018 $	**December 31, 2017 $**
Calculation of diluted income (loss) per share		
Adjusted net income (loss)	(127,634)	753,385
Weighted average number of common shares from basic income (loss) per share	35,623,174	32,082,078
Effect of dilution from:		
Share options	-	307,040
	35,623,174	32,389,118
Diluted income (loss) per share	(0.00)	0.02

For 2018, shares potentially issuable upon the exercise or conversion of stock options and warrants have been excluded for the calculation of diluted loss per share because the effect would have been anti-dilutive.

11 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:

	2018 $	**2017 $**
Income (loss) before income taxes	(127,634)	753,385
Tax calculated at applicable statutory tax rates applicable to profit	(33,000)	203,000
Tax effects of:		
Tax losses and other items for which no deferred income tax asset was recognized	33,000	(199,000)
Adjustment in respect to prior years	-	(4,000)
Tax charge	-	-

The statutory tax rate was 27% (2016 – 27%).

(Expressed in Canadian Dollars)

b) Deferred income tax

The Company's deductible temporary differences include the following:

	2018 **$**	**2017** **$**
Share issue costs	12,000	16,000
Equipment and licenses	1,174,000	1,157,000
Non-capital losses	3,172,000	3,101,000
SR&ED expenditure pool	3,181,000	3,112,000
	7,539,000	7,386,000

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 $2,035,000 (2017 – $1,994,000) in respect of deductible temporary differences amounting to $7,539,000 (2017 – $7,386,000) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of $3,172,000 (2017 – $3,101,000) 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 $3,181,000 (2017 – $3,112,000) 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 $950,000 (2016 – $934,000). These tax credits can be carried forward against future federal income tax payable.

(Expressed in Canadian Dollars)

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	71,000	15,000
	3,173,000	950,000

12 Expenses by nature

	2018 $	**2017 $**
Employee compensation		
Salaries and wages	503,578	463,075
Share-based payments	39,596	16,152
Short-term benefits	4,105	1,999
	547,279	488,601
Depreciation	15,368	16,827
Professional and consulting fees	164,009	180,483
Rent and maintenance	95,847	89,735
Materials and supplies	119,104	165,682
Insurance	16,640	21,496
Patent costs	19,231	74,258
Other	29,346	48,522
Less: Grants and tax credits	(3,303)	(11,711)
Less: Forgiveness of accounts payable	(49,599)	(112,196)
Total cost of sales and operating expenses	953,922	954,322

(Expressed in Canadian Dollars)

13 Related party disclosures

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	2018 $	2017 $
Bruce Hirsche, Parlee McLaws LLP	Corporate Secretary and Legal Counsel, Director	Professional fees	4,196	39,359
		Interest expense	-	366
David Tam, Parlee McLaws LLP	Corporate Secretary and Legal Counsel, Director	Professional fees	21,279	-
Bernard Grobbelaar	Chief Financial Officer, Director	Professional fees	68,290	82,268
		Interest expense	-	38
Dr. Gerard Tertzakian	Director	Interest expense	-	854
Dr. Wolfgang Muhs	Director	Interest expense	-	854
Dr. James Timourian	Chief Executive Officer, President	Professional fees	18,000	13,500
		Interest expense	-	125
Alan Savage	Chief Financial Officer, Director	Interest expense	650	-

At December 31, 2018, $13,517 (2017 – $22,879) 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:

	2018 $	2017 $
Salaries and short-term employee benefits	135,414	51,000
Termination benefit	-	-
Share based payments	39,595	16,152
	175,009	67,152

(Expressed in Canadian Dollars)

14 Net change in non-cash working capital items

	2018 $	2017 $
Trade and other receivables	(59,992)	88,507
Inventory	10,577	(2,405)
Prepaid expenses	1,289	(845)
Accounts payable and accrued liabilities	(161,897)	(301,519)
Deferred revenue	-	(10,318)
	(210,023)	(226,580)
Add back non-cash movements in accounts payable:		
Forgiveness of accounts payable included in general and administrative	-	71,993
Forgiveness of accounts payable included in research and development	49,599	40,293
	(160,424)	(114,384)

15 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 $3,303 (2017 –$11,711) in scientific research and development tax credits.

16 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.

17 Financial instruments

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

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 gain of $22,409 in 2018 (2017 – loss of $14,683).

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

	2018 **$**	**2017** **$**
Cash	369	48,123
Accounts receivable	105,254	61,928
Accounts payable and accrued liabilities	-	(52,999)
Net exposure	105,623	57,052

(Expressed in Canadian Dollars)

The following exchange rates applied at December 31:

	2018	**2017**
	$	**$**
US$ – CAS$	1.36335	1.25506

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 $14,400 (2017 – $7,160), 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.

18 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.

	2018	**2017**
	$	**$**
Canada	46,366	20,705
United States	624,194	700,014
Rest of world	156,375	269,624
	826,935	990,343

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