

THERMA BRIGHT INC.

Financial Statements

Year ended July 31, 2019

THERMA BRIGHT INC.
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Year ended July 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Therma Bright Inc.

Opinion

We have audited the financial statements of Therma Bright Inc., (the "Company") which comprise the statements of financial position as at July 31, 2019 and 2018, and the statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2019, and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits 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 audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the financial statements, which indicates that Therma Bright Inc. incurred a net loss of \$421,931 during the year ended July 31, 2019 and, as of that date, the Company had an accumulated deficit of \$16,891,799, a shareholders' deficiency of \$286,400 and its current liabilities exceeded its current assets by \$256,214. These conditions, along with other matters as set forth in Note 2 indicate the existence of a material uncertainty that cast significant doubt about the ability of the Company to continue as a going concern. Our opinion is not modified in respect of this matter.

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 IFRS, 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.

INDEPENDENT AUDITOR'S REPORT, continued

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.

INDEPENDENT AUDITOR'S REPORT, continued

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 Louis Sapi.

MISSISSAUGA, Ontario
November 28, 2019

HS & Partners LLP
Chartered Professional Accountants
Licensed Public Accountants

THERMA BRIGHT INC.
Statement of Financial Position
July 31

	2019	2018
ASSETS		
CURRENT		
Cash	\$ 30,397	\$ 224,701
Prepaid expenses	2,937	34,758
Sales taxes recoverable	-	32,293
	33,334	291,752
Furniture	2,516	-
Intangible asset (Note 5)	47,266	49,490
	\$ 83,116	\$ 341,242
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
CURRENT		
Accounts payable and accrued liabilities (Note 6)	\$ 264,400	\$ 217,316
Sales taxes payable	18,149	-
Loan from director (Note 7)	6,999	8,499
	289,548	225,815
LONG-TERM DEBT (Note 8)	79,968	187,019
	369,516	412,834
Basis of presentation and going concern (Note 2)		
Contingencies and commitments (Note 12)		
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 9)	10,967,538	10,848,368
Warrants reserve (Note 9)	3,361,218	3,340,218
Share based payments reserve (Note 9)	1,985,451	1,889,118
Equity portion of convertible debentures	291,192	320,572
Deficit	(16,891,799)	(16,469,868)
	(286,400)	(71,592)
	\$ 83,116	\$ 341,242

ON BEHALF OF THE BOARD

"Rob Fia" Director

"Joe Heng" Director

THERMA BRIGHT INC.
Statement of Loss and Comprehensive Loss
Year ended July 31

	2019	2018
REVENUE	\$ 6,905	\$ 14,096
EXPENSES		
General and administrative (Note 6)	249,938	534,285
Research and development	60,666	92,485
Stock-based compensation expense (Note 9)	96,333	614,667
	406,937	1,241,437
LOSS FROM OPERATIONS	(400,032)	(1,227,341)
OTHER INCOME (EXPENSES)		
Amortization	(2,789)	-
Loss on foreign exchange	(203)	(76)
Accretion expense (Note 8)	(18,907)	(8,737)
	(21,899)	(8,813)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	\$ (421,931)	\$ (1,236,154)
BASIC AND DILUTED LOSS PER SHARE	(0.01)	(0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	163,270,690	148,520,089

THERMA BRIGHT INC.
Statements of Changes in Shareholders' Deficiency
Year ended July 31

	Shares	Share capital	Warrants reserve	Share based payments reserve	Equity portion of convertible debentures	Deficit	Total
Balance, July 31, 2017	135,043,740	\$ 9,644,189	\$ 3,149,775	\$ 1,274,451	\$ 271,454	\$(15,233,714)	\$ (893,845)
Comprehensive loss Changes	-	-	-	-	-	(1,236,154)	(1,236,154)
	25,711,882	1,204,179	190,443	614,667	49,118	-	2,058,407
Balance, July 31, 2018	160,755,622	10,848,368	3,340,218	1,889,118	320,572	(16,469,868)	(71,592)
Comprehensive loss Changes	-	-	-	-	-	(421,931)	(421,931)
	3,000,000	119,170	21,000	96,333	(29,380)	-	207,123
Balance, July 31, 2019	163,755,622	\$ 10,967,538	\$ 3,361,218	\$ 1,985,451	\$ 291,192	\$(16,891,799)	\$ (286,400)

THERMA BRIGHT INC.
Statement of Cash Flows
Year ended July 31

	2019	2018
OPERATING ACTIVITIES		
Loss	\$ (421,931)	\$ (1,236,154)
Adjustments for		
Amortization	2,789	-
Stock-based compensation expense	96,333	614,667
Accretion expense	18,907	8,737
Total	(303,902)	(612,750)
Change in non-cash working capital		
Prepaid expenses	31,821	(11,245)
Sales tax recoverable	32,293	45,992
Accounts payable and accrued liabilities	31,916	218,113
Sales taxes payable	18,149	-
Cash flow used by operating activities	(189,723)	(359,890)
INVESTING ACTIVITIES		
Purchase of furniture	(3,081)	-
Purchase of intangible asset	-	(49,490)
Cash flow used by investing activities	(3,081)	(49,490)
FINANCING ACTIVITIES		
Loans from directors	(1,500)	7,912
Share issuance	-	328,170
Proceeds of long-term debt	-	232,500
Cash flow (used by) from financing activities	(1,500)	568,582
(DECREASE) INCREASE IN CASH	(194,304)	159,202
CASH - BEGINNING OF YEAR	224,701	65,499
CASH - END OF YEAR	\$ 30,397	\$ 224,701
OTHER INFORMATION		
Non-cash share and warrants issuance to settle obligations	\$ 140,170	\$ 822,015

THERMA BRIGHT INC.
Notes to the Financial Statements
July 31, 2019

1. NATURE OF OPERATIONS

Therma Bright Inc. (formerly The Jenex Corporation) (the "Company") was incorporated under the Business Corporations Act (Alberta) on March 5, 2001. The Company has a proprietary thermal therapy technology that provides topical relief to certain skin irritations resulting from insect bites, stings and prevention of cold sores. Since inception, the efforts of the Company have been devoted in developing and marketing this technology. The Company changed its name to "Therma Bright Inc." effective February 8, 2018.

The common shares of the Company are traded under the symbol "THRM" on the TSX Venture Exchange.

These financial statements were authorized by the Board of Directors of the Company on November 28, 2019.

2. BASIS OF PRESENTATION AND GOING CONCERN

a) Statement of compliance

Management has prepared these financial statements in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which contemplates that assets will be realized and liabilities discharged in the normal course of business as they come due.

b) Basis of measurement

These financial statements have been prepared on a historical cost basis except as otherwise disclosed within these notes to the financial statements.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company. All financial information presented in Canadian dollars has been rounded to the nearest dollar with the exception of net income (loss) per share values.

d) Going concern

During the year ended July 31, 2019, the Company incurred a loss of \$421,931 [2018 - loss of \$1,236,154] and, as of that date, the Company had an accumulated deficit of \$16,891,799 [2018 - deficit of \$16,469,868], Shareholders' deficiency of \$286,400 [2018 - \$71,592] and its current liabilities exceeded its current assets by \$256,214.

To this point, all operational activities and the overhead costs have been funded from the available cash and by equity and debt issuances, as well as loans from directors. The Company has been working, through third party service providers in marketing, sales, engineering and distribution, to sell its products online. In the future the Company intends to sell InterceptCS™ to Canadian retailers. The Company has been focused on making sales online for its existing inventory of InterceptCS™. Those sales, if completed, would reestablish revenue for the Company and would be expected to lead to additional recurring revenue from the sale of activators on an ongoing basis.

The revenue from the sale of the existing inventory of InterceptCS™ will be a positive impact on the income statement and balance sheet due to the low cost base for that inventory. This

THERMA BRIGHT INC.
Notes to the Financial Statements
July 31, 2019

2. BASIS OF PRESENTATION AND GOING CONCERN, continued

revenue will create a source of capital for the Company to allow the Company to run its business, expand sales and meet reporting and disclosure requirements.

The Company has re-launched its corporate website and a new sales and marketing website with ecommerce capabilities. The ecommerce website has created another channel for the Company to sell its inventory utilizing third party marketing specialist which will incorporate social media. The Company expects to generate meaningful sales from this direct to consumer approach and will use the cash flow generated to expand sales within this sales channel.

The Company will continue to secure new cash resources to meet its obligations. Management is currently evaluating and pursuing funding alternatives, including new equity and debt issuances. While management has so far been successful in raising the required equity and debt financing, there is no assurance that these initiatives will continue to be successful. Uncertainty in global capital markets could have a negative impact on the Company's ability to access capital in the future.

The Company's ability to continue as a going concern is dependent upon its ability to reach a profitable level of operations and obtain adequate financing. The accompanying financial statements do not include any adjustments relating to the recoverability of assets and to the reclassification of asset and liability amounts that might be necessary should the Company be unable to continue its operations. These adjustments could be material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise indicated.

(a) Revenue recognition

Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collection is reasonably assured. Revenue recognition is net of provisions for returns and warranty costs which are estimated based on historical return and warranty experience.

(b) Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Effective August 1, 2018, the Company adopted this standard and there was no material impact on the Company's financial statements.

THERMA BRIGHT INC.
Notes to the Financial Statements
July 31, 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(c) Financial instruments

Effective August 1, 2018, the Company adopted IFRS 9. In July 2014, the IASB issued the final publication of the IFRS 9 standard, which supersedes IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance. The Company has adopted IFRS 9 on a retrospective basis, however, this guidance had no impact to the Company's financial statements. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVTPL).

Financial assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either FVPL or FVOCI, and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Amounts receivable held for collection of contractual cash flows are measured at amortized cost.

Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Subsequent measurement – financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the statements of financial position with changes in fair value recognized in other income or expense in the statements of loss. The Company does not measure any financial assets at FVPL.

Subsequent measurement – financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI. After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the statements of comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

THERMA BRIGHT INC.
Notes to the Financial Statements
July 31, 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(c) Financial instruments, continued

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company's only financial assets subject to impairment are other accounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

Financial liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities, and subscription receipts which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the statements of loss.

There was no material impact on the implementation of the new Standard on the Company's financial statements.

(d) Inventory

Inventories are measured at the lower of cost (determined on a first-in, first-out basis) and net realizable value, with cost being determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs necessary to make the sale. When the reversal of previously written down inventories is recognized, this reversal is recognized in net income. The cost of purchased inventory comprise the purchase price and other costs directly attributable to the acquisition of inventory. Trade discounts and rebates are deducted in the costs of the purchase of finished goods. A write-down is recorded to cost of sales for any slow moving or obsolete inventory.

THERMA BRIGHT INC.
Notes to the Financial Statements
July 31, 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(e) Furniture and equipment

Furniture and equipment are measured at cost less accumulated amortization. Amortization methods, rates and residual values are reviewed annually and revised if the current method, estimated useful life or residual value is different from that estimated previously. Amortization is charged over their useful lives and is based on the straight-line method and rates:

Office furniture and fixtures	20%
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(f) Intangible assets

Intangible assets consisting of domain name, patents and trademarks are recorded at fair values. Intangible assets with finite useful lives are amortized over their estimated useful lives and are tested for impairment annually or more frequently if events or changes in circumstances indicate possible impairment.

Domain name	20 years Straight-line
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(g) Impairment of long-lived assets

The Company tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected undiscounted future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds its fair value.

(h) Convertible debentures

Convertible debentures are accounted for as financial instruments containing both a liability element and an equity element that are required to be accounted for separately under *IAS 32, Financial Instruments: Presentation*. The residual value method is used to determine the value of each element. Under this approach, the equity component is assigned the residual amount after deducting from the proceeds from the issuance of the instrument the fair value amount separately determined for the liability component. No gain or loss arises on initial recognition of the components of the instruments separately.

(i) Warrants

The Company follows the residual value method of accounting for warrants attached to and issued with common shares of the Company. Under this method, the fair value of warrants issued is estimated using a Black-Scholes option pricing model. The equity component is assigned the residual amount after deducting from the proceeds from the issuance of the instrument the fair value amount separately determined for the warrant component.

THERMA BRIGHT INC.
Notes to the Financial Statements
July 31, 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(j) Stock-based compensation

The Company follows the fair value based method of accounting for all stock options granted to its directors, officers and employees, whereby a compensation expense is recognized over the vesting period of the options, with a corresponding increase to the share option reserve in equity. When stock options are exercised, capital stock is credited by the sum of the consideration paid together with the related portion previously recorded to the stock option reserve.

(k) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized based on temporary differences between the tax and accounting bases of assets and liabilities, as well as losses available to be carried forward to future years for income tax purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Changes to these balances are recognized in income in the period in which they occur. Deferred tax assets are reduced by a valuation allowance to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Earnings (loss) per share

Basic earnings (loss) per common share is determined by dividing net income (loss) attributed to common shareholders by the weighted average number of common shares outstanding during the year. The effects of potential issues of shares pursuant to outstanding share purchase option agreements are disclosed as appropriate. If the Company has outstanding dilutive stock options and warrants in any period, the diluted earnings (loss) per share will be calculated using the treasury stock method. Anti-dilutive effects will not be disclosed.

(m) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in these financial statements are convertible debentures, stock options granted, warrants issued, accruals and valuation allowances.

THERMA BRIGHT INC.
Notes to the Financial Statements
July 31, 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(n) New accounting standards and interpretations

IFRS 16 Leases

IFRS 16, Leases ("IFRS 16") was issued by the IASB on January 13, 2016, and will replace IAS 17 Leases ("IAS 17"). IFRS 16 eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is in the process of evaluating the impact of IFRS 16 on its financial statements.

4. INVENTORY

Inventory consists solely of finished goods. Since 2009, the Company has taken a cumulative inventory write-down of \$5,220.

5. INTANGIBLE ASSET

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Domain name	\$ 49,490	\$ 2,224	\$ 47,266	\$ 49,490

Intangible asset represents the domain name "coldsore.com" purchased in 2018.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
Accounts payable and accrued liabilities	\$ 264,400	\$ 217,316

For the year ended July 31, 2019, the Company incurred \$31,954 [2018 - \$4,950] to a company for bookkeeping services. The Chief Financial Officer of the Company is an employee of this company. As at July 31, 2019, this company was owed \$28,161 [2018 - \$4,950] and this amount is included in accounts payable and accrued liabilities.

Management and consultancy fees incurred to directors of the Company included in general and administrative expenses for the year amount to \$15,000 [2018 - \$114,885]. The amount owed as at July 31, 2019 is \$30,721 [2018 - \$10,919] and is included in accounts payable and accrued liabilities.

THERMA BRIGHT INC.
Notes to the Financial Statements
July 31, 2019

7. LOAN FROM DIRECTOR

	2019	2018
Loan from director	\$ 6,999	\$ 8,499

The loan from director is unsecured, non-interest bearing and repayable on demand. During 2018, \$46,880 of loans were settled by the issuance of common shares.

8. LONG-TERM DEBT

	2019	2018
Debenture payable	\$ 79,968	\$ 187,019

a) 8% Convertible debentures

On April 27, 2018, the Company completed a first tranche closing of its convertible debenture ("Debenture") financing for gross proceeds of \$250,000. The Company offered three-year debentures in principal amounts of \$1,000 per Debenture, with 8% interest payable thereon. A minimum of 12 months' interest on the full principal amount would be payable, regardless of whether the Debenture was converted prior to such time. Subject to prior TSX Venture Exchange ("TSXV") approval, interest might be paid in shares at the market price of the Company's common shares at the time of conversion. A finder's fee of \$17,500 cash, and 150,000 finder's warrants were paid in relation to this issuance of convertible debenture and these financing fees were allocated pro-rata between the equity portion of the convertible debenture and against the debenture payable.

The Debentures would be convertible into units of the Company at a conversion price of \$0.05 per unit if converted in the first year and thereafter at \$0.10 per unit. Each unit would be comprised of one common share and one-fifth (1/5) of one common share purchase warrant. Each whole warrant would be exercisable for one common share for a period of two years from the date of issue of the warrant at an exercise price of \$0.05 if exercised on or before the date that was one year from the date of issuance of the Debenture or thereafter at an exercise price of \$0.10.

The subscriber might convert the Debenture at any time until the maturity date. The Company might convert the Debenture on the earlier of, and at any time thereafter: (a) at any time after the date that was 12 months after the date of issue of the Debentures until the maturity date; and (b) the 16th day after the closing price of the Company's common shares on the TSXV exceeds \$0.075 for fifteen (15) consecutive trading days, provided such conversion date was at least six (6) months after the date of issue of the Debentures. The Company may, at its option, subject to providing not more than 60 and not less than 30 days prior notice, redeem the Debentures in whole or in part.

THERMA BRIGHT INC.
Notes to the Financial Statements
July 31, 2019

8. LONG-TERM DEBT, continued

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. The Company valued the debt component of the convertible debentures by calculating the present value of the principal and interest payments, discounted at a rate of 15.25%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. The equity conversion feature of the convertible debentures comprise the value of the conversion option, being the difference between the face value of the convertible debentures and the liability element calculated above. Based on this calculation, the liability component was \$196,000 (\$178,282 net of transaction costs) and the residual equity component was \$49,118. Net accretion charges attributable to the convertible debentures for the year ended July 31, 2019 was \$18,907 [2018 - \$8,737]. This amount is added to the liability component on the statements of financial position and is included in accretion expense on the statements of loss and comprehensive loss.

During the year debentures with a face value of \$150,000 and a carrying value of \$110,802 [net of transaction cost and conversion features] were converted into Units of the Company [see note 9].

The following table summarizes 8% Convertible debentures:

Balance at July 31, 2017	\$ -
Convertible debenture issued	250,000
Less: Cost of issuances	(17,718)
Less: Equity component	(54,000)
Add: Accretion expense	8,737
Balance as of July 31, 2018	187,019
Less: Conversion	(110,802)
Less: Coupon interest payable classified under accounts payable	(15,150)
Add: Accretion expense	18,907
Balance as of July 31, 2019	\$ 79,974

b) \$600,000 secured interest free debentures

On December 11, 2014, the Company entered into a settlement agreement with the long term debt holders and debenture holders to settle the \$1,275,000 principal outstanding and accrued interest of \$3,339,472 owing as at July 31, 2014 by issuing (a) 25,500,000 common shares at a price of \$0.05 per share to settle the outstanding principal amount, (b) \$600,000 secured interest free debentures and (c) 10,000,000 warrants, to settle the accrued interest amount.

The interest free debentures were due on the third anniversary of closing the debt settlement and were secured against the assets of the Company.

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8. LONG-TERM DEBT, continued

Each warrant was exercisable for one common share of the Company at an exercise price of \$0.05 per share on or before the first anniversary of closing the debt settlement. In addition, the Company had the right to require the holders of the warrants to convert the warrants into common shares of the Company if (a) the volume weighted average closing price of the Company's common shares was above \$0.10 for twenty consecutive trading days and (b) the average daily trading volume of common share during that period was at least 250,000. The warrants expired on the first anniversary date of the debt settlement.

As part of a share-to-debt settlement with secured interest-free debenture holders, on April 11, 2017, the Company issued 7,541,364 common shares at a price of \$0.05 per share for a partial settlement of \$377,068 of the interest free debentures. The outstanding balance of \$222,932 as at July 31, 2017 was settled during 2018 in exchange for 4,458,636 common shares of the Company.

Pursuant to the debt settlement, one shareholder holds 15% of the common shares of the Company and 13% of the common shares of the Company on a diluted basis.

9. SHARE CAPITAL

	Issued	Amount
Authorized:		
Unlimited number of common and preferred shares without par value		
Issues and outstanding common shares:		
Balance - end of year (2018 - 160,755,622 common shares for \$10,848,368)	163,755,622	\$ 10,967,538

(a) Common shares

(i) On December 1, 2017, the Company issued an aggregate of 16,008,634 common shares at a deemed price of \$0.05 per common share to settle and extinguish an aggregate of \$800,432 in outstanding debt owed to the creditors.

(ii) On February 16, 2018, the Company completed a debt settlement transactions and issued an aggregate of 2,445,150 common shares at a deemed price of \$0.10 per common share to settle an aggregate of \$244,515 debt. The settled debt included the issuance an aggregate of 700,000 common shares to its directors and an officer of the Company.

(iii) On April 27, 2018, the Company completed the first tranche of its non-brokered equity private placement and issued 6,000,000 units ("Unit") of the Company at a price of \$0.05 per Unit for total proceeds of \$300,000. Each Unit comprised of one common share and one common share purchase warrant (a "Warrant"). Each warrant would entitle the holder to purchase one common share for three years at a price of \$0.05 per share in the first year and thereafter at \$0.10 per share, subject to acceleration in the event that the common shares trade at or above \$0.13 per common share for a full 10 consecutive trading days.

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9. SHARE CAPITAL, continued

A value of \$203,000 was estimated for the 6,000,000 Warrants on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; share price of \$0.045; expected volatility of 150% using the historical price history of the Company; risk-free interest rate of 2.01%; and an expected average life of 36 months.

In connection with the offering, a cash commission of \$7,000 and \$20,750 in legal and other fees were paid, and an aggregate of 100,000 compensation warrants ("Broker Warrant") were issued. Each Broker Warrant will entitle the holder thereof to purchase one Unit at an exercise price of \$0.05 for a period of 12 months following the closing date of the Offering. Each whole common share purchase warrant entitles the holder to purchase one common share until April 26, 2021 at an exercise price of \$0.05 per share in the first year and thereafter at \$0.10 per share. The Broker warrants and the common share purchase warrant are subject to acceleration in the event that the common shares trade at or above \$0.13 per common share for a full 10 consecutive trading days. These warrants were assigned a value of \$3,400 using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%; share price of \$0.045; expected volatility of 150% using the historical price history of the Company; risk-free interest rate of 2.01%; and an expected average life of 36 months.

(iv) As part of the purchase agreement of the domain name "coldsores.com" the Company, issued 328,098 common shares to the vendor. The shares were valued at \$16,405 (\$0.05 per share).

(v) On July 11, 2018, the Company completed the second tranche of its non-brokered equity private placement and issued 580,000 units ("Unit") of the Company at a price of \$0.05 per Unit for total proceeds of \$29,000. Each Unit comprised of one common share and one common share purchase warrant (a "Warrant"). Each warrant would entitle the holder to purchase one common share for three years at a price of \$0.05 per share in the first year and thereafter at \$0.10 per share, subject to acceleration in the event that the common shares trade at or above \$0.13 per common share for a full 10 consecutive trading days.

A value of \$17,000 was estimated for the 580,000 Warrants on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; share price of \$0.04; expected volatility of 150% using the historical price history of the Company; risk-free interest rate of 2.0%; and an expected average life of 36 months.

(vi) On September 28, 2018, the 8% convertible debenture holder converted \$150,000 into Units of the Company. Accordingly, 3,000,000 Units were issued at a conversion price of \$0.05 per unit [see note 8]. Each Unit comprised of one common share and one-fifth (1/5) of one common share purchase warrant. Each whole warrant would be exercisable for one common share for a period of two years at an exercise price of \$0.05 if exercised on or before April 26, 2019, or at an exercise price of \$0.10 thereafter. These warrants were assigned a value of \$21,000 using the Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%; share price of \$0.045; expected volatility of 189% using the historical price history of the Company; risk-free interest rate of 2.21%; and an expected average life of 24 months.

One shareholder holds in excess of 10% of the issued and outstanding common shares of the Company.

(b) Stock options

Under the Company's stock option plan, the Company may grant options to employees, consultants, officers and directors totaling up to 10% of its issued and outstanding common shares. The aggregate number of shares so reserved for issuance to any one person shall not

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9. SHARE CAPITAL, continued

exceed 5% of the issued and outstanding common shares.

(i) On October 6, 2017, the Company granted stock options to its directors and officers to purchase up to an aggregate of 1,500,000 common shares of the Company. The options are exercisable for a period of five years at a price of \$0.11 per share and the options vested immediately. The estimated fair value of these options at the grant date was \$193,000 using the Black-Scholes valuation model. During the year ended July 31, 2018, the entire fair value of \$193,000 was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows: risk free rate: 1.78%; expected life: 5.0 years; expected volatility: 150% based on historical trends; forfeiture rate: nil; expected dividend yield: 0%; and weighted average share price: \$0.14.

(ii) On January 17, 2018, the Company granted stock options to its directors, officers and consultants to purchase up to an aggregate of 3,200,000 common shares of the Company. The options are exercisable for a period of five years at a price of \$0.10 per share. The options vest after six months from the date of grant. The estimated fair value of these options at the grant date was \$261,000 using the Black-Scholes valuation model. During the year ended July 31, 2018, the entire fair value of \$261,000 was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows: risk free rate: 2.0%; expected life: 5.0 years; expected volatility: 150% based on historical trends; forfeiture rate: nil; expected dividend yield: 0%; and weighted average share price: \$0.09.

(iii) On January 23, 2018, the Company granted stock options to its consultants to purchase up to an aggregate of 770,000 common shares of the Company. The options are exercisable for a period of five years at a price of \$0.10 per share. The options vest after six months from the date of grant. The estimated fair value of these options at the grant date was \$63,000 using the Black-Scholes valuation model. During the year ended July 31, 2018, the entire fair value of \$63,000 was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows: risk free rate: 2.0%; expected life: 5.0 years; expected volatility: 150% based on historical trends; forfeiture rate: nil; expected dividend yield: 0%; and weighted average share price: \$0.09.

(iv) On March 2, 2018, the Company granted stock options to a consultant to purchase up to an aggregate of 500,000 common shares of the Company. The options are exercisable for a period of five years at a price of \$0.10 per share. The options vest after six months from the date of grant. The estimated fair value of these options at the grant date was \$31,000 using the Black-Scholes valuation model. During the year ended July 31, 2019 \$5,167 [2018 - \$25,833] was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows: risk free rate: 2.0%; expected life: 5.0 years; expected volatility: 150% based on historical trends; forfeiture rate: nil; expected dividend yield: 0%; and weighted average share price: \$0.07.

(v) On May 8, 2018, the Company granted stock options to its directors, officers and consultants to purchase up to an aggregate of 3,200,000 common shares of the Company. The options are exercisable for a period of five years at a price of \$0.05 per share. The options vest after six months from the date of grant. The estimated fair value of these options at the grant date was \$131,000 using the Black-Scholes valuation model. During the year ended July 31, 2019, \$65,500 [2018 - \$65,500] was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows: risk free rate: 2.2%; expected life: 5.0 years; expected volatility: 150% based on historical trends; forfeiture rate: nil; expected dividend yield: 0%; and weighted average share price: \$0.045.

THERMA BRIGHT INC.
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July 31, 2019

9. SHARE CAPITAL, continued

(vi) On June 18, 2018, the Company granted stock options to a director to purchase up to an aggregate of 600,000 common shares of the Company. The options are exercisable for a period of five years at a price of \$0.05 per share. The options vest after six months from the date of grant. The estimated fair value of these options at the grant date was \$22,000 using the Black-Scholes valuation model. During the year ended July 31, 2019 \$16,500 [2018 - \$5,500] was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows: risk free rate: 2.1%; expected life: 5.0 years; expected volatility: 150% based on historical trends; forfeiture rate: nil; expected dividend yield: 0%; and weighted average share price: \$0.04

(vii) On July 5, 2018, the Company granted stock options to an officer to purchase up to an aggregate of 150,000 common shares of the Company. The options are exercisable for a period of five years at a price of \$0.05 per share. The options vest after six months from the date of grant. The estimated fair value of these options at the grant date was \$5,000 using the Black-Scholes valuation model. During the year ended July 31, 2019 \$4,167 [2018 - \$833] was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows: risk free rate: 2.1%; expected life: 5.0 years; expected volatility: 150% based on historical trends; forfeiture rate: nil; expected dividend yield: 0%; and weighted average share price: \$0.035.

(viii) On September 17, 2018, the Company granted stock options to a consultant to purchase up to an aggregate of 250,000 common shares of the Company. The options are exercisable for a period of five years at a price of \$0.05 per share. The options vest after six months from the date of grant. The estimated fair value of these options at the grant date was \$5,000 using the Black-Scholes valuation model. During the year ended July 31, 2019, the entire fair value of \$5,000 was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows: risk free rate: 2.25%; expected life: 5.0 years; expected volatility: 189% based on historical trends; forfeiture rate: nil; expected dividend yield: 0%; and weighted average share price: \$0.02.

The following table summarizes information about the Company's options activity:

	July 31, 2019		July 31, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Issues and outstanding, beginning of year	15,685,000	\$ 0.09	10,550,000	\$ 0.10
Expired/ cancelled	(2,920,000)	(0.10)	(4,785,000)	(0.10)
Issued during the year	250,000	0.05	9,920,000	0.08
End of year	13,015,000	\$ 0.09	15,685,000	\$ 0.09

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Notes to the Financial Statements
July 31, 2019

9. SHARE CAPITAL, continued

The following table summarises the outstanding stock options as at July 31, 2019:

Expiry date	Exercise price (\$)	Weighted average remaining life (years)	Number of outstanding options	Number of options vested (exercisable)
March 6, 2022	0.10	2.60	3,465,000	3,465,000
October 10, 2022	0.10	3.20	1,000,000	1,000,000
January 17, 2023	0.10	3.47	3,100,000	3,100,000
January 23, 2023	0.10	3.48	750,000	750,000
March 2, 2023	0.10	3.59	500,000	500,000
May 8, 2023	0.05	3.77	3,200,000	3,200,000
June 18, 2023	0.05	3.88	600,000	600,000
July 5, 2023	0.05	3.93	150,000	150,000
September 17, 2023	0.05	4.13	250,000	250,000
	0.08	3.33	13,015,000	13,015,000

(c) Warrants

The following table summarizes information about the Company's warrants activity:

	July 31, 2019		July 31, 2018	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Issues and outstanding, beginning of year	12,830,000	0.09	6,350,000	0.08
Issued during the year	600,000	0.10	6,830,000	0.10
Exercised/ expired	(250,000)	(0.08)	(350,000)	(0.08)
End of year	13,180,000	0.09	12,830,000	0.09

The following table summarizes the warrants outstanding and exercisable at July 31, 2019:

Issue date	Exercise price	Number of warrants	Expiry date
June 22, 2017	\$ 0.08	6,000,000	June 22, 2020
April 27, 2018	0.10	6,000,000	April 27, 2021
July 11, 2018	0.10	580,000	July 11, 2021
Sept 28, 2018	0.10	600,000	Sep 28, 2020
		13,180,000	

Some of the warrants are subject to acceleration in the event the Company's common shares trade at or above certain share prices.

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10. INCOME TAXES

(a) Deferred income taxes

Significant components of the Company's deferred tax assets and liabilities are as follows:

	2019	2018
Future income tax asset		
Operating losses available to offset future taxes	\$ 2,487,000	\$ 2,133,000
Tax basis of timing differences	81,000	84,000
	2,568,000	2,217,000
Valuation allowance	(2,568,000)	(2,217,000)
	\$ -	\$ -

The Company has determined that realization of a deferred tax asset is not probable and therefore a valuation allowance has been recorded against the deferred income tax asset.

(b) Current income taxes

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 27% (2018 - 27%) to the loss for the years as follows:

	2019	2018
Loss for the year before income taxes	\$ (421,900)	\$ (1,236,200)
Anticipated income tax recovery	\$ (113,900)	\$ (333,800)
Tax effect of the following:		
Benefit of income tax losses not (recognized)	(36,300)	272,500
Non-deductible expenses	159,000	57,000
Other deductible expenses	(8,800)	4,300
	\$ -	\$ -

(c) Income tax losses carried forward

As at July 31, 2019 the Company has non-capital losses of \$9,565,000 for tax purposes which can be applied against future taxable income. These losses expire in the years 2026 to 2039.

THERMA BRIGHT INC.
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11. LOSS PER SHARE

Loss per share is calculated on the weighted average number of common shares, options and warrants outstanding during the year, which was 163,270,690 [2018 - 148,520,089].

The Company has 13,180,000 unexercised warrants [2018 - 12,830,000] and 13,015,000 options [2018 - 15,685,000] outstanding as at July 31, 2019. Warrants and options outstanding in fiscal 2019 were excluded in the computation of loss per share due to the anti-dilutive nature.

12. CONTINGENCIES AND COMMITMENTS

(a) The Company has offered a "Risk Free Guarantee" on sales of InterceptCS™ product allowing consumers, if they are not satisfied with the product within 90 days of the date of purchase, to return product directly to the Company for a full refund. While returns have been insignificant to date, there can be no assurance that the Company will not receive an increased level of returns in the future.

(b) The Company disputes the consultancy and investor relation services provided by a supplier who invoiced the Company \$135,600 during the year. The Company believes no amount is payable and will defend its position if legal proceeding or claims are made against it. The final outcome is uncertain at present.

(c) On November 2, 2016, the Company entered into an exclusive license agreement (the "License") with Luminar Media Group Inc. ("Luminar") of Aventura, Florida, United States to market the Company's next generation thermal therapy insect device (the "Device") in US, Europe and Asia. The Company was to receive an aggregate of US\$250,000 from November 2016 to February 2017. In addition, the Company was to receive a royalty payment equal to 10% of gross sales of the Device up to the first 100,000 units sold and 5% of gross sales of the Device thereafter. The royalty was payable quarterly. Luminar was required to meet the various sales targets over the next 5 years after signing the agreement. In return, the Company committed to obtaining all regulatory approvals with the FDA of United States and other regulatory requirements in jurisdictions outside of the U.S. deemed necessary to market the product. The Company would also utilize its ISO 13485 Quality Management System in any market that Luminar intended to enter. On October 2, 2017, the Company announced that it had formally terminated its exclusive agreement with Luminar to distribute TherOZap™ globally outside of Canada for reasons of non-performance of fees payable as outlined in the agreement.

(d) On March 30, 2017, the Company announced that it signed a service agreement with University Health Network (UHN), whereby UHN would develop testing methodology protocols for the TherOZap technology to determine the effectiveness of TherOZap at inactivating the Zika and West Nile viruses. On August 17, 2017, the Company made an amendment to the above service agreement to expand the testing.

(e) On May 30, 2017, the Company signed a design services agreement, the objective of which is to produce prototypes of Activators with a pre-configured number of activations in relation to InterceptCS™.

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Notes to the Financial Statements
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13. FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments

The fair values of the Company's financial instruments approximate their carrying values. The carrying amounts of cash, accounts payable and accrued liabilities and loans from directors approximate their fair values due to the short-term maturities of these instruments.

(b) Currency risk

The Company did not have any foreign currency exposure as at July 31, 2019 and 2018. The results of the Company's operations are therefore not subject to currency transaction and translation risk.

(c) Liquidity risk

The Company monitors its liquidity position regularly to assess whether it has the funds necessary to pay for the general and administrative expenses required to maintain the Company's books and records as well as its listing on the TSXV. However, since the Company does not internally generate a significant cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company and the Company may not be able to achieve successful operations. The current uncertainty in global markets and the fact that the Company has a nominal amount of assets could have an impact on the Company's future ability to obtain capital on terms that are acceptable to the Company, and on the Company's future ability to achieve successful operations. The Company has so far maintained a limited amount of cash for its operational needs by means of loans from the directors and share issuance.

14. CAPITAL MANAGEMENT

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its business objectives, and to raise additional capital for liquidity requirements. The Company is not subject to any externally imposed capital requirements, and does not presently utilize any quantitative measures to monitor capital.
