



**VENTRIPOINT DIAGNOSTICS LTD.**

**CONDENSED CONSOLIDATED INTERIM**

**FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTH PERIODS**

**ENDED SEPTEMBER 30, 2019**

**(UNAUDITED)**

PREPARED BY MANAGEMENT WITHOUT REVIEW BY THE COMPANY'S AUDITORS

Ventripoint Diagnostics Ltd.  
Consolidated Statements of Financial Position  
Amounts in CDN Dollars

	Note	As at September 30, 2019	As at December 31, 2018 Restated (Note 3)
<b>ASSETS</b>			
Cash and equivalents		\$139,300	\$66,566
Amounts receivable	4	58,619	80,222
Inventory		31,895	68,990
Prepaid Expenses		79,752	160,695
<b>Total current assets</b>		<b>309,566</b>	<b>376,473</b>
Property and equipment	6	41,666	49,004
Right-of-use leased assets	3	105,974	132,468
Intangible assets		37,340	37,340
<b>Total non-current assets</b>		<b>184,980</b>	<b>218,812</b>
<b>Total assets</b>		<b>\$494,546</b>	<b>\$595,285</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>			
Accounts payable and accrued liabilities	5	\$2,089,631	\$1,285,297
Current portion of leases	3	35,846	32,176
Interest payable on debentures		13,065	-
Deferred revenue		-	9,823
Derivative liabilities	8	84,979	133,619
<b>Total current liabilities</b>		<b>2,223,521</b>	<b>1,460,914</b>
Leases	3	85,006	112,237
Convertible debentures	7	690,533	-
<b>Total non-current liabilities</b>		<b>775,538</b>	<b>112,237</b>
<b>Total liabilities</b>		<b>\$2,999,060</b>	<b>\$1,573,151</b>
<b>Shareholders' deficit</b>			
Share capital	9	29,062,449	28,623,802
Contributed surplus	9	5,762,132	5,022,953
Deficit		(37,329,095)	(34,624,622)
<b>Total deficit</b>		<b>(\$2,504,514)</b>	<b>(\$977,866)</b>
<b>Total liabilities and shareholders' deficit</b>		<b>\$494,546</b>	<b>\$595,285</b>

See accompanying notes to the financial statements.

Ventripoint Diagnostics Ltd.  
Consolidated Statements of Loss and Comprehensive  
Loss  
Amounts in CDN Dollars

	Note	Three months ended September 30		Nine months ended September 30	
		2019	2018	2019	2018
<b>Revenue</b>		\$ -	\$60,177	\$49,523	\$60,177
<b>Cost of revenue</b>		(1,650)	(28,902)	(32,582)	(32,094)
<b>Gross Margin</b>		(1,650)	31,275	16,941	28,083
<b>Expenses</b>					
General and administrative		397,637	302,321	1,391,124	1,049,560
Research and development		251,524	391,762	849,443	1,092,605
Sales and marketing		123,610	212,703	465,172	765,905
<b>Total operating expenses</b>		<b>772,771</b>	<b>906,786</b>	<b>2,705,738</b>	<b>2,908,070</b>
<b>Loss from operations</b>		<b>(774,421)</b>	<b>(875,511)</b>	<b>(2,688,797)</b>	<b>(2,879,987)</b>
<b>Non-operating income (loss)</b>					
Finance costs		(54,268)	(1,198)	(175,020)	(3,349)
Derivative liabilities revaluation adjustment	8	274,857	744,444	48,640	1,797,330
Other income (expense)	10	16,841	-	95,795	-
Foreign currency differences		(6,046)	16,763	16,092	(10,544)
<b>Total non-operating income (loss)</b>		<b>231,383</b>	<b>760,009</b>	<b>(14,492)</b>	<b>1,783,437</b>
<b>Loss and comprehensive loss</b>		<b>(\$543,038)</b>	<b>(\$115,502)</b>	<b>(\$2,703,289)</b>	<b>(\$1,096,550)</b>
<b>Basic and diluted loss per share</b>	8	<b>(0.01)</b>	<b>0.00</b>	<b>(0.04)</b>	<b>(0.02)</b>

See accompanying notes to the consolidated financial statements.

Ventripoint Diagnostics Ltd.  
Consolidated Statements of Cash Flows  
Amounts in CDN Dollars

	Note	Nine months ended	
		September 30, 2019	September 30, 2018
<b>OPERATING ACTIVITIES</b>			
Net loss		(\$2,703,289)	(\$1,096,550)
<i>Adjustments for items not effecting cash:</i>			
Depreciation of property and equipment	6	22,187	20,496
Depreciation of right of use asset	3	26,494	-
Share-based compensation	9	186,818	331,640
Accretion of debentures payable	7	98,501	-
Interest on debentures and leases	7	72,676	-
Derivative liabilities revaluation adjustment	8	(48,640)	(1,797,330)
Consulting fees & salaries settled with shares	9	30,000	204,000
Foreign exchange (gain) loss		(16,092)	10,544
		(2,331,346)	(2,327,200)
<i>Change in non-cash working capital items:</i>			
Amounts receivable		21,602	(23,501)
Prepaid expenses		80,944	(97,340)
Inventory		37,095	(20,220)
Accounts payable and accrued liabilities		804,335	32,034
Deferred revenue		(9,823)	-
<b>Cash used in operating activities</b>		<b>(1,397,193)</b>	<b>(2,436,227)</b>
<b>INVESTING ACTIVITIES</b>			
Additions to property and equipment	6	(14,849)	(25,772)
<b>Cash used in investing activities</b>		<b>(14,849)</b>	<b>(25,772)</b>
<b>FINANCING ACTIVITIES</b>			
Issuance of share capital for cash	9	134,500	1,790,000
Issuance of convertible debentures	7	1,511,000	-
Principal elements of lease payments	3	(23,561)	-
Interest paid in cash on lease liability	3	(10,988)	-
Interest paid in cash on convertible debentures	7	(26,615)	-
Share and debenture issuance costs paid in cash	9	(114,468)	(25,340)
<b>Cash provided by financing activities</b>		<b>1,469,868</b>	<b>1,764,660</b>
<b>Effect of foreign exchange on cash and equivalents</b>		<b>14,908</b>	<b>(10,545)</b>
<b>Net increase (decrease) in cash and equivalents</b>		<b>72,734</b>	<b>(707,884)</b>
Cash and equivalents at beginning of period		66,566	1,358,923
<b>Cash and cash equivalents at end of period</b>		<b>\$139,300</b>	<b>\$651,039</b>

See accompanying notes to the financial statements.



# Ventripoint Diagnostics Ltd.

Notes to the Consolidated Financial Statements

September 30, 2019 and 2018

Amounts in Canadian Dollars unless otherwise stated

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## 1. Corporate information

Ventripoint Diagnostics Ltd. (“Diagnostics” or the “Company”) was incorporated by a Certificate of Incorporation pursuant to the provisions of the Business Corporations Act (Alberta) on May 4, 2005. Diagnostics acquired Ventripoint Inc. (“Ventripoint”, Diagnostics and Ventripoint, collectively referred to herein as the “Company” or “Companies”) on September 18, 2007. Diagnostics is a Canadian public company with its shares listed on the TSX Venture Exchange (“TSXV” or the “Exchange”) with the trading symbol “VPT” and on the OTCQB in the U.S. with the trading symbol “VPTDF”. Ventripoint Inc. was incorporated in the State of Washington in July, 2004 and commenced operations in January, 2005. Ventripoint Inc.’s registration was migrated to the State of Delaware on December 21, 2017. The Companies’ registered office is at Livingston Place West, Suite 1000, 250 – 2nd Avenue S.W., Calgary, Alberta, T2P 0C1.

The Company is a medical device company engaged in the development and commercialization of diagnostic tools that monitor patients with heart disease. The system is based upon patented technology, the commercialization rights of which Ventripoint has licensed from the University of Washington.

## 2. Basis of presentation

### (a) Statement of compliance

These condensed consolidated interim financial statements for the nine month periods ended September 30, 2019 and 2018, have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting*. Accordingly, they do not include all disclosures which would otherwise be required in a complete set of financial statements and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Company has applied the same accounting policies and methods of computation in its condensed consolidated interim financial statements as in its 2018 annual audited consolidated financial statements, aside from the adoption of IFRS 16 - *Leases*.

The Company has adopted IFRS 16 - *Leases* retrospectively, without restatement of prior year comparatives, which results in the cumulative impact of adoption being recorded as an adjustment to equity at the beginning of the accounting period when the policy is first adopted, January 1, 2019. The Company has presented the adjusted Statement of Financial Position as at December 31, 2018. See Note 3, *Accounting Standards Adopted in 2019*.

### (b) Basis of measurement and going concern

These consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments. These condensed consolidated financial statements have been prepared using IFRS that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. There is no certainty whether the Company will generate significant revenues or attain profitable operations in the near future and there can be no assurance that it will achieve profitability in the future, as it incurred a loss of \$2,703,289 and had a negative operating cash flow of \$1,397,193 for the nine month period ended September 30, 2019, and has accumulated \$37,329,095 of losses as at September 30, 2019. As a result, there is a material uncertainty which creates significant doubt regarding the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent on its raising of future required capital, bringing its products to market and achieving and maintaining profitable operations. The outcome of these matters cannot be predicted at this time. These consolidated interim financial statements do not include any adjustments and classifications of assets and liabilities, which might be necessary should the Company be unable to continue its operations. Such adjustments could be material.

### (c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars (“CDN\$”), the Company’s functional currency. The functional currency of the Company’s wholly owned subsidiary is US dollars (“US\$”) and has been translated to CDN\$ using the closing rate, the spot exchange rate or the annual average exchange rate.

### (d) Critical accounting judgements and estimates

The preparation of the condensed consolidated interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses.

# Ventripoint Diagnostics Ltd.

Notes to the Consolidated Financial Statements

September 30, 2019 and 2018

Amounts in Canadian Dollars unless otherwise stated

There have been no material revisions to the nature and amount of changes in estimates of amounts reported in the 2018 annual audited consolidated financial statements, however, due to the time required and the cost of building individual binomial models to value each derivative warrant issuance and transaction, quarterly financial statements are prepared with derivative values estimated using the Black-Scholes model as a proxy for binomial models. Annual statements are prepared with binomial models and adjusted accordingly.

### 3. Accounting standards adopted in 2019 - Leases

IFRS 16 *Leases*.

The IFRS 16 – *Leases* standard came into effect with an initial adoption date of January 1, 2019, and has been adopted by the Company retrospectively, without restatement of prior year comparatives, which resulted in the cumulative impact of adoption being recorded as an adjustment to equity at the beginning of the accounting period when the policy is first adopted.

The accounting standard provides for a single lessee model, requiring lessees to recognize “right-of-use” assets and lease liabilities for all major leases at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received. The assets are depreciated using the straight-line method over the lease term.

The lease liability is initially measured at the present value of the lease payments other than those paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s borrowing rate.

The adoption of IFRS 16 included the de-recognition of \$11,011 of accrued rent, with a net adjustment to opening 2019 Retained Earnings of \$4,603.

The Company used its borrowing rate as the discount rate to determine the value of its five year office premises lease. The asset value was recorded as \$176,624 and is depreciated on a straight-line basis over the lease term, starting October 1, 2017. As of September 30, 2019, the accumulated depreciation is \$70,650, and the depreciation expense recognized in the nine month period ended September 30, 2019 is \$26,494.

Starting January 1, 2019, rental payments are recorded as principal payments on the lease obligation and interest expense. For the nine month period ended September 30, 2019, the Company recognized interest expense of \$10,988, and principal payments of \$23,561.

### 4. Accounts receivable

	September 30, 2019	December 31, 2018
Government contribution receivable	-	\$ 821
Goods and services taxes receivable, net	\$ 58,619	79,401
<b>Total</b>	<b>\$ 58,619</b>	<b>\$ 80,222</b>

### 5. Accounts payable and accrued liabilities

	September 30, 2019	December 31, 2018
Trade and other payables	\$1,125,003	\$ 729,124
Accrued management salaries	599,682	467,153
Other accruals	52,447	100,031
Oct. 2, 2019 financing subscriptions deposited in advance of closing	312,500	-
<b>Total</b>	<b>\$2,089,631</b>	<b>\$ 1,296,308</b>

# Ventripoint Diagnostics Ltd.

Notes to the Consolidated Financial Statements

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Amounts in Canadian Dollars unless otherwise stated

## 6. Property and equipment

### *Cost:*

<b>Balance December 31, 2017</b>	\$195,619
Additions	27,374
Disposals	(43,439)
<b>Balance, December 31, 2018</b>	179,554
Additions	14,849
Disposals	(34,657)
<b>Balance, September 30, 2019</b>	159,747

### *Accumulated depreciation:*

<b>Balance, December 31, 2017</b>	(145,704)
Depreciation	(28,285)
Disposals	43,439
<b>Balance, December 31, 2018</b>	(130,550)
Depreciation	(22,187)
Disposals	34,657
<b>Balance, September 30, 2019</b>	(118,081)

### **Net carrying amounts:**

December 31, 2018	\$49,004
September 30, 2019	\$41,666

## 7. Debentures payable

On January 25, 2019, the Company issued \$1,511,000 of convertible non-secured debentures (“Debentures”) which mature on January 25, 2022, and issued a total of 9,066,000 common share purchase warrants (“Warrants”) with an exercise price of \$0.175, exercisable until July 25, 2020. The securities issued were subject to a four month hold period which expired on May 26, 2019.

The Debentures bear simple interest at an annual rate of 6.5%, calculated on the principal amount, with any accrued but unpaid interest under the Debentures due and payable quarterly in either cash or common shares (at the option of the Company), except for the first interest payment which shall be paid in cash, with the number of common shares being determined by using the 10 day volume-weighted average price of the common shares on the TSX Venture Exchange on that date that is five days prior to the last trading day of the applicable quarter. The Debentures may be converted by the holder at any time at a price of \$0.155 per common share. The Debentures may be redeemed in whole or in part by the Company at any time after May 26, 2019, upon payment of the principal amount plus a premium of 2.5% of such principal amount and all accrued and unpaid interest.

Under the terms of the Debentures, other than in the ordinary course of business, the Company shall not directly or indirectly enter into a loan or borrowing arrangement with a third party lender without the prior written consent of the holders of not less than 51% of the then outstanding aggregate principal amount of the Debentures.

A Director and Officer of the Company purchased \$233,000 of Debentures under the offering.

Finders acting in connection with this offering received finder’s fees in the aggregate total amount of \$81,360 and 488,160 finder’s warrants. Each finder’s warrant is exercisable for one common share at an exercise price of \$0.175 per common share until July 25, 2020. The finder’s warrants were recorded in Contributed Surplus and were valued at \$30,266 using a Black-Scholes model with assumptions outlined in Note 8.

# Ventripoint Diagnostics Ltd.

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The Debentures were originally valued at the present value of the Debenture interest and principal repayment cash flows, less transaction costs of \$89,589 for a residual value of \$845,713. The Debentures are accreted up to the face value of \$1,511,000 over the life of the liability using the effective interest rate method, at an effective rate of 28.9%. The Warrants were valued at \$562,092 using a Black-Scholes model (Note 8), with the conversion feature derived as the residual of the Debenture face value less the Warrant and Debenture fair values. The Warrants were recorded in Contributed Surplus and the conversion feature of \$13,605 was recorded in share capital. These Warrants are not derivative financial liabilities and are not adjusted to fair value at each statement of financial position date.

On June 10, 2019 and June 26, 2019, \$80,000 and \$73,000 respectively, of the Debentures were converted into 516,129 and 470,967 common shares valued at \$47,741 and \$43,906, respectively, and recorded as Share Capital. The Debenture value was reduced by the corresponding amounts. On August 13, 2019, \$263,000 of the Debentures were converted into 1,696,773 common shares valued at \$162,034 and recorded as Share Capital and a reduction to the Debenture balance. An Officer and Director held \$233,000 of the Debentures converted on August 13<sup>th</sup> and received 1,503,225 of the common shares.

On July 25, 2019 the Company issued 143,833 common shares at a deemed price of \$0.153 per common share in payment of \$22,007 of interest owing on the Convertible Debentures (Note 7).

During the nine months ended September 30, 2019, interest expense and accretion of \$61,687 and \$98,501, respectively were recognized on the Debentures.

## 8. Derivative liabilities and warrants

Warrants are issued in connection with private placements of common shares and convertible debentures with an exercise price in Canadian dollars. Certain warrants, issued prior to 2018, are treated as derivative financial liabilities (the “Derivative Warrants”) as the exercise price of the Derivative Warrants may be adjusted if the Company issues common shares at less than 95% of the quoted market price. The fair value movement during the period on the Derivative Warrants was recognized in profit or loss (however, warrants issued to agents and brokers are classified as share based payments and are therefore not accounted for as liabilities and are not subject to re-measurement at each statement of financial position date).

The Company uses the Black-Scholes model or a Binomial model to determine the fair value of the Derivative Liabilities at inception and at each period end.

Warrants issued in September, 2018 and January, 2019 (Note 7) are not treated as derivative financial liabilities as these warrants meet the “fixed for fixed” criteria (“Equity Warrants”). The fair value of the Equity Warrants and finders’ warrants are recorded in Contributed Surplus at the date of issuance and are not adjusted to fair value at each statement of financial position date.

The following table summarizes the changes in the Derivative Liabilities balance during the nine month period ended September 30, 2019 and the year ended December 31, 2018:

<b>Balance, December 31, 2017</b>	<b>\$2,183,831</b>
Warrant exercises	(254,136)
Derivative revaluation adjustment	(1,796,076)
<b>Balance, December 31, 2017</b>	<b>\$133,619</b>
Derivative revaluation adjustment	(48,640)
<b>Balance, September 30, 2019</b>	<b>\$84,979</b>

### *Warrant Transactions – 2019*

#### *Convertible Debenture Private Placement*

As part of a Private Placement of Convertible Debentures (Note 7) the Company issued 9,066,000 common share purchase warrants and 488,160 common share purchase finder’s warrants with the same terms and conditions. Each Warrant and finder’s warrant entitles the holder thereof to acquire one common share of the Company at an exercise price of \$0.175 per common share for a period of 18 months after the issuance of the warrants on January 25, 2019.

# Ventripoint Diagnostics Ltd.

Notes to the Consolidated Financial Statements

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Amounts in Canadian Dollars unless otherwise stated

The warrants were initially valued on the grant date at \$562,092, and the finder's warrants were valued at \$30,266, both using a Black-Scholes model with the assumptions outlined below and were recorded in Contributed Surplus. An Officer and Director of the Company purchased \$233,000 of Convertible Debentures with 1,398,000 warrants.

	<u>Warrants</u>
Exercise price	0.175
Time to maturity	1.5 yrs
Risk-free rate	1.82%
Volatility	87.50%
Dividend rate	<u>nil</u>

### *Warrant Extension*

On March 8, 2019 the Company received final approval from the TSX Venture Exchange to amend the expiry date of 10,496,938 common share purchase warrants with an exercise price of \$0.50 issued by the Company in connection with a Private Placement financing on March 23, 2017. The expiry date was amended from March 23, 2019 to March 23, 2021 with all other terms to remain the same.

For financial statement purposes the amendment of the Warrants is treated as an extinguishment and issuance of new extended Warrants and is recognized in the profit and loss in the Derivative Liabilities Revaluation Adjustment and as an increase to Derivative Liabilities of \$459,766. The new Warrants were valued using a Black-Scholes model with assumptions as follows:

	<u>Warrants</u>
Exercise price	\$0.50
Time to maturity	2.04 years
Risk-free rate	1.82%
Volatility	90.81%
Dividend rate	<u>nil</u>

### *Warrants outstanding*

Changes in the total number of warrants outstanding (both Derivative and Equity Warrants), during the nine month period ended September 30, 2019 and the year ended December 31, 2018 were as follows:

	<u>Nine months ended September 30, 2019</u>		<u>Year ended December 31, 2018</u>	
	<u>Number of Warrants</u>	<u>Weighted average exercise price</u>	<u>Number of warrants</u>	<u>Weighted average exercise price</u>
<b>Balance, January 1</b>	17,594,643	\$0.46	19,321,766	\$0.44
Granted	9,554,160	\$0.175	2,408,333	\$0.34
Expired	(3,539,373)	\$0.45	(1,763,789)	\$0.40
Exercised	-	-	(2,371,667)	\$0.29
<b>Balance, period end</b>	<b>23,609,430</b>	<b>\$0.34</b>	<b>17,594,643</b>	<b>\$0.46</b>

The following table reflects warrants outstanding, all of which are exercisable, at September 30, 2019:

<u>Exercise Price</u>	<u>Quantity</u>	<u>Remaining Avg Contractual Life</u>
\$0.175	9,554,160	0.82
\$0.30	1,150,000	1.21
\$0.34	2,408,333	0.94
\$0.50	10,496,938	1.48
<b>\$0.34</b>	<b>23,609,431</b>	<b>1.14</b>

# Ventripoint Diagnostics Ltd.

Notes to the Consolidated Financial Statements

September 30, 2019 and 2018

Amounts in Canadian Dollars unless otherwise stated

The fair value of the Derivative Warrants at the dates of the statement of financial position of re-measurement for September 30, 2019 and December 31, 2018 were valued using either a Binomial model or a Black-Scholes model with the following weighted average assumptions:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Time to maturity	1.45 yrs	0.37 yrs
Risk-free rate	1.58%	1.85%
Volatility	83.56%	95.19%
Dividend rate	nil	nil

## 9. Share capital

The Company has authorized share capital of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value. No preferred shares have been issued. Common shareholders are entitled to receive dividends as declared by the Company at its discretion and are entitled to one vote per share at the Company's annual general meeting.

### *Share transactions – 2019*

#### *Option Exercises*

In the first nine months of 2019, 900,000 common shares were issued as a result of the exercise of stock options for proceeds of \$134,500. Common shares issued were recorded at a value of \$174,497.

#### *Debenture Conversions*

On June 10, 2019 and June 26, 2019, \$80,000 and \$73,000 respectively, of the Convertible Debentures were converted into 516,129 and 470,967 common shares valued at \$47,741 and \$43,906, respectively, and recorded as Share Capital (Note 7). The Debenture value was reduced by the corresponding amounts. On August 13, 2019, \$263,000 of the Debentures were converted into 1,696,773 common shares valued at \$162,034 and recorded as Share Capital and a reduction to the Debenture balance. An Officer and Director held \$233,000 of the Debentures converted on August 14<sup>th</sup> and received 1,503,225 of the common shares.

#### *Shares for Interest*

On July 25, 2019 the Company issued 143,833 common shares at a deemed price of \$0.153 per common share in payment of \$22,007 of interest owing on the Convertible Debentures (Note 7).

#### *Shares for Service*

On July 4, 2019, the Company issued 187,500 shares in payment of a \$30,000 quarterly work fee due to financial consultants under a financial and strategic advisory services contract. The deemed price of these shares was \$0.16 per common share.

### **Weighted average number of shares**

The weighted average number of shares for the nine month period ended September 30, 2019 was 60,678,463 (September 30, 2018 – 54,130,390). The Company has not adjusted its weighted average number of shares outstanding for the purpose of calculating the diluted loss per share as any adjustment related to stock options or warrants would be anti-dilutive.

### **Nature and purpose of Contributed Surplus**

The reserves recorded in equity on the Company's statement of financial position include 'Contributed Surplus' and 'Deficit'. Contributed Surplus is used to recognize the value of stock option grants, DSUs and share purchase Equity Warrants prior to exercise. Deficit is used to record the Company's change in deficit from earnings from year to year.

# Ventripoint Diagnostics Ltd.

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## Stock Option Plan

The Company has adopted an incentive stock option plan in accordance with the policies of the TSXV Exchange (the “Stock Option Plan”) which provides that the Board of Directors of the Company may from time to time, at its discretion, grant to Directors, Officers, employees and consultants of the Company non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance under the Stock Option Plan shall not exceed ten percent (10%) of the issued and outstanding common shares. In addition, the number of common shares reserved for issuance in any one period to any one optionee shall not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to any one consultant will not exceed two percent (2%) of the issued and outstanding common shares. The Board of Directors determines the price per common share and the number of common shares which may be allotted to each Director, Officer, employee and consultant and all other terms and conditions of the option, subject to the rules of the Exchange.

### Stock option transactions – 2019

#### Stock option grants

On February 5, 2019 the Board of Directors granted a total of 685,000 common share stock options at an exercise price of \$0.16 per share. Four independent directors, and the Chairman of Ventripoint’s Business Advisory Committee, were granted a total of 50,000 options each, all of which have a maturity date of five years from the date of issuance, and vest over one year. Three officers of the Company were granted a total of 175,000 options and employees were granted 95,000 options, for a term of 5 years, vesting quarterly over 3 years. The remaining 265,000 options were granted to consultants.

On May 13, 2019 the Board of Directors granted a consultant to the Company 250,000 common share stock options with an exercise price of \$0.15 per common share, and a second consultant 50,000 stock options with an exercise price of \$0.11 per share. Both options have a term of one year and vest immediately.

On June 21, 2019 the Company granted to a consultant 100,000 common share options with an exercise price of \$0.15, a term of one year, and vesting immediately. On July 25, a consultant was granted 100,000 options with an exercise price of \$0.15, a term of 6 months and immediate vesting. On August 15<sup>th</sup> two consultants were granted a total of 150,000 options with an exercise price of \$0.15, a term of one year and which vested immediately.

#### Stock option exercises

In the nine months ended September 30, 2019, 900,000 shares were issued as a result of the exercise of stock options for cash proceeds of \$134,500. The value of the Share Capital recognized is the total of the cash proceeds from the exercise and the expense previously recognized for the issuance of the stock options, resulting in a total increase to Share Capital of \$174,497.

#### Stock options outstanding

Changes in the number of options outstanding during the nine months ended September 30, 2019 and the year ended December 31, 2018 were as follows:

	Nine months ended September 30, 2019		Year ended December 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, January 1	3,725,000	\$0.34	3,389,400	\$0.38
Granted	1,335,000	\$0.15	1,970,000	\$0.27
Exercised	(900,000)	\$0.15	(700,000)	\$0.24
Cancelled /expired	(1,080,000)	\$0.29	(934,400)	\$0.40
Balance, period end	3,080,000	\$0.30	3,725,000	\$0.34

# Ventripoint Diagnostics Ltd.

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The following table reflects stock options outstanding and exercisable at September 30, 2019:

Grant Price Range	Options Outstanding			Options Exercisable		
	# of options	weighted avg remaining life	weighted avg exercise price	# of options	weighted avg remaining life	weighted avg exercise price
≤ \$0.25	880,000	3.78	\$0.17	557,500	3.55	\$0.17
\$0.26 - \$0.32	2,100,000	3.22	\$0.32	1,636,250	3.14	\$0.32
\$0.33 - \$1.25	100,000	0.98	\$1.25	100,000	0.98	\$1.25
	3,080,000	3.31	\$0.30	2,293,750	3.14	\$0.32

Share-based compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes model with the following weighted average assumptions:

	September 30, 2019	June 30, 2018
Expected option life	4.11 years	4.12 years
Risk-free rate	1.50%	1.63%
Expected forfeiture rate	6.00%	6.00%
Expected volatility	137.18%	147.21%
Dividend yield	nil	nil

The Black-Scholes model used by the Company to calculate option values was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires four highly subjective assumptions, including future stock price volatility and average option life, which greatly affect the calculated values.

The risk-free interest rate is based primarily on the implied yield on a Canadian Government zero-coupon issue with a remaining term equal to the expected term of the option. The volatility is based solely on historical volatility equal to the expected life of the option. The life of the options is estimated considering the vesting period at the grant date, the life of the option and expectations of early exercise. The forfeiture rate is an estimate based on historical evidence and future expectations. The dividend yield was excluded from the calculation since it is the present policy of the Company to retain all earnings to finance operations and future growth.

## 10. Government Grants and Contributions

Other Income of \$95,795 in the first nine months of 2019 consists of a contribution from the National Research Council of Canada Industrial Research Assistance Program (NRC IRAP) under a Contribution Agreement for partial reimbursement of salary and contractor costs for research and development work on next generation product features. This funding was complete by the end of August, 2019.

## 11. Contractual Commitments

The Company has the following future minimum contractual cash obligations as of September 30, 2019:

	2019	2020	2021	2022-2028	Total
Premises lease	\$11,828	\$46,799	\$48,022	\$36,705	\$143,354
University of Washington Technology License Minimum Annual Royalty (US\$5,000)	-	6,648	6,648	46,536	59,832
Total contractual commitments for the period	\$11,828	\$53,447	\$54,670	\$83,241	\$203,186

The annual Royalty due to the University of Washington under the Technology License Agreement is the higher of 1.5% of gross sales or the Minimum Annual Royalty of US\$5,000.

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In October, 2017, the Company moved into leased premises at 2 Sheppard Ave East, Suite 605, Toronto, Ontario. The premises lease is a 5 year lease with set annual increases in base rent. In 2019, the Company adopted IFRS 16 – *Leases* using the retrospective approach, with no restatement of prior year results (Note 3), which involves capitalizing the lease obligation and right of use asset, and recognizing capital repayments and interest expense, rather than rent expense, as recorded for 2018 and prior years.

### 12. Related parties

The key management personnel of the Company are the Directors, the Chief Executive Officer, the President and the Chief Financial Officer.

Compensation for key management personnel of the Company for the nine months ended September 30, 2019 and 2018 was as follows:

	September 30, 2019	September 30, 2018
Salaries, fees and short-term benefits	\$ 347,215	\$ 311,837
Share-based compensation	98,312	32,940
Directors' fees	80,924	52,396
Total key management personnel expenses	\$ 526,452	\$ 397,173

Executive Officers and Directors participate in the Stock Option Plan and the DSU Plan. Officers also participate in the Company's health plan. Directors receive monthly and meeting fees for their services. As at September 30, 2019 the key management personnel controlled 0.72% of the outstanding voting shares of the Company (4.98% on a fully diluted basis). On October 2, the CEO, CFO and all the directors invested \$334,970 for the purchase of 2,233,132 Units in the Private Placement (see Note 14 – Subsequent Events) increasing key management control to 3.90% (8.44 % on a fully diluted basis).

On February 5, 2019 the Board of Directors granted 50,000 common share stock options each, at an exercise price of \$0.16 per share to four independent directors. The options have a five year term and vest over one year. In addition, three Officers of the Company were granted a total of 175,000 options for a term of 5 years, vesting quarterly over 3 years.

On January 25, 2019 an Officer and Director of the Company purchased \$233,000 of three year Convertible Debentures (Note 7). On August 13, 2019, the Officer and Director converted the full \$233,000 of the Debentures and received 1,503,225 of common shares.

### 13. Financial instruments

The Company's financial instruments consist of cash and equivalents, accounts payables and accrued liabilities, debentures payable and derivative liabilities. Cash and equivalents are classified as loans and receivables. Accounts payable and accrued liabilities and debentures payable are classified as other financial liabilities, which are measured at amortized cost. Derivative financial liabilities are measured at fair value.

IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

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

The Company measures its derivative liabilities at fair value through profit or loss and has determined this valuation to be a level 2 valuation as it is based on inputs that are observable.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, market risk and foreign currency risk.

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## (a) Credit risk:

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and equivalents, and trade accounts receivable. The carrying amount of the financial assets represents the maximum credit exposure.

The Company limits its exposure to credit risk on cash and equivalents by placing these financial instruments with high-credit quality financial institutions and only investing in liquid, investment grade securities.

The Company has a number of individual customers and no one customer represents a concentration of credit risk.

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss within operating expenses. When a receivable balance is considered uncollectible it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss. Within the accounts receivable, all amounts receivable are considered to be collectible. Amounts receivable consist of amounts due from the Government for sales tax refunds, which are considered to have no credit risk. The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk as at September 30, 2019 and December 31, 2018 was:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Cash and equivalents	\$139,300	\$66,566
Trade Accounts receivable	-	-
<b>Total</b>	<b>\$139,300</b>	<b>\$66,566</b>

## (b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by monitoring forecasted and actual cash flows, as well as anticipated investing and financial activities. The majority of the Company's financial liabilities are due within 90 days. The Company has no long-term financial liabilities.

The following table consists of liabilities and sets out contractual maturities (representing undiscounted contractual cash flows) of the financial liabilities outstanding at September 30, 2019:

	<b>Q4 2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Total</b>
Accounts payable & accrued liabilities	\$2,084,667	\$4,964				\$2,089,631
Leases	11,828	47,621	48,866	33,680		141,995
Interest payable on debentures	13,065					13,065
Convertible debentures				1,095,000		1,095,000
	<b>\$2,109,560</b>	<b>\$52,585</b>	<b>\$48,866</b>	<b>\$1,128,680</b>	<b>-</b>	<b>\$3,339,691</b>

The contractual maturities of commitments at period end are included in Note 11.

## (c) Market risk:

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates will affect the Company's income or the value of the financial instruments held.

## (d) Foreign currency risk:

The majority of the Company's total expenditures were denominated in CDN\$ in 2019, though a significant portion of inventory purchases are made in US\$. Sales in 2019 were denominated in CDN\$ (2018 – US\$). The Company's capital transactions are denominated in CDN\$ and the Company maintains most of its cash and equivalents in CDN\$. Foreign currency risk reflects the risk that the Company's earnings will be impacted by fluctuations in exchange rates.

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With all other variables held constant, a 10% point increase in the value of the US\$ relative to the CDN\$ would have increased the non-operating loss due to foreign currency differences by approximately \$6,002 for the nine month period ended September 30, 2019 (September 30, 2018 - \$8,600). There would be an equal and opposite impact on the net loss with a 10% point decrease in the value of the US\$ relative to the CDN\$.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by pricing sales in CDN\$ where possible. The Company has not entered into any forward foreign exchange contracts.

The Company was exposed to currency risk as at September 30, 2019 and December 31, 2018 as follows:

	<u>2019 US\$</u>	<u>2018 US\$</u>
Cash and equivalents	\$14,416	\$28,735
Accounts receivable	-	-
Accounts payable and accrued liabilities	485,848	449,225
	<u>\$500,264</u>	<u>\$477,960</u>

## 14. Subsequent events

On October 2, 2019 the Company announced the closing of a non-brokered private placement (the "Private Placement"). A total of 4,687,132 units of the Company ("Units") were issued at a price of \$0.15 per Unit for total gross proceeds of \$703,069. All directors and two officers of the Company subscribed for a total of 48% of the Private Placement (2,233,132 Units). Each Unit consists of: (i) one common share of the Company; and (ii) one common share purchase warrant ("Warrant") with each Warrant exercisable for one common share at an exercise price of \$0.175 per common share for a period of 36 months after the issuance of the Warrant.

In connection with the Private Placement, the Company paid finder's fees consisting of \$480 in cash and 3,200 finder's warrants (each a "Finder's Warrant"). Each Finder's Warrant entitles the holder thereof to purchase one common share at a price of \$0.175 per common share for a period of 18 months from the closing of the Private Placement.

The Company will use the proceeds of the financing for sales and marketing, development and general working capital purposes. All securities issued in connection with the Private Placement are subject to a statutory hold period of four months and one day.

On October 25, 2019 the Company issued 152,031 common shares at a deemed price of \$0.118 per common share in payment for \$17,940 of interest owing on the Convertible Debentures (Note 7).

On November 4, 2019 the Company announced that it had appointed Justin Leushner as CEO of Ventripoint. Dr. George Adams resigned as CEO and has been elected as Chairman of the Board of Directors of the Company. The Board of Directors issued Mr. Leushner 500,000 option grants each at an exercise price of \$0.10 for a term of 5 years, vesting quarterly over 3 years.

On November 7, 2019 an Officer of the Company was issued 150,000 stock options with an exercise price of \$0.10, a term of 5 years, and vesting quarterly over three years.