Innovotech Inc.

Financial Statements
December 31, 2017 and 2016

April 30, 2018

Independent Auditor's Report

To the Shareholders of
Innovotech Inc.

We have audited the accompanying financial statements of Innovotech Inc., which comprise the statements of financial position as at December 31, 2017 and December 31, 2016 and the statements of changes in shareholders' equity (deficiency), operations and comprehensive income (loss) and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Innovotech Inc. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 to the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Innovotech Inc.'s ability to continue as going concern.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Innovotech Inc.

Statement of Financial Position

As at December 31, 2017 and 2016

	2017 $	2016 $
Assets		
Current assets		
Cash and cash equivalents	324,522	33,169
Trade and other receivables (note 5)	87,799	176,306
Inventory (note 6)	38,725	36,320
Prepaid expenses	7,967	7,122
	459,013	252,917
Equipment (note 7)	68,252	72,353
	527,265	325,270
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	240,757	542,276
Deferred revenue	-	10,318
Due to shareholders (note 8)	105,000	125,000
Repayable contributions (note 9)	-	866,151
	345,757	1,543,745
Shareholders' Equity (Deficiency)		
Share capital (note 10(a))	6,992,335	6,714,372
Shares to be issued (notes 10(b) and (d))	352,483	-
Contributed surplus	1,389,240	1,373,088
Deficit	(8,552,550)	(9,305,935)
	181,508	(1,218,475)
	527,265	325,270

Going concern (note 1)

Approved by the Board of Directors

_____ Director _____ Director

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

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

Innovotech Inc.

Statement of Changes in Shareholders' Equity (Deficiency)

For the years ended December 31, 2017 and 2016

	Share capital $	Warrants $	Shares to be issued $	Contributed surplus $	Deficit $	Total $
Balance – January 1, 2017	6,714,372	-	-	1,373,088	(9,305,935)	(1,218,475)
Net and comprehensive income for the year	-	-	-	-	753,385	753,385
Shares and warrants issued on private placement (note 10(a))	277,963	102,483	-	-	-	380,446
Shares to be issued on warrant exercise (notes 10(b) and (d))	-	-	250,000	-	-	250,000
Warrants exercised (notes 10(b) and (d))	-	(102,483)	102,483	-	-	-
Employee share options Value of services recognized (note 10(b))	-	-	-	16,152	-	16,152
Balance – December 31, 2017	6,992,335	-	352,483	1,389,240	(8,552,550)	181,508
Balance – January 1, 2016	6,714,372	231,815	-	1,141,273	(9,090,400)	(1,002,940)
Net and comprehensive loss for the year	-	-	-	-	(215,535)	(215,535)
Warrants expired (note 10(d))	-	(231,815)	-	231,815	-	-
Balance – December 31, 2016	6,714,372	-	-	1,373,088	(9,305,935)	(1,218,475)

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

Innovotech Inc.

Statement of Operations and Comprehensive Income (Loss)

For the years ended December 31, 2017 and 2016

	2017 $	2016 $
Revenue (note 18)		
Contract research fees	685,296	686,551
Product sales	305,047	319,047
	990,343	1,005,598
Cost of sales (note 12)		
Contract research	199,887	146,540
Product sales	90,673	125,794
	290,560	272,334
Gross profit	699,783	733,264
Operating expenses (note 12)		
General and administrative (note 14)	606,830	497,506
Sales and marketing	1,146	1,111
Research and development (note 14)	67,497	148,584
Scientific research tax credits (note 15)	(11,711)	(14,290)
	663,762	632,911
Net financing cost		
Interest expense (note 8, 9 and 13)	(27,872)	(69,559)
Loss on carrying value adjustment (note 9)	-	(246,437)
Interest income	43	108
Forgiveness of debt (note 9 and 14)	745,193	-
	717,364	(315,888)
Net income (loss) and comprehensive income (loss) for the year	753,385	(215,535)
	$	$
Basic and diluted income (loss) per common share (note 10(e))	0.02	(0.01)
	#	#
Weighted average number of common shares outstanding for the year	32,082,078	28,739,612

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

Innovotech Inc.

Statement of Cash Flows

For the years ended December 31, 2017 and 2016

	2017 $	2016 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	753,385	(215,535)
Adjustments for:		
Depreciation	16,827	19,440
Gain on disposal of equipment	(1,158)	(3,021)
Non-cash interest expense	27,872	69,559
Loss on carrying value adjustment of repayable contributions	-	246,437
Forgiveness of debt (note 9)	(745,193)	-
Forgiveness of accounts payable (note 14)	(112,196)	-
Stock-based compensation (note 10(c))	16,152	-
	(44,311)	116,880
Net change in non-cash working capital items (note 14)	(114,384)	(114,563)
	(158,695)	2,317
Investing activities		
Purchase of equipment	(13,662)	-
Proceeds from sale of equipment	2,094	4,000
	(11,568)	4,000
Financing activities		
Issuance of shares and warrants net of issuance costs (note 10(a))	380,446	-
Shares to be issued	250,000	-
Due to shareholders	(20,000)	12,500
Interest paid	(8,830)	(14,590)
Repayable contributions (note 9)	(140,000)	(3,501)
	461,616	(5,591)
Increase in cash and cash equivalents	291,353	726
Cash and cash equivalents – Beginning of year	33,169	32,443
Cash and cash equivalents – End of year	324,522	33,169

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

1 Nature of operations and use of the going concern assumption

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

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

Since inception, the Company has focussed on product research, development, and more recently on commercialization activities. These efforts have been sustained by issuing share capital, obtaining grants and other government assistance, and generating revenue from the Company's contract research business and sale of products. The Company realized net income of $753,385 (2016 – net loss of $215,535) and generated operating cash outflows of $158,695 (2016 – cash inflow of $2,317) for the year and had, a working capital of $113,256 (2016 – working capital deficit of $1,290,828) and accumulated deficit of $8,552,550 at December 31, 2017 (2016 – $9,305,935). On September 7, 2017, October 10, 2017 and December 12, 2017 the Company completed debt settlement agreements with Agriculture and Agri-Food Canada (note 9), The Sick Kids Hospital and a past executive (note 14), respectively. This resulted in a gain of $857,389. Without this gain, the Company would have realized a net loss of $104,004. The Company's planned level of expenditures for 2018 does not exceed its committed sources of funds. However, there is still significant doubt about its ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

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

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

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

2 Basis of preparation

The Company prepares its financial statements in accordance with Part I of the Handbook of the Chartered Professional Accountants of Canada (CPA Canada) which incorporates International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

These financial statements were approved by the Board of Directors for issue on April 24, 2018.

3 Significant accounting policies

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

a) Basis of measurement

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

b) Cash and cash equivalents

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

c) Inventories

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

d) Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to earnings during the period in which they are incurred.

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

Laboratory and office equipment	20%
Computer equipment	30%

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

e) Research and development

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

f) Impairment of non-financial assets

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

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

g) Revenue recognition

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

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

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

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

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

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

h) Stock-based compensation

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

i) Warrants

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

j) Income (loss) per share

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

k) Income taxes and refundable tax credits

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

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

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

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

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

l) Foreign currency translation

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

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

m) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company's financial instruments are classified as follows:

- Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of trade and other receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

  At each reporting date, the Company assesses whatever there is objective evidence that a financial asset is impaired, considering delinquencies in payments and financial difficulty of the obligor. Any impairment losses identified are recognized as the difference between the amortized cost of the receivable and the present value of the estimated future cash flows.

- Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade accounts payable and repayable contributions. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

  Repayable contributions were initially recognized at fair value, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

n) Significant estimates and judgments

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

Impairment of non-financial assets

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

Fair value of stock options and warrants

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

o) Segment reporting

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

4 Accounting standards changes

New and amended standard adopted

IAS 7, Statement of cash flows was amended to require disclosures about changes in liabilities arising from financing activities, including both cash and non-cash changes. The amendments were effective on January 1, 2017. The amendment did not result in any additional required disclosures in these financial statements.

New standards not yet adopted

a) IFRS 9, Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The standard also results in one impairment method replacing the numerous impairment methods in IAS 39 that arise from the different classification categories.

The Company does not hold any financial assets that will be accounted for differently under the new standard and does not have any financial liabilities designated at fair value through profit and loss. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than on incurred credit losses. This new impairment model will be applied to the Company's trade and other receivables. Management is currently finalizing their evaluation of the impact the new standard, along with any new disclosure requirements, will have to its financial statements.

This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted.

b) IFRS 15, Revenue from Contracts with Customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations.

This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted.

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

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

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

5 Trade and other receivables

	2017 **$**	**2016** **$**
Trade receivables net of allowance for doubtful accounts	82,103	130,622
Goods and services tax recoverable	5,696	22,112
Tax credits recoverable	-	23,572
	87,799	176,306

The maximum exposure to credit risk is the carrying amount of each class of receivable listed above. The Company does not hold any collateral as security.

The ageing of receivables is as follows:

	2017 $	2016 $
Neither past due nor impaired	47,160	136,600
Up to 3 months past due	40,639	39,706
	87,799	176,306

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

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

	2017 $	2016 $
Customer #1	374,828	150,157
Customer #2	108,164	200,741

6 Inventory

The cost of inventories recognized as expense and included in cost of sales was $165,682 (2016– $128,150). Included in cost of sales is $nil (2016 – $nil) to write-down expired inventories to net realizable value.

7 Equipment

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

	Laboratory equipment $	Computer equipment $	Office equipment $	2016 Total $
Cost				
Balance – January 1, 2016	352,208	73,239	14,801	440,248
Disposal	(4,540)	-	-	(4,540)
Balance – December 31, 2016	347,668	73,239	14,801	435,708
Accumulated depreciation				
Balance – January 1, 2016	271,666	64,380	11,430	347,476
Disposal	(3,561)	-	-	(3,561)
Depreciation	16,108	2,658	674	19,440
Balance – December 31, 2016	284,213	67,038	12,104	363,355
Net book value – December 31, 2016	63,455	6,201	2,697	72,353

Depreciation of $13,940 (2016 – $8,747) is included in cost of sales, $2,887 (2016 – $1,945) in general and administrative expenses, and $nil (2016 - $8,747) in research and development expense.

8 Due to shareholders

The amount due to a shareholder of the Company consists of $105,000 which is repayable on demand and non-interest bearing. The loan was repaid in January 2018. In 2016 the shareholders' loans consisted of $125,000 in promissory notes, of which $112,500 bore interest at a fixed rate of 10% per annum and $12,500 bore interest at a fixed rate of 15% per annum. These promissory notes were repaid during 2017. Interest incurred on the loans during the year was $8,791 (2016 – $13,502).

9 Repayable contributions

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

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

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

The balance of repayable contribution is derived as follows:

	December 31, 2017	**December 31, 2016**
	$	**$**
Opening balance – January 1	866,151	568,246
Repayment	(140,000)	(3,501)
Forgiveness of debt	(745,193)	-
Accretion of discount	-	51,168
Carrying value adjustment	-	246,437
Interest expense	19,042	3,801
	-	-

In November 2016, CAAP informed the Company that they were exercising their right to demand payment in full, as the Company had defaulted on the payment due in 2016. Interest was charged from the date of the default at the Government of Canada prescribed rate (2016 — 5%). The Company had classified the repayable contribution, plus accrued interest at 5% per annum, as current due to the demand nature of the

liability. The carrying amount of the repayable contribution had been adjusted to reflect the change in timing of the repayment terms. This change resulted in a loss of $246,437 being recorded in the statement of operations. On September 7, 2017 the Company completed a debt settlement agreement with AAFC and paid the settlement amount of $140,000.

10 Share capital

a) Authorized

Unlimited number of Class A common, voting shares

Issued and outstanding

	2017		2016	
	#	$	#	$
Opening balance at January 1	28,739,612	6,714,372	28,739,612	6,714,372
Shares issued on private placement net of issuance costs	5,000,000	277,963	-	-
Closing balance	33,739,612	6,992,335	28,739,612	6,714,372

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

b) Shares to be issued

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

c) Stock options

The Company has an incentive stock option program (the Program) pursuant to which the Board of Directors of the Company may allocate non-transferable options to purchase common shares to directors, officers, employees and consultants of the Company. The aggregate number of common shares that may be available for issuance from time to time under the Program is not to exceed ten (10%) percent of the number of common shares issued and outstanding in the capital of the Company, calculated on a fully diluted basis. Options granted under the Program must have an exercise price not

less than the market value of the common shares (less any permissible discount) at the grant date and vest over a period of one year or as otherwise resolved by the Board of Directors. These options are exercisable for a period of up to ten years from the date of grant, unless otherwise resolved by the Board of Directors. For purposes of the option pricing model, expected volatility is calculated based on the most recent historical period equal to the option's expected term.

The Company recognized stock based compensation expense of $16,152 for the year ended December 31, 2017 (2016 – $nil).

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

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

The following table summarizes information relating to stock options outstanding and exercisable under the Program at December 31, 2017 and December 31, 2016.

	2017		2016	
	Stock options #	**Weighted average exercise price $**	**Stock options #**	**Weighted average exercise price $**
Outstanding – Beginning of year	1,323,000	0.28	1,323,000	0.28
Granted	325,000	0.05	-	-
Outstanding – End of year	1,648,000	0.24	1,323,000	0.28
Exercisable – End of year	1,648,000	0.24	1,323,000	0.28

				2017
			Outstanding	Exercisable
Range of exercise price $	Weighted Average Exercise price $	Number of shares #	Weighted average contractual life (years)	Number of shares #
$0.45 to $0.78	0.59	379,500	3.19	379,500
$0.18 to $0.35	0.29	416,000	5.12	416,000
$0.05 to $0.09	0.05	852,500	7.50	852,500
	0.24	1,648,000	5.91	1,648,000

				2016
			Outstanding	Exercisable
Range of exercise price $	Weighted Average Exercise price $	Number of shares #	Weighted average contractual life (years)	Number of shares #
$0.45 to $0.78	0.59	379,500	4.20	379,500
$0.18 to $0.35	0.29	416,000	6.14	416,000
$0.05 to $0.09	0.05	527,500	7.43	527,500
	0.28	1,323,000	6.10	1,323,000

On February 16, 2018 the Company issued 285,000 stock options to directors and officers under the Program. The options have an exercise price of $0.11 per common share and expire on February 16, 2028.

d) Warrants

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

	2017			2016		
	Warrants #	**$**	**Weighted average exercise price $**	**Warrants #**	**$**	**Weighted average exercise price $**
Outstanding – Beginning of year	-	-	-	1,366,667	231,815	0.40
Issued net of issuance costs	2,500,000	102,483	0.10	-	-	-
Expired	-	-	-	(1,366,667)	(231,815)	0.40
Exercised	(2,500,000)	(102,483)	-	-	-	-
	-	-	-	-	-	-

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

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

e) Income (loss) per share

	December 31, 2017 $	December 31, 2016 $
Calculation of basic income (loss) per share		
Net income (loss)	753,385	(215,535)
Weighted average number of common shares	28,739,612	28,739,612
Weighted average number of common shares issued on May 2, 2017	3,342,466	-
	32,082,078	28,739,612
Basic income (loss) per share	0.02	(0.01)

	December 31, 2017 $	December 31, 2016 $
Calculation of diluted income (loss) per share		
Adjusted net income (loss)	753,385	(215,535)
Weighted average number of common shares from basic income (loss) per share	32,082,078	28,739,612
Effect of dilution from:		
Share options	307,040	-
	32,389,118	28,739,612
Diluted income (loss) per share	0.02	(0.01)

For 2016, shares potentially issuable upon the exercise or conversion of stock options and warrants have been excluded for the calculation of diluted loss per share because the effect would have been anti-dilutive.

11 Income taxes

a) Income tax expense

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

	2017 $	2016 $
Income (loss) before income taxes	753,385	(215,535)
Tax calculated at applicable statutory tax rates applicable to profit	203,000	(58,000)
Tax effects of:		
Tax losses and other items for which no deferred income tax asset was recognized	(199,000)	111,000
Adjustment in respect to prior years	(4,000)	(53,000)
Tax charge	-	-

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

b) Deferred income tax

The Company's deductible temporary differences include the following:

	2017 $	2016 $
Share issue costs	16,000	1,000
Equipment and licenses	1,157,000	1,142,000
Non-capital losses	3,101,000	3,027,000

SR&ED expenditure pool	3,112,000	3,088,000
Repayable contributions	-	866,000
	7,386,000	8,124,000

Deferred income tax assets are recognized for loss carry-forwards and other deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of $1,994,000 (2016 – $2,193,000) in respect of deductible temporary differences amounting to $7,386,000 (2016 – $8,124,000) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of $3,101,000 (2016 – $3,027,000) that can be carried forward to use against future taxable income. These non-capital losses expire based on the dates listed below. Also included in these deductible temporary differences are scientific research and experimental development (SR&ED) pool expenditures amounting to $3,112,000 (2016 – $3,088,000) that can be carried forward to use against future net income for tax purposes. These SR&ED pool expenditures do not expire.

The Company did not recognize the benefits of non-refundable research and development tax credits amounting to $934,000 (2016 – $928,000). These tax credits can be carried forward against future federal income tax payable.

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

	Non-capital loss carry-forwards **$**	**Federal investment tax credits** **$**
2025	35,000	29,000
2026	45,000	32,000
2027	-	52,000
2028	181,000	158,000
2029	251,000	151,000
2030	187,000	130,000
2031	517,000	147,000
2032	534,000	152,000
2033	683,000	9,000
2034	482,000	19,000
2035	-	32,000
2036	-	16,000
2037	186,000	7,000
	3,101,000	934,000

12 Expenses by nature

	2017 $	2016 $
Employee compensation		
Salaries and wages	463,075	411,724
Share-based payments	16,152	-
Short-term benefits	1,999	1,446
	488,601	413,170
Depreciation	16,827	19,440
Professional and consulting fees	180,483	156,037
Rent and maintenance	89,735	83,814
Materials and supplies	165,682	128,150
Insurance	21,496	22,568
Patent costs	74,258	36,326
Other	48,522	60,030
Less: Grants and tax credits	(11,711)	(14,290)
Less: Forgiveness of accounts payable	(112,196)	-
Total cost of sales and operating expenses	954,322	905,245

13 Related party transactions

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

	Relationship	Transaction	2017 $	2016 $
Bruce Hirsche, Parlee McLaws LLP	Corporate Secretary and Legal Counsel, Director	Professional fees	39,359	11,762
		Interest expense	366	1,250
Bernard Grobbelaar	Chief Financial Officer, Director	Professional fees	44,768	44,400
		Interest expense	38	500
Dr. Gerard Tertzakian	Director	Interest expense	854	1,750
Dr. Wolfgang Muhs	Director	Interest expense	854	1,750
Dr. James Timourian	Chief Executive Officer, President	Interest expense	125	752

At December 31, 2017, $22,879 (2016 – $44,169) remained outstanding and is included in accounts payable. These services are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

Compensation of key management

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

	2017 $	2016 $
Salaries and short-term employee benefits	51,000	37,500
Termination benefit	-	-
Share based payments	11,182	-
	11,182	-

14 Net change in non-cash working capital items

	2017 $	2016 $
Trade and other receivables	88,507	(119,191)
Inventory	(2,405)	(12,862)
Prepaid expenses	(845)	152
Accounts payable and accrued liabilities	(301,519)	18,712
Deferred revenue	(10,318)	(1,374)
	(226,580)	(114,563)
Add back non-cash movements in accounts payable:		
Forgiveness of accounts payable included in general and administrative	71,903	-
Forgiveness of accounts payable included in research and development	40,293	-
	(114,384)	(114,563)

15 Scientific research tax credit

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

During the year, the Company recorded $11,711 (2016 –$23,572) in scientific research and development tax credits. In 2016 a repayment of $9,282 in previously received investment tax credits was recorded resulting from the reassessment of previously claimed scientific research and development costs.

16 Capital management

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

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

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

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

17 Financial instruments

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

a) Fair value

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

b) Credit risk

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

c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company earns a significant portion of its revenue

in United States dollars. The Company also incurs expenses in United States dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

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

Gains and losses arising from fluctuations in US dollar exchange rates are reflected in general and administrative expense for the year. The Company recorded a foreign exchange loss of $14,683 in 2017 (2016 – $5,090).

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

	2017 **$**	**2016** **$**
Cash	48,123	15,122
Accounts receivable	61,928	86,278
Accounts payable and accrued liabilities	(52,999)	(25,796)
Net exposure	57,052	75,604

The following exchange rates applied at December 31:

	2017 **$**	**2016** **$**
US$ – CAS$	1.25506	1.34671

Based on the Company's foreign currency exposures noted above, varying the above foreign exchange rate to reflect a 10% strengthening of the Canadian dollar would have increased the net loss by $7,160 (2016 – $10,182), assuming all other variables remained constant.

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

d) Interest rate risk

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

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

e) Liquidity risk

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

18 Geographic information

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

	2017	**2016**
	$	**$**
Canada	20,705	34,689
United States	700,014	768,036
Rest of world	269,624	202,873
	990,343	1,005,598

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