

# **BREATHTEC BIOMEDICAL, INC.**

## **Condensed Interim Consolidated Financial Statements** (Unaudited)

For the three months ended November 30, 2018 and 2017  
(Expressed in Canadian dollars)

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**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and approved by the Board of Directors of the Company. These condensed interim consolidated financial statements have not been reviewed by the Company's external auditors.

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**BREATHTEC BIOMEDICAL, INC.**Unaudited Condensed Interim Consolidated Statements of Financial Position  
(Expressed in Canadian dollars)

	Note	November 30, 2018	August 31, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	\$ 1,358,853	\$ 1,251,058
Accounts and advances receivable	8	77,976	11,269
Prepaid expenses		101,115	32,367
<b>Total current assets</b>		<b>1,537,944</b>	<b>1,294,694</b>
<b>Non-current assets</b>			
Incorporation costs		1,371	1,371
License agreements	7	66,947	73,033
Furniture and equipment	9	-	53,801
Intangible asset	6	4,862,756	-
<b>Total non-current assets</b>		<b>4,931,074</b>	<b>128,205</b>
<b>TOTAL ASSETS</b>		<b>\$ 6,469,018</b>	<b>\$ 1,422,899</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	12	\$ 243,222	\$ 57,034
<b>Total liabilities</b>		<b>243,222</b>	<b>57,034</b>
<b>Shareholders' equity</b>			
Share capital	10	12,405,550	8,568,723
Reserves	10	3,105,481	1,587,162
Accumulated other comprehensive income		137,569	139,008
Deficit		(9,422,804)	(8,929,028)
<b>Total shareholders' equity</b>		<b>6,225,796</b>	<b>1,365,865</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 6,469,018</b>	<b>\$ 1,422,899</b>

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

Approved on behalf of the Board:

**"Michael Sadhra" (signed)**Michael Sadhra  
Director**"Dr. Raj Attariwala" (signed)**Dr. Raj Attariwala  
Director

**BREATHTEC BIOMEDICAL, INC.**Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss  
(Expressed in Canadian dollars)

Three Months ended November 30	Note	2018	2017
<b>EXPENSES</b>			
General and administrative	9	\$ 37,444	\$ 82,055
Marketing		79,150	-
Professional fees	12	192,511	70,819
Research and development	7, 11	174,865	36,501
Share-based payment	10, 12	-	-
Shareholder communications		24,492	6,884
		508,462	196,259
Interest income		(3,067)	(2,956)
Miscellaneous income		(6,651)	-
Gain on disposal of furniture and equipment		(4,968)	-
<b>Net loss for the period</b>		493,776	193,303
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Item that will not be classified into profit or loss:</b>			
Foreign exchange (gain)/loss on translation to reporting currency		1,439	(3,720)
<b>Comprehensive loss for the period</b>		\$ 495,215	\$ 189,583
<b>Loss per common share</b>			
Basic and fully diluted		\$ 0.01	\$ 0.00
Weighted average number of common shares outstanding		37,110,949	28,164,607

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

**BREATHTEC BIOMEDICAL, INC.**Unaudited Condensed Interim Consolidated Statements of Cash Flows  
(Expressed in Canadian dollars)

Three Months ended November 30	2018	2017
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (493,776)	\$ (193,303)
<b>Items not involving cash</b>		
Amortization	8,714	10,166
Unrealized foreign exchange (gain) loss	(7,500)	(1,012)
	(492,562)	(184,149)
<b>Changes in non-cash operating working capital</b>		
Accounts and advances receivable	(22,001)	1,628
Prepaid expenses	(68,252)	14,953
Accounts payable and accrued liabilities	34,988	(5,619)
	(547,827)	(173,187)
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of equipment	55,323	-
Cash acquired on Nash Pharma acquisition	100,600	-
	155,923	-
<b>FINANCING ACTIVITIES</b>		
Shares issued for private placement – net of financing costs	498,737	-
	498,737	-
Effect of exchange rate fluctuations on cash held	962	2,386
Increase (decrease) in cash and cash equivalents	107,795	(170,801)
Cash and cash equivalents, beginning of year	1,251,058	1,392,514
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,358,853</b>	<b>\$ 1,221,713</b>

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

**BREATHTEC BIOMEDICAL, INC.**

Unaudited Condensed Interim Consolidated Statement of Changes in Equity  
(Expressed in Canadian dollars)

Description	Number of Shares	Share Capital	Share-Based Expense Reserve	Accumulated Other Comprehensive Income	Deficit	Total
<b>Balance at August 31, 2017</b>	27,376,012	\$ 7,989,797	\$ 2,291,687	\$ 131,254	\$ (8,823,930)	\$ 1,588,808
Cancellation of stock options	-	-	(132,148)	-	132,148	-
Expiration of warrants	-	-	(700,348)	-	700,348	-
Other comprehensive income	-	-	-	3,720	-	3,720
Net loss for the period	-	-	-	-	(193,303)	(193,303)
<b>Balance at November 30, 2017</b>	<b>27,376,012</b>	<b>\$ 7,989,797</b>	<b>\$ 1,459,191</b>	<b>\$ 134,974</b>	<b>\$ (8,184,737)</b>	<b>\$ 1,399,225</b>
<b>Balance at August 31, 2018</b>	28,948,678	\$ 8,568,723	\$ 1,587,162	\$ 139,008	\$ (8,929,028)	\$ 1,365,865
Shares issued on Nash Pharma acquisition (note 5)	15,800,000	3,476,000	-	-	-	3,476,000
Replacement warrants issued on Nash Pharma acquisition (note 5)	-	-	1,380,409	-	-	1,380,409
Shares issued for cash	2,083,334	360,827	137,910	-	-	498,737
Other comprehensive loss	-	-	-	(1,439)	-	(1,439)
Net loss for the period	-	-	-	-	(493,776)	(493,776)
<b>Balance at November 30, 2018</b>	<b>46,832,012</b>	<b>\$ 12,405,550</b>	<b>\$ 3,105,481</b>	<b>\$ 137,569</b>	<b>\$ (9,422,804)</b>	<b>\$ 6,225,796</b>

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

## **BREATHTEC BIOMEDICAL, INC.**

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
For the Three Months Ended November 30, 2018 and 2017  
(Expressed in Canadian dollars)

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### **1. NATURE AND GOING CONCERN**

Breathtec Biomedical, Inc. (“Breathtec” or the “Company”) was incorporated on April 10, 2015 under the British Columbia *Business Corporations Act* as “PBA Acquisitions Corp”. On July 23, 2015, it changed its name to Breathtec Biomedical, Inc. The registered office of Breathtec is located at Suite 1500 – 1500 West Georgia Street, Vancouver, British Columbia, V6E 4N7.

The Company was formed to propel innovative research in the area of breath analysis as a medical diagnostic tool. The Company will focus on innovation and advances in the field of specialized mass spectrometry.

Breathtec was incorporated as a wholly owned subsidiary of Petro Basin Energy Corp. (“Breathtec Parent”). On June 25, 2015, Breathtec entered into a plan of arrangement (the “Arrangement Agreement”) with Breathtec Parent pursuant to which Breathtec Parent spun out Breathtec to its shareholders. The Arrangement Agreement was completed on September 23, 2015. As a result, Breathtec became a reporting issuer in the provinces of British Columbia, Ontario and Alberta.

On September 11, 2015, Breathtec incorporated a wholly owned subsidiary, Breathtec Merger Sub, Inc. (“MergerCo”), under the *Florida Business Corporations Act* (“FBCA”).

Breathtec Biomedical, Inc. (“Breathtec US”) was incorporated under the FBCA on January 22, 2015. The head office and registered office of Breathtec US is located at 525 Okeechobee Boulevard, Suite 1600, West Palm Beach, Florida, 33401.

On October 26, 2015, Breathtec, Breathtec Parent, Breathtec US and MergerCo completed an agreement (the “Merger Agreement”) structured as a reverse takeover, specifically, as a triangular merger under the FBCA among Breathtec, Breathtec US and MergerCo (the “Merger”). Pursuant to the Merger, Breathtec US was merged with and into MergerCo with Breathtec US as the surviving corporation. The Company acquired a 100% interest in Breathtec US pursuant to and on the terms and subject to the conditions set out in the Merger Agreement resulting in Breathtec US becoming a 100% owned Florida operating subsidiary of the Company. Management applied judgment in determining the shareholders of which entity was the acquirer, and concluded Breathtec US controlled Breathtec, and these consolidated financial statements represent the continuation of Breathtec US, the legal subsidiary.

On October 17, 2018, the Company consolidated its common shares on the basis of two pre-consolidation shares for one post-consolidation common share. All the figures as to the number of common shares, stock options, warrants, prices of issued shares, exercise prices of stock options and warrants, as well as loss per share, in the consolidated financial statements are post-consolidation amounts and the prior year comparatives have been retroactively restated to present the post-consolidation amounts.

On October 19, 2018, the Company completed the acquisition of 100% of the issued and outstanding shares of Nash Pharmaceuticals Inc. (“Nash Pharma”), including dilutive securities of Nash Pharma, in exchange for securities of Breathtec (the “Transaction”). Nash Pharma is a clinical stage pharmaceutical development company focused on drug repurposing in the areas of non-alcoholic steatohepatitis (NASH), chronic kidney disease (CKD) and inflammatory bowel disease (IBD). Through its ongoing research programs, Nash Pharma has developed data that supports the advancement of up to seven drug candidates into phase II trials.

Upon the closing of the Transaction on October 19, 2018, the Company acquired all of the issued and outstanding common shares of Nash Pharma in consideration for the issuance of 15,800,000 common shares of the Company and 14,800,000 replacement warrants, with exercise prices and expiry dates equal to the Nash Pharma warrants cancelled.

## **BREATHTEC BIOMEDICAL, INC.**

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
For the Three Months Ended November 30, 2018 and 2017  
(Expressed in Canadian dollars)

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### **1. NATURE AND GOING CONCERN (continued)**

At present, the Company has no current operating income. The Company will need to raise sufficient working capital to maintain operations. Without additional financing, the Company may not be able to fund its ongoing operations and complete development activities. Management anticipates that the Company will continue to raise adequate funding through equity or debt financings, although there is no assurance that the Company will be able to obtain adequate funding on favorable terms. These uncertainties may cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not reflect adjustments, which could be material, to the carrying value of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

### **2. BASIS OF PRESENTATION**

#### **(a) Statement of compliance**

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). They have been prepared on a historical cost basis, except for certain financial instruments, which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for the cash flow information.

These condensed interim consolidated financial statements have been prepared in accordance with the same accounting policies and methods of application as the most recent audited financial statements for the year ended August 31, 2018, except that they do not include all the disclosures required for the annual audited financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements for the Company for year ended August 31, 2018.

#### **(b) Approval of the condensed interim consolidated financial statements**

The condensed interim consolidated financial statements of the Company for the period ended November 30, 2018 were approved and authorized for issuance by the Board of Directors on January 28, 2019.

#### **(c) Foreign currencies**

The reporting currency is the Canadian dollar ("CAD"), which is the functional currency of Breathtec, and the functional currency of Breathtec US is the United States dollar ("US"). Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction, except amortization, which is translated at the rates of exchange applicable to the related assets. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Foreign currency translation differences are recognized in profit or loss, except for differences on the translation of entities on consolidation, which are recognized in other comprehensive income.



## **BREATHTEC BIOMEDICAL, INC.**

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
For the Three Months Ended November 30, 2018 and 2017  
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### **2. BASIS OF PRESENTATION (continued)**

#### **(c) Foreign currencies (continued)**

On consolidation, the assets and liabilities of entities are translated into the reporting currency at the rate of exchange at the reporting date and the consolidated statements of loss and comprehensive loss are translated at the average exchange rates for the year. The exchange differences arising on translation for consolidation purposes are recognized in other comprehensive income.

#### **(d) Use of accounting estimates and judgements**

The preparation of condensed interim consolidated financial statements in accordance with IFRS requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from these estimates, and as such, the estimates and underlying assumptions are reviewed on an ongoing basis.

The acquisition of Nash Pharma requires management to make a judgement as to whether Nash Pharma constitutes a business combination or an asset acquisition under the definitions of IFRS 3. The assessment requires management to assess inputs, processes, and ability of Nash Pharma to produce outputs at the time of acquisition. Pursuant to the assessment, Nash Pharma was considered an asset acquisition (Note 5) and intangible assets were recognized (Note 6).

The Company assess at each reporting date if the intangible assets have indicators of impairment. In determining whether the intangible assets are impaired, the Company assess certain criteria, including observable decreases in value, significant changes with adverse effect on the entity, evidence of technological obsolescence and future plans.

Following initial recognition, the Company carries the value of the intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on the straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of the technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense. As at November 30, 2018, the Company has not amortized the intangible assets as amortization begins when the intangible assets are available for use.

Apart from the above, there have been no material revisions to the nature and amount of changes in estimates of amounts reported in its audited consolidated financial statements for the year ended August 31, 2018.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The Company has applied the same accounting policies and methods of computation in its condensed interim consolidated financial statements as in its audited consolidated financial statements for the year ended August 31, 2018.

## **BREATHTEC BIOMEDICAL, INC.**

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
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### **4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

#### **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk exists with respect to the Company's cash and cash equivalents and accounts receivable. The Company limits exposure to credit risk by maintaining its cash and cash equivalents in trust with large financial institutions in the US and Canada. For other receivables, the Company estimates, on a continuing basis, the probable losses and provides a provision for losses based on the estimated realizable value.

#### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements.

At November 30, 2018, the Company had working capital of \$1,294,722 compared to working capital at August 31, 2018 of \$1,237,660. This included cash and cash equivalents of \$1,358,853 (August 31, 2018 - \$1,251,058) available to meet short-term business requirements and current liabilities of \$243,222 (August 31, 2018 - \$57,034). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

#### **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risks. The Company is not exposed to significant interest rate risk and other price risk.

#### **Foreign currency risk**

The Company is exposed to foreign currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the CAD (primarily US\$). As at November 30, 2018, the Company had monetary assets of US\$45,048 or \$59,918 (August 31, 2018 - US\$31,492 or \$41,113) at the CAD equivalent and monetary liabilities of US\$42,869 or \$57,020 (Augusts 31, 2018 - US\$3,271 or \$4,270) at the CAD equivalent.

For the period ended November 30, 2018, the Company's sensitivity analysis suggests that a change in the absolute rate of exchange in US\$ by 10% will increase or decrease other comprehensive loss by approximately \$290 (August 31, 2018 - \$3,684). The Company has not entered into any foreign currency contracts to mitigate this risk.

## BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
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(Expressed in Canadian dollars)

### 5. ACQUISITION OF NASH PHARMA

On October 5, 2018, the Company and Nash Pharma entered into a Share Exchange Agreement whereby the Company would acquire 100% of the issued and outstanding shares of Nash Pharma, including its dilutive securities, in exchange for securities of Breathtec. Nash Pharma is a clinical stage pharmaceutical development company focused on drug repurposing in the areas of non-alcoholic steatohepatitis (NASH), chronic kidney disease (CKD) and inflammatory bowel disease (IBD). Through its ongoing research programs, Nash Pharma has developed data that supports the advancement of up to seven drug candidates into phase II trials.

Upon the closing of the Transaction on October 19, 2018, the Company acquired all of the issued and outstanding common shares of Nash Pharma, in consideration for the issuance of 15,800,000 common shares and 14,800,000 warrants ("Replacement Warrants") of the Company. Each Replacement Warrants had an exercise price and expiration date equal to the exercise price and expiration date of the Nash Pharma warrants that were cancelled. The fair value of the replacement warrants was determined using a Black-Scholes option pricing model.

For accounting purposes, the acquisition has been recorded as an asset acquisition as Nash Pharma does not meet the definition of a business, as defined in IFRS 3, Business Combinations.

Consideration paid:	
Fair value of 15,800,000 Breathtec common shares issued	\$ 3,476,000
Fair value of 14,800,000 replacement warrants issued	1,380,409
Transaction costs	19,180
<b>Total consideration paid</b>	<b>\$ 4,875,589</b>
Net identifiable assets acquired:	
Cash	100,600
Taxes recoverable and other receivables	44,706
Prepays	496
Intangible asset	4,862,756
Accounts payable and accrued liabilities	(132,969)
<b>Identifiable assets acquired</b>	<b>\$ 4,875,589</b>

As a result of the acquisition, an amount of \$4,862,756 was capitalized to intangible assets.

The Company used the Black-Scholes option pricing model to determine the fair value of the 14,800,000 replacement warrants issued with the following weighted average assumptions:

Risk-free interest rate	2.25%
Expected dividend yield	0.00%
Expected stock price volatility	94.02%
Expected life in years	1.16
Forfeiture rate	0.00%

## BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
For the Three Months Ended November 30, 2018 and 2017  
(Expressed in Canadian dollars)

### 6. INTANGIBLE ASSETS

<b>Cost</b>	
Balance, August 31, 2017	\$ -
Acquired with Nash	4,862,756
Balance, November 30, 2018	\$ 4,862,756
<b>Accumulated Amortization</b>	
Balance, August 31, 2017	\$ -
Amortization	-
Balance, November 30, 2018	-
<b>Net Book Value</b>	
Balance, August 31, 2017	-
Balance, November 30, 2018	\$ 4,862,756

No amortization was taken on the intangibles as the assets are not available to use.

### 7. LICENSES

#### University of Florida Research Foundation (“UFRF”)

On June 18, 2016, the Company signed a license agreement with the UFRF, a non-profit Florida corporation, with respect to an exclusive royalty-bearing license to certain UFRF patent rights and a non-exclusive royalty-bearing license to certain UFRF know-how to enable commercial advancements in the field of infections detection (the “License - UFRF”).

Pursuant to the terms of the license agreement, the License - UFRF is effective from June 18, 2016 to the later of the date that no patent right remains enforceable and ten years after the first commercial sale of a licensed product (with an option to extend for additional five-year terms).

In consideration for the License - UFRF, the Company issued to UFRF 468,162 common shares of the Company fair valued at \$121,722. Starting in June 2017, an annual license maintenance fee of US\$2,000 would be paid by the Company and every year thereafter until the first commercial sale. In addition, the Company will also make payments upon meeting certain development, regulatory and commercialization milestones. Upon commencement of commercial production, the Company will pay a royalty between 2% and 4% on all net sales. All shares issued to UFRF will be subject to a four-month hold period pursuant to applicable securities laws.

**BREATHTEC BIOMEDICAL, INC.**

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
 For the Three Months Ended November 30, 2018 and 2017  
 (Expressed in Canadian dollars)

**7. LICENSES (continued)****University of Florida Research Foundation (“UFRF”) (continued)**

	UFRF License
<b>Cost</b>	
Balance at August 31, 2017	\$ 121,722
Additions	-
Balance at August 31, 2018	121,722
Additions	-
Balance at November 30, 2018	\$ 121,722
<b>Accumulated Amortization</b>	
Balance at August 31, 2017	\$ 24,344
Amortization	24,345
Balance at August 31, 2018	48,689
Amortization	6,086
Balance at November 30, 2018	\$ 54,775
<b>Carrying Amounts</b>	
August 31, 2018	\$ 73,033
November 30, 2018	\$ 66,947

For the period ended November 30, 2018, included in research and development expense is a total of \$6,086 (November 30, 2017 - \$6,087) in amortization expense.

**8. ACCOUNTS AND ADVANCES RECEIVABLE**

As at	November 30, 2018	August 31, 2018
Accounts receivable	\$ 44,151	\$ -
Accrued interest receivable	6,220	5,668
GST receivable	27,605	5,601
	\$ 77,976	\$ 11,269

## BREATHTEC BIOMEDICAL, INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
For the Three Months Ended November 30, 2018 and 2017  
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### 9. FURNITURE AND EQUIPMENT

	Total
<b>Cost</b>	
Balance at August 31, 2017	\$ 82,282
Foreign translation impact	2,573
Balance at August 31, 2018	84,855
Disposal	(85,031)
Foreign translation impact	176
Balance at November 30, 2018	\$ -
<b>Accumulated Amortization</b>	
Balance at August 31, 2017	\$ 14,323
Amortization	16,605
Foreign translation impact	(126)
Balance at August 31, 2018	31,054
Amortization	2,628
Disposal	(33,746)
Foreign translation impact	64
Balance at November 30, 2018	\$ -
<b>Carrying Amounts</b>	
August 31, 2018	\$ 53,801
November 30, 2018	\$ -

For the period ended November 30, 2018, included in general and administrative expense is a total of \$2,628 (November 30, 2017 - \$4,079) in amortization expense.

### 10. SHARE CAPITAL AND RESERVES

#### Share capital

##### *Authorized*

100,000,000 common shares without par value.

##### *Issued and outstanding*

On October 17, 2018, the Company consolidated its common shares on the basis of two pre-consolidation shares for one post-consolidation common share. All the figures as to the number of common shares, stock options, warrants, prices of issued shares, exercise prices of stock options and warrants, as well as loss per share, in the condensed interim consolidated financial statements are post-consolidation amounts and the prior period comparatives have been retroactively restated to present the post-consolidation amounts.

As at November 30, 2018, there were 46,832,012 (August 31, 2018 – 28,948,678) common shares issued and outstanding. Details of common shares are as follows:

## **BREATHTEC BIOMEDICAL, INC.**

Notes to Unaudited Condensed Interim Consolidated Financial Statements  
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### **10. SHARE CAPITAL AND RESERVES (continued)**

#### **Share capital (continued)**

During the period ended November 30, 2018:

- On October 19, 2018, the Company issued 15,800,000 common shares in connection with the completion of the acquisition of Nash Pharma (note 5). The Company also issued 14,800,000 replacement warrants which were valued using a Black-Scholes option pricing model on the date of acquisition. The fair value was determined to be \$1,380,409.
- On October 23, 2018, the Company closed a private placement for 2,083,334 units at a price of \$0.24 per unit for gross proceeds of \$500,000. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one common share at a price of \$0.50 for a period of two years from the closing of the private placement. In addition, 5,266 share purchase warrants were issued as Finders' warrants. Each Finders' warrant entitles the holder to purchase one share at a price of \$0.50 per share until October 23, 2020.

During the period ended November 30, 2017:

- There was no issuance of common shares by the Company.

#### *Escrow shares*

In connection with the Merger (note 1), the Company issued 3,878,350 escrow shares.

As at November 30, 2018, the Company had 581,752 (August 31, 2018 – 581,752) shares held in escrow. Under the escrow agreement, 10% of the total shares were released upon listing with the Canadian Securities Exchange (“CSE”) and 15% of the shares would be released every six months following listing. The last release occurred on August 1, 2018. The next release is scheduled on February 1, 2019.

#### **Stock options**

Stock options to purchase common shares have been granted to directors, employees, contractors and consultants at exercise prices determined by reference to the market value on the date of the grant. The number of shares available for options to be granted under the Company's rolling stock option plan is 10% of the number of shares outstanding (the “Plan”). Options granted under the Plan vest immediately or over a period of time at the discretion of the Board of Directors.

Under the plan, the number of shares reserved for issuance to any one optionee will not exceed 5% of the then issued and outstanding shares and the number of shares reserved for issuance to consultants will not exceed 2% of the then issued and outstanding shares. The options are non-assignable and non-transferable and will be exercisable up to 10 years from the date of grant. The minimum exercise price of an option granted under the Plan must not be less than the discounted market price, as such term is defined in the policies of the CSE and other applicable regulatory authorities.

**BREATHTEC BIOMEDICAL, INC.**

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**10. SHARE CAPITAL AND RESERVES** (continued)**Stock options** (continued)

During the period ended November 30, 2018:

- There was no issuance of stock options grant by the Company.

The changes in stock options outstanding are as follows:

	Number of Stock Options	Weighted Average Exercise Price
<b>Balance at August 31, 2017</b>	2,097,500	\$ 0.44
Granted	662,500	\$ 0.48
Cancelled	(550,000)	\$ 0.38
Exercised	(62,500)	\$ 0.30
<b>Balance at August 31 and November 30, 2018</b>	<b>2,147,500</b>	<b>\$ 0.48</b>

As at November 30, 2018, the Company had the following stock options outstanding and exercisable:

Date of Grant	Date of Expiry	Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
February 1, 2016	February 1, 2021	1,247,500	\$ 0.50	2.18
May 18, 2017	May 18, 2022	237,500	\$ 0.30	3.47
March 1, 2018	March 1, 2023	662,500	\$ 0.48	4.25
Total		2,147,500	\$ 0.48	2.96

**Share-based payments**

There were no stock options granted during the three-month period ended November 30, 2018.

Total fair value of options granted in the year ended August 31, 2018 was \$235,097 which was recognized as share-based payment expense for the year.



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**10. SHARE CAPITAL AND RESERVES (continued)****Share-based payments (continued)**

The Company uses the Black-Scholes option pricing model to determine the fair value of the options granted with the following weighted average assumption:

	November 30, 2018	August 31, 2018
Risk-free interest rate	-	1.99%
Expected dividend yield	-	0.00%
Expected stock price volatility	-	116%
Expected option life in years	-	5.0
Forfeiture rate	-	0.00%

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these input assumptions can materially affect the fair value estimate.

**Share purchase warrants**

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
<b>Balance at August 31, 2017</b>	13,014,838	\$ 0.52
Expired	(5,765,506)	\$ 0.78
Exercised	(1,510,166)	\$ 0.30
<b>Balance at August 31, 2018</b>	5,739,166	\$ 0.30
Issued	16,888,600	\$ 0.27
<b>Balance at November 30, 2018</b>	22,627,766	\$ 0.28

As at November 30, 2018, the Company had the following warrants outstanding:

Date of Expiry	Exercise Price	Number of Warrants	Weighted Average Remaining Life in Years
September 25, 2019	\$ 0.15	4,500,000	0.82
September 27, 2019	\$ 0.15	1,700,000	0.82
October 2, 2019	\$ 0.15	1,105,000	0.84
October 4, 2019	\$ 0.40	3,495,000	0.84
November 25, 2019	\$ 0.30	5,739,166	0.99
July 18, 2020	\$ 0.25	4,000,000	1.63
October 23, 2020	\$ 0.50	2,088,600	1.90
<b>Total</b>	<b>\$ 0.28</b>	<b>22,627,766</b>	<b>1.11</b>

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### 11. RESEARCH AND DEVELOPMENT

Breathtec US has an agreement (the “Agreement”) with the University of Florida (“UF”) whereby UF assists the Company with research and development that is extended annually. There was a no-cost extension for the period January 16, 2018 to October 14, 2018.

Subsequent to the no-cost extension that ended on October 14, 2018, the Company amended its research agreement (the “Amending Agreement”) with UF, whereby UF has undertaken to advance the FAIMS V3 prototype, or future iterations, through its final stages of prototype development. The Amending Agreement is for the period October 15, 2018 to October 15, 2019 and requires the Company to make quarterly payments of US\$41,469 for a total of US\$165,877. The first quarterly payment of US\$41,469 (\$55,158) was paid subsequent to the period ended November 30, 2018. Prior to the no-cost extension, for the period January 16, 2017 to January 15, 2018 the Company paid a total of US\$55,608 (\$71,820).

### 12. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

Key management personnel are considered to be those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management includes senior officers and directors of the Company.

Compensation to key management personnel is as follows:

Three Months Ended November 30	2018	2017
Short-term benefits <sup>(1)</sup>	\$ 3,663	\$ 58,368
Share-based payment	-	-
	\$ 3,663	\$ 58,368

Related party transactions not included in compensation to key management personnel are as follows:

Three Months Ended November 30	2018	2017
Consulting fees – other <sup>(2)</sup>	\$ 39,000	\$ 21,000
Rent <sup>(3)</sup>	6,000	6,000
	\$ 45,000	\$ 27,000

<sup>(1)</sup> Short-term benefits paid to management personnel:

- \$nil to former Chief Executive Officer (November 30, 2017 - \$30,126) who resigned from his position on September 19, 2017;
- \$3,663 to Chief Technology Officer (November 30, 2017 – 28,242) who resigned from his position on June 15, 2018 and continued on as a Scientific Advisor on a consulting basis.

<sup>(2)</sup> Fees paid to companies related to management personnel:

- \$27,000 (November 30, 2017 - \$nil) to a company controlled by the Chief Executive Officer who took on the position with the Company on March 1, 2018;
- \$12,000 (November 30, 2017 - \$12,000) to a company controlled by the Chief Financial Officer;
- \$nil (November 30, 2017 - \$9,000) paid to company owned by a director relating to the use of work space and computer equipment.

<sup>(3)</sup> Rent:

- \$6,000 (November 30, 2017 - \$6,000) paid for corporate office space to a company where a senior officer and director is a principal.

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### 12. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION (continued)

Accounts payable and accrued liabilities include the following amounts due to related parties:

As at	November 30, 2018	August 31, 2018
Key management personnel – expense reimbursements	\$ -	\$ 2,660
Key management personnel – management fees	1,862	3,655
	\$ 1,862	\$ 6,315

### 13. RISK AND CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to manage its capital to be able to sustain the future development of the Company's business. The Company currently has no source of revenues, and therefore, is dependent upon external financings to fund activities. In order to carry future projects and pay administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended November 30, 2018. The Company is not subject to externally imposed capital requirements.

### 14. SEGMENTED DISCLOSURES

The Company has two operating segments; one being the development centre of health-related technology in the United States; the other being a Canadian clinical stage pharmaceutical development company focused on drug repurposing.

As at November 30, 2018, the Company's long-term assets are located as follows:

	Canada	United States	Total
Incorporation costs	\$ -	\$ 1,371	\$ 1,371
License agreement	-	66,947	66,947
Furniture and equipment	-	-	-
Intangible asset	4,862,756	-	4,862,756
	\$ 4,862,756	\$ 68,318	\$ 4,931,074

As at August 31, 2018, the Company's long-term assets were located as follows:

	Canada	United States	Total
Incorporation costs	\$ -	\$ 1,371	\$ 1,371
License agreement	-	73,033	73,033
Furniture and equipment	-	53,801	53,801
	\$ -	\$ 128,205	\$ 128,205

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**15. SUBSEQUENT EVENTS**

N/A.