

# Avivagen Inc.

## Unaudited Consolidated Interim Financial Statements

30 April 2017

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

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited consolidated interim financial statements of Avivagen, Inc. (the "Corporation" or "Avivagen") have been prepared by management and are the responsibility of the Corporation's management. The Corporation's independent auditor has not performed a review or an audit of these interim consolidated financial statements.

### Management's Statement of Responsibility

The unaudited consolidated financial statements of Avivagen Inc. have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). Financial statements are not precise, since they include certain amounts based on estimates and judgments. When alternative methods exist, management has chosen those which it deems most appropriate in the circumstances in order to ensure that the unaudited consolidated interim financial statements are presented fairly, in all material respects, in accordance with IFRS.

The board of directors of the Corporation ensures that management fulfills its responsibilities for financial reporting and internal control through an audit committee. This committee meets periodically with management and the external auditor to discuss internal controls, auditing matters, and financial reporting issues, and to satisfy itself that each party is properly discharging its responsibilities. The committee reviews the financial statements and reports to the Board of Directors. The external auditor has full and direct access to the audit committee.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement, on a cost effective basis, the disclosure controls and procedures and internal control over financial reporting as defined in NI 52-109 will result in additional risks to the quality, reliability, transparency and timeliness of annual and interim filings and other reports provided under securities legislation.

In contrast to the certification required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), the Corporation does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. In particular, the Interim CEO and CFO filing these financial statements are not making any representations relating to the establishment and maintenance of:

- i) Controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and/or reported within the time periods specified in securities legislation; and
- ii) A process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's IFRS reporting.

APPROVED BY

(Signed)

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Kym Anthony Interim CEO

(Signed)

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Chris Boland CFO (CPA, CA, CMA)

**Unaudited Consolidated Interim Statement of Comprehensive Income**  
**For the periods ending (Canadian dollars)**

	Note	3 months ending April 30, 2017	3 months ending April 30, 2016	6 months ending April 30, 2017	6 months ending April 30, 2016
<b>Revenue</b>					
Chemistry Products	<b>3(c), 6</b>	\$ 34,034	\$ 49,420	\$ 57,110	\$ 66,870
OxC-beta Products	<b>3(c), 6</b>	5,529	1,601	44,790	4,522
<b>Total Revenue</b>		<b>\$ 39,563</b>	<b>\$ 51,021</b>	<b>\$ 101,900</b>	<b>\$ 71,392</b>
Cost of products sold	<b>12</b>	2,191	160	14,533	614
<b>Gross Margin</b>		<b>37,372</b>	<b>50,861</b>	<b>87,367</b>	<b>70,778</b>
Selling, general and administration	<b>19</b>	1,253,063	459,798	2,130,133	814,552
Research and development	<b>19</b>	190,816	141,633	340,030	323,295
Depreciation of equipment		-	3,720	-	8,723
Interest on long-term debt	<b>10</b>	38,761	36,301	77,209	66,556
Amortization of transaction costs on long-term debt	<b>10</b>	5,443	5,443	10,886	10,886
<b>Total expenses</b>		<b>1,488,083</b>	<b>646,895</b>	<b>2,558,258</b>	<b>1,224,012</b>
<b>Income (loss) before income taxes</b>		<b>(1,450,711)</b>	<b>(596,034)</b>	<b>(2,470,891)</b>	<b>(1,153,234)</b>
<b>Income Taxes</b>					
Current and deferred income tax expense	<b>3(d), 7</b>	-	-	-	-
<b>Total comprehensive income (loss) for the period</b>		<b>(1,450,711)</b>	<b>(596,034)</b>	<b>(2,470,891)</b>	<b>(1,153,234)</b>
<b>Profit (loss) per Share, Basic and Diluted<sup>1</sup></b>	<b>8</b>	<b>\$ (0.050)</b>	<b>\$ (0.030)</b>	<b>\$ (0.085)</b>	<b>\$ (0.061)</b>
<b>Weighted Average Common Shares Issued and Outstanding</b>		29,068,153	19,666,706	28,912,729	19,012,540
<b>Basic and Diluted<sup>1</sup></b>	<b>8</b>				

Note 1: As outlined in Notes 1 and 23, the Corporation consolidated its common shares on 12 May 2017. These figures reflect the post-consolidation loss per share and post-consolidation weighted average common shares outstanding in the period.

**Unaudited Consolidated Interim Statement of Financial Position**  
**Balance as at (Canadian dollars)**

	Note	April 30, 2017 (Unaudited)	October 31, 2016 (Audited)
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		4,349,492	5,142,401
Trade and other accounts receivable	13	57,893	40,732
Prepaid expenses	14	27,836	10,562
Inventories	12	13,802	2,500
<b>Total Current Assets</b>		<b>4,449,023</b>	<b>5,196,195</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payables and accrued liabilities	18	828,802	480,271
Research and development repayable funding	9	995	1,055
Long-term debt	10	76,253	147,129
<b>Total Current Liabilities</b>		<b>906,050</b>	<b>628,455</b>
<b>Non-current Liabilities</b>			
Research and development repayable funding	9	3,369,578	3,369,518
Long-term debt	10	866,209	797,694
<b>Total Non-current Liabilities</b>		<b>4,235,787</b>	<b>4,167,212</b>
<b>Total Liabilities</b>		<b>5,141,837</b>	<b>4,795,667</b>
<b>Shareholders' Equity</b>			
Share Capital	15	19,813,351	18,119,041
Contributed surplus		2,536,403	2,995,099
Accumulated deficit		(23,042,568)	(20,713,612)
<b>Total Shareholders' Equity</b>		<b>(692,814)</b>	<b>400,528</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>4,449,023</b>	<b>5,196,195</b>

**Unaudited Consolidated Interim Statement of Changes in Equity**  
For the periods ending (Canadian dollars)

Note Reference	Shares Outstanding 1, 23	Share Capital 15	Contributed Surplus				Deficit	Total Shareholders Equity
			Warrants 16	Stock Options 17	Stock Appreciation Rights 17	Total Contributed Surplus		
<b>Balance as at October 31, 2015</b>	<b>19,666,706</b>	<b>\$ 12,675,922</b>	<b>\$ 1,774,881</b>	<b>\$ 875,814</b>	<b>\$ 191,318</b>	<b>\$ 2,842,013</b>	<b>\$ (18,342,999)</b>	<b>\$ (2,825,064)</b>
Profit (loss) for the period							\$ (557,200)	\$ (557,200)
Issuance of share-based payments				\$ 46,310	\$ 1,209	\$ 47,519		\$ 47,519
Issuance of warrants related to long-term debt			\$ 130,453			\$ 130,453		\$ 130,453
Transaction costs associated with long-term debt warrants			\$ (11,932)			\$ (11,932)		\$ (11,932)
<b>Balance as at January 31, 2016</b>	<b>19,666,706</b>	<b>\$ 12,675,922</b>	<b>\$ 1,893,402</b>	<b>\$ 922,124</b>	<b>\$ 192,527</b>	<b>\$ 3,008,053</b>	<b>\$ (18,900,199)</b>	<b>\$ (3,216,224)</b>
Profit (loss) for the period						\$ -	\$ (596,034)	\$ (596,034)
Issuance of share-based payments				\$ 31,506	\$ 618	\$ 32,124		\$ 32,124
Warrants and options expired in the period				\$ (60,070)		\$ (60,070)	\$ 60,070	\$ -
<b>Balance as at April 30, 2016</b>	<b>19,666,706</b>	<b>\$ 12,675,922</b>	<b>\$ 1,893,402</b>	<b>\$ 893,560</b>	<b>\$ 193,145</b>	<b>\$ 2,980,107</b>	<b>\$ (19,436,163)</b>	<b>\$ (3,780,134)</b>
Profit (loss) for the period						\$ -	\$ (833,409)	\$ (833,409)
Issuance of share capital in private placement	6,000,000	\$ 2,930,233	\$ 669,767			\$ 669,767		\$ 3,600,000
Issuance cost of share capital		\$ (412,694)						\$ (412,694)
Issuance of agent warrants		\$ (146,566)	\$ 146,566			\$ 146,566		\$ -
Exercise of outstanding agent warrants	10,000	\$ 9,420	\$ (3,420)			\$ (3,420)		\$ 6,000
Issuance of share-based payments				\$ 47,483	\$ 110	\$ 47,593		\$ 47,593
Warrants and options expired in the period			\$ (320,440)	\$ (19,089)		\$ (339,529)	\$ 339,529	\$ -
<b>Balance as at July 31, 2016</b>	<b>25,676,706</b>	<b>\$ 15,056,315</b>	<b>\$ 2,385,875</b>	<b>\$ 921,954</b>	<b>\$ 193,255</b>	<b>\$ 3,501,084</b>	<b>\$ (19,930,043)</b>	<b>\$ (1,372,644)</b>
Profit (loss) for the period						\$ -	\$ (765,855)	\$ (765,855)
Issuance of warrants related to long-term debt			\$ 3,070			\$ 3,070		\$ 3,070
Issuance cost of share capital		\$ 3,411						\$ 3,411
Exercise of warrants	2,089,800	\$ 3,036,935	\$ (593,234)			\$ (593,234)		\$ 2,443,701
Exercise of stock options	22,000	\$ 22,380		\$ (1,080)		\$ (1,080)		\$ 21,300
Vesting of share-based payments				\$ 67,545		\$ 67,545		\$ 67,545
Warrants and options expired in the period			\$ 16,635	\$ 1,079		\$ 17,714	\$ (17,714)	\$ -
<b>Balance as at October 31, 2016</b>	<b>27,788,506</b>	<b>\$ 18,119,041</b>	<b>\$ 1,812,346</b>	<b>\$ 989,498</b>	<b>\$ 193,255</b>	<b>\$ 2,995,099</b>	<b>\$ (20,713,612)</b>	<b>\$ 400,528</b>
Profit (loss) for the period							\$ (1,020,180)	\$ (1,020,180)
Exercise of warrants	1,276,849	\$ 1,674,516	\$ (397,345)			\$ (397,345)		\$ 1,277,171
Exercise of stock options	100	\$ 119		\$ (54)		\$ (54)		\$ 65
Vesting of share-based payments				\$ 43,816	\$ -	\$ 43,816		\$ 43,816
Warrants and options expired in the period			\$ (100,528)			\$ (100,528)	\$ 100,528	\$ -
<b>Balance as at January 31, 2017</b>	<b>29,065,455</b>	<b>\$ 19,793,676</b>	<b>\$ 1,314,473</b>	<b>\$ 1,033,260</b>	<b>\$ 193,255</b>	<b>\$ 2,540,988</b>	<b>\$ (21,633,264)</b>	<b>\$ 701,400</b>
Profit (loss) for the period							\$ (1,450,711)	\$ (1,450,711)
Exercise of warrants	12,500	\$ 19,675	\$ (4,675)			\$ (4,675)		\$ 15,000
Exercise of stock options	-	\$ -		\$ -		\$ -		\$ -
Vesting of share-based payments				\$ 41,497	\$ -	\$ 41,497		\$ 41,497
Warrants and options expired in the period			\$ (41,407)			\$ (41,407)	\$ 41,407	\$ -
<b>Balance as at April 30, 2017</b>	<b>29,077,955</b>	<b>\$ 19,813,351</b>	<b>\$ 1,268,391</b>	<b>\$ 1,074,757</b>	<b>\$ 193,255</b>	<b>\$ 2,536,403</b>	<b>\$ (23,042,568)</b>	<b>\$ (692,814)</b>

Note: The statement of changes in equity is reflective of a 10:1 share consolidation which was effective 12 May 2017.  
Amounts have been adjusted retrospectively for comparative purposes (See Notes 1 and 23).

**Unaudited Consolidated Interim Statement of Cash Flows**  
**For the periods ending (Canadian dollars)**

	Note	3 months ending April 30, 2017	3 months ending April 30, 2016	6 months ending April 30, 2017	6 months ending April 30, 2016
<b>Cash Flows from Operating Activities</b>					
Profit (loss) for period		\$ (1,450,711)	\$ (596,034)	\$ (2,470,891)	\$ (1,153,234)
Items not affecting cash					
Share-based compensation	17	\$ 41,497	\$ 32,124	\$ 85,313	\$ 79,643
Depreciation of equipment		\$ -	\$ 3,720	\$ -	\$ 8,723
Changes in non-cash operating working capital items					
Trade and other accounts receivable		\$ (14,456)	\$ 15,623	\$ (17,161)	\$ 17,611
Prepaid expenses		\$ 7,176	\$ 7,368	\$ (17,274)	\$ (15,657)
Inventories		\$ (12,949)	\$ (495)	\$ (11,302)	\$ 54
Accounts payable and accrued liabilities		\$ 271,325	\$ 80,257	\$ 348,531	\$ (46,484)
Net effect of foreign exchange rates on cash		\$ 2,684	\$ -	\$ 3,581	\$ -
<b>Total Cash Flows used in Operations - before interest accrued</b>		<b>(1,155,434)</b>	<b>(457,437)</b>	<b>(2,079,203)</b>	<b>(1,109,344)</b>
Interest accrued and amortization of transaction fees on long-term debt	10	44,204	41,744	88,095	77,442
<b>Cash Flows used in Operating Activities</b>		<b>(1,111,230)</b>	<b>(415,693)</b>	<b>(1,991,108)</b>	<b>(1,031,902)</b>
<b>Cash Flows from Investing Activities</b>					
		-	-	-	-
<b>Cash Flows from Financing Activities</b>					
Proceeds from research and development repayable funding	9	\$ -	\$ -	\$ -	\$ 47,051
Proceeds from long-term debt	10	\$ -	\$ -	\$ -	\$ 869,547
Repayment of long-term debt	10	\$ (18,627)	\$ -	\$ (90,456)	\$ -
Proceeds from the exercise of share purchase warrants	15, 16	\$ 15,000	\$ -	\$ 1,292,171	\$ -
Proceeds from the exercise of stock options	15	\$ -	\$ -	\$ 65	\$ -
Proceeds from warrants issued with long-term debt	10	\$ -	\$ -	\$ -	\$ 130,453
Transaction fees on long-term debt	10	\$ -	\$ -	\$ -	\$ (1,252)
Transaction fees on warrants issued with long-term debt	10	\$ -	\$ -	\$ -	\$ (11,932)
<b>Cash Flows from Financing Activities</b>		<b>(3,627)</b>	<b>-</b>	<b>1,201,780</b>	<b>1,033,867</b>
<b>Increase (decrease) in cash during the period</b>		<b>\$ (1,114,857)</b>	<b>\$ (415,693)</b>	<b>\$ (789,328)</b>	<b>\$ 1,965</b>
Net effect of exchange rate changes on cash		\$ (2,684)	\$ -	\$ (3,581)	\$ -
Cash and cash equivalents, beginning of period		\$ 5,467,033	\$ 1,049,905	\$ 5,142,401	\$ 632,247
<b>Cash and cash equivalents, end of period</b>		<b>4,349,492</b>	<b>634,212</b>	<b>4,349,492</b>	<b>634,212</b>

There were no investing activities in the reporting periods.

# Notes to the Unaudited Consolidated Interim Financial Statements

## 1. Corporate information

Avivagen, Inc. (the "Corporation" or "Avivagen") is domiciled in Canada and its registered office is 100 Sussex Drive, Ottawa, Ontario, Canada K1A 0R6.

On 8 May 2017, the Board of Directors approved a 10:1 share consolidation (reverse split) which was effective 12 May 2017. The shareholders approved the consolidation on 11 April 2017. The financial statements and notes thereto have been retrospectively restated to reflect the effects of the share consolidation as required by IAS 10 *Events After the Reporting Period* section 22(f) and IAS 33 *Earnings per Share* section 64-65. Although the consolidation occurred after the reporting period (30 April 2017) but before the statements were authorized for issue (24 May 2017), IFRS requires all prior periods presented on the financial results to be presented as if the consolidation occurred at the start of the first period presented. These financial statements present these results as post-consolidated and also highlights the differences from the pre-consolidated results.

Due to the share consolidation, the terms of the Corporation's outstanding common share purchase warrants have been amended to the effect that ten common share purchase warrants are required in exchange for one common share of the Corporation. The outstanding common share purchase warrants indicated herein reflect the number of common shares which could be issued upon the exercise of the currently outstanding common share purchase warrants.

The Corporation is a life-sciences company that is developing and commercializing products to replace antibiotics in livestock feeds to optimize the health and growth of the animals by supporting the animal's own health defences. The Corporation's unique, proprietary technology, known as OxC-beta™ (fully-oxidized beta-carotene) Technology, is based on Avivagen's discovery of the propensity of the micronutrient  $\beta$ -carotene to naturally undergo oxidation to generate polymeric oxidation products that possess a unique combination of immunological health benefits.

Avivagen has further discovered that the health benefits of the OxC-beta™ Technology afford the Corporation the opportunity to provide its lead product, OxC-beta™ Livestock, as an entirely new and novel, non-drug replacement product for the widespread use of in-feed antibiotics for livestock for growth promotion and disease prevention. The use of antibiotics as growth promoters in the feedstock of cattle, swine and poultry has been banned for over 10 years in Europe and their use has more recently become a source of urgent concern to health authorities, governments and consumers, leading them to demand changes now being supported by leading international food processors, retailers and restaurant chains. The OxC-beta™ Livestock product has completed multiple trials as a non-antibiotic feed additive that successfully optimizes health and productivity in swine and poultry. By enabling the removal of antibiotics from feeds, the OxC-beta™ Livestock product is expected to reduce the development of antibiotic resistant pathogens that are widely thought to occur as a result of food animal production and can threaten human health.

The Corporation intends to accelerate market access and the commercial uptake of its OxC-beta™ Livestock product, an innovative product that has the potential to eliminate the use of antibiotics as growth promoters in livestock feed, a problem that needs an urgent solution and which represents a multi-billion dollar market. Goals include executing further commercial and trial alliances in Asia and elsewhere, securing registration in more nations such as the USA and European countries, developing protocols for use in new species and establishing proof-of-concept for human applications. Additionally, Avivagen will pursue additional sales in the countries where OxC-beta™ Livestock is already permitted to be sold for use in livestock feeds (Taiwan, Thailand, and the Philippines).

The observed reductions in incidence of disease in livestock have given rise to one of Avivagen's longer-term goals, which is to access the human supplement, prophylactic or therapeutic markets for OxC-beta™ Technology.

For companion animals, the Corporation has created two branded lines of OxC-beta™ products, Vivamune™ Vital Health<sup>3</sup> Chews and Oximunol™ Chewable Tablets, intended to improve or maintain quality of life in companion animals.

The Corporation also generates modest revenues from sales of chemistry products, such as deuterated analytical standards, to various universities and research centres.

## 2. Basis of preparation and statement of compliance

The unaudited consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value.

The unaudited consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board, London and the Interpretations of the International Financial Reporting Interpretations Committee and in effect on the date when approved by the Board of Directors. The Board of Directors approved the financial statements on 24 May 2017.

## 3. Summary of significant accounting policies

### (A) Basis of consolidation

The unaudited consolidated interim financial statements comprise the financial statements of the Corporation and its inactive wholly owned subsidiary. The subsidiary is fully consolidated from the date of acquisition, being the

# Notes to the Unaudited Consolidated Interim Financial Statements

date on which the Corporation obtains control, and continues to be consolidated until the date that such control ceases. Control is achieved when an investor has power over an investee to direct its activities, exposure to variable returns from an investee, and the ability to use the power to affect the investor's returns.

## **(B) Foreign currency translation**

The financial statements are presented in Canadian dollars. The functional currency of the parent entity and the subsidiary is the Canadian dollar. Transactions in foreign currencies are initially recorded at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

## **(C) Revenue recognition**

Revenues are recognized when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over (1) the use of the products, (2) the channel, and/or (3) the final price to sell the products, all sales are final, and there are no unfulfilled performance obligations that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Corporation has objective evidence that all criteria for acceptance have been satisfied. All of the Corporation's sales and performance obligations occur as at a point in time. As at the reporting period, there are no unfulfilled performance obligations extending beyond a year. The product is sold without any subsequent pricing adjustment and accordingly there has been no variable consideration assessment. No element of financing is deemed present, as all sales require advance payment, an irrevocable letter of credit, or payment within 30 days. The Corporation's only obligation is to provide an exchange for products under the standard assurance warranty terms and conditions. The warranty terms, if any, are recognized as a provision under IFRS 37 *Provisions, Contingent Liabilities, and Contingent Assets*. A receivable is recognized when the goods are delivered. This is the point in time that the consideration is unconditional as only the passage of time is required before payment is due. All advance payments, if any, are recorded as a liability called deferred revenue.

## **(D) Taxes**

Current income tax assets and liabilities for the respective and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Corporation operates and generates taxable income.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred tax relate to the same taxable entity and the same taxation authority.

## **(E) Government grants**

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset. The grant is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge. The Corporation has an interest-free repayable funding obligation from the Government of Canada (ACOA). The interest-free portion is treated as a government grant in the period benefited and the accretion is treated as interest expense in the same period.

## **(F) Financial instruments – initial recognition and subsequent measurement**

Financial assets and financial liabilities are recognized when the Corporation becomes party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as amortized costs or FVTOCI are included with the carrying amount of such instruments. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as fair value through profit or loss (FVTPL) are recognized immediately in the profit or loss within the consolidated statements of comprehensive income.

# Notes to the Unaudited Consolidated Interim Financial Statements

## Financial Assets

From 1 November 2015, the Corporation classifies its financial assets in the following measurement categories: those to be measured at amortized cost and those to be measured subsequently at fair value (either through other comprehensive income (FVTOCI), or through profit or loss (FVTPL)). The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

### Financial Assets at Amortized Cost

Financial assets that meet the following conditions are measured at amortized cost less impairment losses: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash-flows; the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and the financial asset was not acquired principally for the purpose of selling in the near term or for short-term profit taking (held-for-trading).

### Financial Assets at Fair Value Through Profit or Loss (FVTPL)

All other financial assets, except equity and debt instruments as described below, are remeasured at fair value and classified as fair value through profit or loss. The gains or losses, if any, arising on remeasurement of FVTPL are recognized in profit or loss within the consolidated statements of comprehensive income.

The method of measurement of instruments in debt instruments will depend on the business model in which the instrument is held. For instruments in equity instruments, it will depend on whether the Corporation has made an irrevocable election at the time of initial recognition to account for the equity instrument at fair value through other comprehensive income (FVTOCI). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

### Financial Liabilities

Financial liabilities are classified as FVTPL when the financial liability is either held-for-trading or is designated at FVTPL. Financial liabilities at FVTPL are remeasured in subsequent reporting periods at fair value. Any gains or losses arising on remeasurement of held-for-trading financial liabilities are recognized in profit or loss within the consolidated statements of comprehensive income. Such gains or losses recognized in profit or loss includes any interest paid on the financial liabilities. Financial liabilities that are not held-for-trading and are not designated as FVTPL are measured at amortized cost. The carrying amounts of financial liabilities that are measured at amortized cost are determined based on the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial liability (or financial asset) and of allocating interest expense (or income) over the expected life of the financial liability (or financial asset). All financial assets and financial liabilities held by the Corporation are measured at amortized cost.

### Impairment

The Corporation assesses on a forward looking basis the expected credit losses associated with its assets carried at amortized cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables only, the Corporation applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

The Corporation has applied IFRS 9 retrospectively, but has elected not to restate comparative information as there is no impact on the financial statements of the Corporation from adopting IFRS 9. As a result, the comparative information provided continues to be accounted for in accordance with the Corporation's previous accounting policy which reflects the same measurement of IFRS 9.

The accounting policies were changed effective 1 November 2015 to comply with the full requirements of IFRS 9 as issued by the IASB. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 *Financial Instruments: Disclosures*. The total impact on retained earnings due to classification and measurement of financial instruments as at 1 November 2015 and the date of these financial statements was NIL.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### (G) Compound instruments

The component parts of compound instruments (e.g., debt issued with warrants) issued by the Corporation are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar debt without warrants. This amount is recorded as a liability on the amortized cost basis using the effective interest method until extinguished or at the instrument's maturity date.

The warrants classified as equity are determined by deducting the amount of the liability component from the fair value of the instrument as a whole. This is recognized and included in equity and is not subsequently remeasured.



## Notes to the Unaudited Consolidated Interim Financial Statements

Warrants classified as equity will remain in equity until the conversion option is exercised, in which case the balance recognized in equity will be transferred to common shares within equity. When the warrants remain unexercised at their maturity date, the balance recognized in equity will be transferred to retained earnings or deficit. No gain or loss is recognized in profit or loss upon conversion or expiration of the warrants. Transaction costs that relate to the issue of the instruments are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the life of the debt using the effective interest method.

### **(H) Treasury shares**

Own equity instruments which are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the statement of profit or loss on the purchase, sale, issue, or cancellation of the Corporation's own equity instruments. Any difference between the carrying amount and the consideration is recognized within equity in contributed surplus.

### **(I) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

### **(J) Provisions**

Provisions are recognized when the Corporation has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

### **(K) Loss per share**

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of common shares outstanding during the period. The Corporation uses the treasury stock method for calculating the dilutive effect of the outstanding stock options, warrants, and stock appreciation rights (SARs). Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options, warrants, or SARs are used to repurchase common shares at the average market price during the period (refer to Notes 1 and 23).

### **(L) Inventories**

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### **(M) Leases**

Finance leases, which transfer to the Corporation substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Operating lease payments are recognized as an expense in the statement of profit or loss on a straight line basis over the lease term.

### **(N) Share-based payment**

The Corporation accounts for share-based payment options using the fair value method. Under this method, compensation expense for share-based compensation granted is measured at the fair value at the grant date, using the Black-Scholes option valuation model. In accordance with the fair value method, the Corporation recognizes estimated compensation expense related to share-based compensation over the vesting period of the options granted, with the related credit being charged to contributed surplus. Consideration paid on the exercise of share-based compensation is recorded as share capital and the related share-based compensation is transferred from contributed surplus to share capital.

## **4. Significant accounting judgments, estimates, and assumptions**

The preparation of the financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities, and the disclosure of contingent liabilities, at the end of the reporting periods. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Corporation's accounting policies, management has made the following judgments, which have the most significant effects on the amounts recognized in the financial statements.

The financial statements were prepared on a going concern basis and do not include any adjustments to the carrying value and classification of assets and liabilities that would be necessary should the Corporation be unable to continue as a going concern. The going concern basis assumes that the Corporation will continue to operate in the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

# Notes to the Unaudited Consolidated Interim Financial Statements

The Corporation's ability to continue as a going concern is dependent upon the Corporation's ability to obtain the ongoing support of its lenders and investors, obtain profitable operations, generate significant sales and/or raise additional capital.

The Corporation has not obtained profitable operation to date. For the three month period ended 30 April 2017, the Corporation had a net loss from operations of \$(1,450,711) (30 April 2016: \$(596,034)). For the six month period ended 30 April 2017, the Corporation had a net loss from operations of \$(2,470,891) (30 April 2016: \$(1,153,234)). Whether and when the Corporation can attain profitability and positive cash flow is uncertain. These uncertainties cast significant doubt upon the Corporation's ability to continue as a going concern. The accumulated deficit is \$(23,042,568) as of 30 April 2017 (31 October 2016: \$(20,713,612)).

As at 30 April 2017 if the Corporation settled all liabilities its net asset balance would be negative \$692,814 (31 October 2016: positive \$400,528).

The Corporation has entered into an agreement and has obtained repayable funding with the Atlantic Canada Opportunities Agency ("ACOA"). As at 30 April 2017, \$3,370,573 is the undiscounted balance of the repayable funding outstanding. Balances outstanding are repayable over a ten-year period which commenced 30 June 2014. Yearly repayments are equal to 10% of revenues of the prior year from the resulting product. As it is not possible to estimate the repayment terms and the requirement and ability to adhere to the covenants of the agreement, the funding outstanding is being carried at its face value and has not been discounted to its fair value (as required under IFRS 9), as no reliable or relevant measure could be provided. Also, if the covenants of the agreement are violated, the entire obligation becomes payable at its carrying amount. Assuming the Corporation repaid the ACOA obligations consistent with management's and ACOA's estimates, with a discount rate of 16%, the fair value of the repayable funding would be approximately \$2,019,227.

Share-based payments are estimated using a Black-Scholes pricing model. This model requires management estimates and assumptions.

The financing charges incurred to obtain the Bloom Burton Health Care Lending Trust long-term credit facility are pro-rated between equity and the debt liability. The financing charge amounts related to the debt are carried on the balance sheet as deferred financing charges and are amortized using the effective interest method over the life of the facility. The current outstanding balance of the revolving facility is recorded on the balance sheet at its present value using a 16% discount rate, being the rate management estimates that a market participant would require without the equity component of the facility.

## Share consolidation

On 8 May 2017, the Board of Directors approved a 10:1 share consolidation (reverse split) which was effective 12 May 2017. The shareholders approved the consolidation on 11 April 2017. The financial statements and notes thereto have been retrospectively restated to reflect the effects of the share consolidation as required by IAS 10 *Events After the Reporting Period* section 22(f) and IAS 33 *Earnings per Share* section 64-65. Although the consolidation occurred after the reporting period (30 April 2017) but before the statements were authorized for issue (24 May 2017), IFRS requires all prior periods presented on the financial results to be presented as if the consolidation occurred at the start of the first period presented. These financial statements present these results as post-consolidated and also highlights the differences from the pre-consolidated results.

Due to the share consolidation, the terms of the Corporation's outstanding common share purchase warrants have been amended to the effect that ten common share purchase warrants are required in exchange for one common share of the Corporation. The outstanding common share purchase warrants indicated herein reflect the number of common shares which could be issued upon the exercise of the currently outstanding common share purchase warrants.

	Pre-consolidation	Post-consolidation
Common shares outstanding	290,779,547	29,077,955
Subscriber and agent warrants outstanding	47,741,337	4,774,134
Stock options outstanding	18,830,930	1,883,093
Stock appreciation rights (SARs) outstanding	3,424,242	342,424

## 5. Standards issued but not yet effective and standards adopted

As at the date the Corporation's board of directors approved the financial statements, certain new standards, amendments, and interpretations to existing IFRS standards have been published but are not yet effective and have not been adopted by the Corporation and in certain cases have been early-adopted.

The International Accounting Standards Board issued on 18 May 2017 a new accounting standard called IFRS 17 *Insurance Contracts*. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given entities dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. The Corporation has assessed IFRS 17 and determined it will have no impact to the financial statements and note disclosure.

The International Accounting Standards Board issued on 13 January 2016 a new accounting standard called IFRS 16 *Leases*. IFRS 16 *Leases* replaces IAS 17 *Leases*. IFRS 16 requires all leases to be reported on an entity's

# Notes to the Unaudited Consolidated Interim Financial Statements

statement of financial position as assets and liabilities. IFRS 16 is effective 1 January 2019. The Corporation has assessed and determined that there will be an impact to the financial statements when adopted since the Corporation entered into new leases for its facilities on March 31, 2017. The impact would be the present value of the commitments disclosed in Note 22. The Corporation expects to adopt the new standard in 2019.

The IASB published an amendment to IAS 12 in January 2016 referred to as IAS 12: *Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses*. The amendment is effective for reporting periods starting on or after 1 January 2017. The Corporation early adopted on 1 November 2016 and there was no impact to the statement of financial position or the statement of comprehensive income.

The IASB has issued the following updates to the Standards, which the Corporation early adopted on 1 November 2015 and for which there was no impact on the statement of financial position, results of operations, or disclosures: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Changes in methods of disposal, IFRS 7 *Financial Instruments: Disclosures*: Servicing contracts, IAS 19 *Employee Benefits*: Discount rate IAS 34 *Interim Financial Reporting*: Disclosure.

The IASB issued *Disclosure Initiative*, amendments to IAS 1 in December 2014 with an effective date of 1 January 2016. The Corporation early adopted the amendments on 1 November 2015. The adoption resulted in reduced disclosures in non-material areas.

The IASB issued *Disclosure Initiative*, amendments to IAS 7 in January 2016 with an effective date of 1 January 2017. The Corporation early adopted the amendments on 1 November 2016. The adoption resulted in no significant changes to the disclosures in the financial statements as the Corporations financing activities are not subject to fair value adjustments, foreign exchange, the result of acquisitions or other adjustments.

As at 1 November 2015, the Corporation early adopted IFRS 9 *Financial Instruments* as issued by the IASB. In accordance with the transitional provisions in IFRS 9.7.2.15, comparative figures have not been restated. When compared to IAS 39 *Financial Instruments: Recognition and Measurement*, the adoption of IFRS 9 has not resulted in any significant changes to the measurement on the statements of financial position, the statement of comprehensive income (loss), or within the note disclosures.

As at 1 November 2015, the Corporation early adopted IFRS 15 *Revenue from Contracts with Customers* as issued by the IASB. In accordance with the transition provisions in IFRS 15, the new rules have been adopted retrospectively and comparatives for the prior financial periods and year have not been restated, as there was no difference in the application of IFRS 15 and the prior IAS 11 and IAS 18 and the various IFRIC interpretations.

As at 1 November 2016, the Corporation early adopted *Clarifications to IFRS 15 Revenue from Contracts with Customers*. Issued in April 2016, The *Clarifications to IFRS 15* covers principal versus agent considerations, licensing and the nature of the entity's promises, sales-based or usage based royalties and transition provisions. There was no impact to the Corporation's financial statements.

The IASB has issued seven narrow scope amendments between June 2016 to the date of the issue of these financial statements. One amendment, IFRS 2 *Clarification and Measurement of Share-based Payment Transactions*, issued June 2016 and effective for years beginning on or after 1 January 2018, has been early adopted by the Corporation on 1 November 2016 and there was no impact to the statement of financial position or the statement of comprehensive income.

## 6. Operating segment information

The Corporation's chief operating decision maker, the Interim Chief Executive Officer, monitors the Corporation's operations as two main business segments: (1) products based on OxC-beta™ Technology, and (2) chemistry product sales.

### For the three months ended 30 April 2017

	OxC-beta™	Chemistry	Total
Revenue	\$ 5,529	\$ 34,034	\$ 39,563
Expenses	\$ 1,434,233	\$ 56,041	\$ 1,490,274
<b>Profit (loss) after taxes</b>	<b>\$ (1,428,704)</b>	<b>\$ (22,007)</b>	<b>\$ (1,450,711)</b>

### For the three months ended 30 April 2016

	OxC-beta™	Chemistry	Total
Revenue	\$ 1,601	\$ 49,420	\$ 51,021
Expenses	\$ 593,520	\$ 53,535	\$ 647,055
<b>Profit (loss) after taxes</b>	<b>\$ (591,919)</b>	<b>\$ (4,115)</b>	<b>\$ (596,034)</b>

### For the six months ended 30 April 2017

	OxC-beta™	Chemistry	Total
Revenue	\$ 44,790	\$ 57,110	\$ 101,900
Expenses	\$ 2,477,589	\$ 95,202	\$ 2,572,791
<b>Profit (loss) after taxes</b>	<b>\$ (2,432,799)</b>	<b>\$ (38,092)</b>	<b>\$ (2,470,891)</b>

# Notes to the Unaudited Consolidated Interim Financial Statements

## For the six months ended 30 April 2016

	OxC-beta™	Chemistry	Total
Revenue	\$ 4,522	\$ 66,870	\$ 71,392
Expenses	\$ 1,123,212	\$ 101,414	\$ 1,224,626
<b>Profit (loss) after taxes</b>	<b>\$ (1,118,690)</b>	<b>\$ (34,544)</b>	<b>\$ (1,153,234)</b>

All of the Corporation's assets and liabilities are located in Canada. All inventory, ACOA, and long-term debt obligations are for the OxC-beta™ Technology operating segments. \$888 (31 October 2016: \$10,455) of accounts receivable is associated with the chemistry operating segment. All other assets and liabilities are not separated among the operating segments.

The Corporation determines the geographic location of revenues based on the location of its customers.

Sales for periods ending:	3-month periods ending		6-month periods ending	
	30 April 2017	30 April 2016	30 April 2017	30 April 2016
Canada	\$ Nil	\$ 1,968	\$ Nil	\$ 1,968
United States	5,529	23,136	9,882	36,227
Europe	29,074	1,534	38,883	1,534
Philippines	Nil	Nil	34,907	Nil
Other	4,960	24,383	18,228	31,663
	<b>\$ 39,563</b>	<b>\$ 51,021</b>	<b>\$ 101,900</b>	<b>71,392</b>

The Corporation had significant sales to 1 customer of \$26,060 (66% of revenue) in the three-month period ended 30 April 2017 (30 April 2016: \$36,250 to two customers or 71% of revenue). The Corporation had significant sales to 2 customers of \$60,966 (60% of revenue) in the six-month period ended 30 April 2017 (30 April 2016: \$40,108 to two customers or 56% of revenue).

## 7. Income taxes

The Corporation has income tax losses for Canadian federal and provincial taxes which may be carried forward to reduce future years' taxable income and expire as follows:

2020 <sup>1</sup>	\$ 25,565
2026	544,416
2027	911,198
2028	437,970
2029	1,364,608
2030	1,920,211
2031	2,832,605
2032	2,049,964
2033	991,422
2034	1,793,236
2035	2,346,575
2036	2,708,722
2037	2,385,577
Indefinite <sup>2</sup>	249,000
	<b>\$ 20,561,069</b>

Note 1: Investment tax credits

Note 2: Unclaimed Canadian federal and provincial research and development expenditures

The Corporation has the following deferred income tax assets for the periods ended:

	30 April 2017	31 October 2016
Non-capital loss carry-forwards	\$ 5,375,923	\$ 4,743,745
Cumulative eligible capital expenditures and PP&E	\$ 444,631	\$ 444,631
Scientific R&D tax credits and ITCs	\$ 72,760	\$ 72,760
Share issue costs	\$ 233,768	\$ 233,768
Total deferred income tax assets	\$ 6,127,082	\$ 5,494,904
Impairment allowance of 100%	\$ (6,127,082)	\$ (5,494,904)
Deferred income tax assets	\$ 0	\$ 0

## Notes to the Unaudited Consolidated Interim Financial Statements

	3 months ended		12 months ended
	30 April 2017	30 April 2016	31 October 2016
<b>Reconciliation of taxable losses for the periods ended</b>			
Profit (loss) before income taxes	\$ (1,450,711)	\$ (596,034)	\$ (2,752,498)
Income tax (recovery) at the combined federal and provincial tax rate of 26.5%	\$ (384,438)	\$ (157,949)	\$ (729,412)
Non-deductible share-based payments	\$ 10,997	\$ 8,513	\$ 51,617
Depreciation	\$ Nil	\$ 986	\$ 3,107
Income tax recovery not recognized – impaired	\$ 373,441	\$ 148,450	\$ 674,688
Income tax recovery recognized on the statement of comprehensive income	\$ 0	\$ 0	\$ 0

	6 months ended		12 months ended
	30 April 2017	30 April 2016	31 October 2016
<b>Reconciliation of taxable losses for the periods ended</b>			
Profit (loss) before income taxes	\$ (2,470,891)	\$ (1,153,234)	\$ (2,752,498)
Income tax (recovery) at the combined federal and provincial tax rate of 26.5%	\$ (654,786)	\$ (305,607)	\$ (729,412)
Non-deductible share-based payments	\$ 22,608	\$ 21,105	\$ 51,617
Depreciation	\$ Nil	\$ 2,312	\$ 3,107
Income tax recovery not recognized – impaired	\$ 632,178	\$ 282,190	\$ 674,688
Income tax recovery recognized on the statement of comprehensive income	\$ 0	\$ 0	\$ 0

### 8. Loss per share

Basic loss per share amounts are calculated by dividing net loss for the period attributable to ordinary equity holders of the parent by the weighted average number of common shares outstanding during the period. Diluted loss per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares, if any, that would be issued on conversion of all the dilutive potential effects. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but that were not included in the computation of diluted net loss per shares because to do so would have reduced the loss per share (anti-dilutive) as at 30 April 2017 are as noted below (refer to notes 1 and 23).

Due to the share consolidation, the terms of the Corporation's outstanding common share purchase warrants have been amended to the effect that ten common share purchase warrants are required in exchange for one common share of the Corporation. The outstanding common share purchase warrants indicated herein reflect the number of common shares which could be issued upon the exercise of the currently outstanding common share purchase warrants.

	Post-consolidation	Pre-consolidation
Stock Appreciation Rights (SARs)	302,424	3,024,242
Options – Share-based payments	1,883,093	18,830,930
Subscriber Warrants	3,970,792	39,707,917
Agent Warrants	303,342	3,033,420
Long-term Debt Warrants	500,000	5,000,000

#### Post-consolidation:

	3 months ended	
	30 April 2017	30 April 2016
Profit (loss) attributable to equity holders for basic loss	\$ (1,450,711)	\$ (596,034)
<b>Profit (loss) attributable to equity holders adjusted for dilution</b>	<b>\$ (1,450,711)</b>	<b>\$ (596,034)</b>
Weighted average number of common shares for basic profit (loss) per share	29,068,153	19,666,706
Effect of dilution on common shares:	Nil	Nil
<b>Profit (loss) per share (basic and diluted)</b>	<b>\$ (0.050)</b>	<b>\$ (0.030)</b>

# Notes to the Unaudited Consolidated Interim Financial Statements

## Post-consolidation:

	6 months ended	
	30 April 2017	30 April 2016
Profit (loss) attributable to equity holders for basic loss	\$ (2,470,891)	\$ (1,153,234)
<b>Profit (loss) attributable to equity holders adjusted for dilution</b>	<b>\$ (2,470,891)</b>	<b>\$ (1,153,234)</b>
Weighted average number of common shares for basic profit (loss) per share	28,912,729	19,012,540
Effect of dilution on common shares:	Nil	Nil
<b>Profit (loss) per share (basic and diluted)</b>	<b>\$ (0.085)</b>	<b>\$ (0.061)</b>

The following reflects the pre-consolidation basis:

## Pre-consolidation:

	3 months ended	
	30 April 2017	30 April 2016
Profit (loss) attributable to equity holders for basic loss	\$ (1,450,711)	\$ (596,034)
<b>Profit (loss) attributable to equity holders adjusted for dilution</b>	<b>\$ (1,450,711)</b>	<b>\$ (596,034)</b>
Weighted average number of common shares for basic profit (loss) per share	290,681,536	196,667,061
Effect of dilution on common shares:	Nil	Nil
<b>Profit (loss) per share (basic and diluted) pre-consolidation</b>	<b>\$ (0.005)</b>	<b>\$ (0.003)</b>

## Pre-consolidation:

	6 months ended	
	30 April 2017	30 April 2016
Profit (loss) attributable to equity holders for basic loss	\$ (2,470,891)	\$ (1,153,234)
<b>Profit (loss) attributable to equity holders adjusted for dilution</b>	<b>\$ (2,470,891)</b>	<b>\$ (1,153,234)</b>
Weighted average number of common shares for basic profit (loss) per share	289,127,288	196,667,061
Effect of dilution on common shares:	Nil	Nil
<b>Profit (loss) per share (basic and diluted) pre-consolidation</b>	<b>\$ (0.0085)</b>	<b>\$ (0.0061)</b>

## 9. Research and development repayable funding

The Corporation entered into two agreements to obtain repayable funding from ACOA. Under the first agreement, the Corporation drew \$2,052,131 of which \$15,898 was repaid for a remaining obligation of \$2,036,173. Under the second agreement, the Corporation drew \$1,334,400.

Balances outstanding are repayable over a ten-year period, which commenced on 30 June 2014. Yearly repayments are capped at 10% of product revenues of the prior year from the resulting product. For the year ending 31 October 2016 the total revenues of \$161,190 consisted of \$150,634 for chemistry products and \$10,556 for products based on OxC-beta™ Technology. 10% of \$10,556 less a \$60 overpayment from the previous period, or \$995, will be repaid to ACOA on 30 June 2017.

	30 April 2017	31 October 2016
Repayable as at:		
Current portion of repayable funding	\$ 995	\$ 1,055
Non-current portion of repayable funding	\$ 3,369,578	\$ 3,369,518
<b>Total R&amp;D Repayable Funding</b>	<b>\$ 3,370,573</b>	<b>\$ 3,370,573</b>

Under the agreements, the Corporation must maintain a minimum shareholders' equity. The Corporation was in compliance with the covenant agreements as at 30 April 2017 and 31 October 2016 and as at the date of issue of these financial statements. Under the terms of the R&D ACOA agreements no dividends may be paid until the ACOA obligations are fully repaid.

These agreements are interest-free. Under IAS 20 *Government Grants*, interest free loans are considered a grant. The interest free portion under IFRS 9 and IAS 20 is fair valued and the interest expense is deemed a government grant and an interest expense. The Corporation estimates the risk-adjusted borrowing rate for the financial instrument is approximately 16%. The Corporation recognized the following as interest expense:

For the periods ending	3 months ended 30 April		6 months ended 30 April	
	2017	2016	2017	2016
Interest expense from ACOA	\$ (134,823)	\$ (134,858)	\$ (269,646)	\$ (269,525)
Government grant from ACOA	\$ 134,823	\$ 134,858	\$ 269,646	\$ 269,525
<b>Net expense/grant</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

## 10. Long-term debt

On 30 October 2015, the Corporation entered into an agreement with the Bloom Burton Healthcare Lending Trust (the "Trust") for a secured drawdown credit facility of up to \$1.8 million. Amounts drawn on the credit facility

## Notes to the Unaudited Consolidated Interim Financial Statements

accrue interest at 12% annually, with 7% repayable each calendar quarter and the remaining 5% accruing to be repaid at maturity. For the first year of the facility, the 7% repayable interest shall be accrued and becomes payable 13 November 2016. The facility matures 13 November 2019, at which time the full principal including all accrued interest becomes payable. The Corporation may prepay amounts outstanding under the facility before the maturity date under the following terms: after the first anniversary of the first drawdown but before the second anniversary, the Corporation must pay an additional 4% of any principal amount prepaid; after the second anniversary of the first drawdown but before the third anniversary, the Corporation must pay an additional 3% of any principal amount prepaid; and after the third anniversary of the first drawdown but before the maturity date, the Corporation must pay an additional 2% of any principal amount prepaid.

In consideration for the credit facility, the Trust has been issued warrants to purchase common shares of the Corporation. Such warrants will vest and become exercisable in amounts proportionate to the amount of the facility which is drawn down. Up to 500,000 warrants (post-consolidation) will vest as the credit facility is drawn down at an exercise price of \$1.10 (pre-consolidation: 5,000,000 warrants at \$0.11). The warrants will remain exercisable up to the maturity date subject to potential acceleration under TSX.V policies in the event of repayment prior to the maturity.

Under IAS 32, an entity is required to separate a financial instrument that contains a financial liability and an equity component using the residual method. The warrants are considered to be an equity component and the credit facility is considered a financial liability. Therefore, the financial liability is measured at the discount rate that a market participant would require without the equity component. The discount rate was determined to be 16%. Accordingly, when the credit facility is drawn, the financial liability will be recorded at its discounted value of 16% with the difference, being the warrants, accounted for as an equity transaction.

Initial recognition of the facility will be at its fair value at a discount rate of 16%. Subsequent recognition will use the effective interest rate model. Transaction and legal costs associated with the facility in the amount of \$99,023 have been capitalized to equity and long-term debt on a pro-rata basis. The liability's transaction costs will be expensed using the effective interest method up to the maturity date of the facility.

On 13 November 2015, the Corporation drew \$1,000,000 from the credit facility and vested 277,778 warrants (post-consolidation) (pre-consolidation: 2,777,778). The debt was recognized at \$866,477 and the equity was recognized at \$133,523. The warrants will be charged to the contributed surplus account until such time as the warrants are executed or expired. The remaining \$800,000 is available to be drawn up to 29 December 2017.

<b>Balance as at 31 October 2015</b>	<b>\$ (85,839)</b>
<b>Cash drawdown (13 November 2015)</b>	<b>\$ 1,000,000</b>
Equity allocation	\$ (133,523)
Liability allocation	\$ 866,477
Interest accrual	\$ 143,664
Transaction costs	\$ (87,091)
Amortization of transaction costs	\$ 21,773
<b>Balance as at 31 October 2016</b>	<b>\$ 944,823</b>
Interest paid on 13 November 2016	\$ (71,827)
Interest accrual	\$ 38,446
Amortization of transaction costs	\$ 5,443
<b>Balance as at 31 January 2017</b>	<b>\$ 916,885</b>
Interest paid on 13 February 2017	\$ (18,627)
Interest accrual	\$ 38,761
Amortization of transaction costs	\$ 5,443
<b>Balance as at 30 April 2017</b>	<b>\$ 942,462</b>
Current portion of long-term debt	\$ 76,253
Non-current portion of long-term debt	\$ 866,209
<b>Balance as at 30 April 2017</b>	<b>\$ 942,462</b>

The undiscounted future repayment per fiscal year on the loan with future accrued interest is as follows:

2017	\$ 37,339
2018	\$ 78,165
2019	\$ 82,164
2020	\$ 1,242,425
<b>Total</b>	<b>\$ 1,440,093</b>

# Notes to the Unaudited Consolidated Interim Financial Statements

## 11. Fair values

All financial assets and financial liabilities are carried at amortized cost under the business model as required under IFRS 9. Due to the short-term nature of the current financial assets and liabilities, the carrying value is approximately equal to the fair value. The ACOA fair value (Level 3) is explained in Note 9, and the long-term debt approximates its fair value (assessed as a Level 3 as management estimated the discount rate).

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique: Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities; Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; Level 3: techniques which use inputs that have a significant effect on the recorded fair value and that are not based on observable market data.

## 12. Inventories

	<b>30 April 2017</b>	<b>31 October 2016</b>
Finished goods (at net realizable value)	\$ 13,802	\$ 2,500

The amount of the inventories recognized as an expense in the three-month period ending 30 April 2017 is \$2,191 (30 April 2016: \$451). Inventory expense in the three-month period ended 30 April 2017 consists of \$2,191 in cost of OxC-beta™ Technology product sold and \$0 in inventory expensed for marketing purposes. Inventory expense in the three-month period ended 30 April 2016 consisted of \$160 in cost of OxC-beta™ Technology product sold and \$291 expensed for marketing purposes.

The amount of the inventories recognized as an expense in the six-month period ending 30 April 2017 is \$15,661 (30 April 2016: \$1,000). Inventory expense in the six-month period ended 30 April 2017 consists of \$14,533 in cost of OxC-beta™ Technology product sold and \$1,128 in inventory expensed for marketing purposes. Inventory expense in the six month period ended 30 April 2016 consisted of \$614 in cost of OxC-beta™ Technology product sold and \$386 expensed for marketing purposes.

At 31 October 2016, the Corporation impaired an amount of inventory. For the three month period ended 31 April 2017 the Corporation reversed \$3,838 of this impairment to account for inventory sold and probable to sell before the expiry date of the product.

## 13. Trade and other accounts receivable

	<b>30 April 2017</b>	<b>31 October 2016</b>
Trade receivables	\$ 888	\$ 10,455
Receivables from tax authorities (HST)	\$ 57,005	\$ 30,277
	<b>\$ 57,893</b>	<b>\$ 40,732</b>

Trade receivables are non-interest bearing and are on 30 day terms. As at 30 April 2017, trade and other receivables were not impaired. The ageing analysis of trade receivables is as follows:

	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired (days)</b>		
			<b>&lt; 30</b>	<b>30-60</b>	<b>&gt; 60</b>
<b>30 April 2017</b>	\$888	\$888	\$0	\$0	\$X
<b>31 October 2016</b>	\$10,455	\$7,320	\$0	\$3,135	\$0

## 14. Prepaid expenses

Prepaid expenses for the period ending 30 April 2017 consist of \$11,536 (31 October 2016: \$10,562) for a security deposit on leased office and laboratory space as well as \$16,300 in prepaid insurance (31 October 2016: \$0).

## 15. Common Shares

The authorized share capital of the Corporation consists of unlimited voting common shares.

Due to the share consolidation, the terms of the Corporation's outstanding common share purchase warrants have been amended to the effect that ten common share purchase warrants are required in exchange for one common share of the Corporation. The outstanding common share purchase warrants indicated herein reflect the number of common shares which could be issued upon the exercise of the currently outstanding common share purchase warrants.

On 1 June 2016, the Corporation completed a private placement of 600,000 units (pre-consolidation: 6,000,000 units) for gross proceeds of \$3.6 million. The placement had both brokered and non-brokered components. Each unit consisted of one common share and one half common share purchase warrant for a unit price of \$0.60 (pre-consolidation: \$0.06). Each whole warrant entitles the holder to acquire one common share of the Corporation at a purchase price of \$0.90 for two years (pre-consolidation: \$0.09). Related parties participated in the financing in the amount of \$112,280.

The common shares had a fair value of \$0.70 (pre-consolidation: \$0.07) based on the previous 30 days' weighted average price as listed on the TSX.V and the current bid/ask spread and price on 1 June 2016. Based on the gross



## Notes to the Unaudited Consolidated Interim Financial Statements

proceeds of \$3.6 million, the relative fair value of the common shares was \$2,930,233 and the investor warrants were assigned a relative fair value of \$669,767 for a total of \$3.6 million. The Corporation paid agent fees in connection with the transaction in the amount of \$225,485.40 and 375,809 agent warrants (pre-consolidation: 3,758,090 agent warrants). These were based on a payment of 7% of the brokered proceeds. The agent warrants were assigned a fair value of \$146,566 based on a Black-Scholes calculation with the assumptions indicated below. Each agent warrant entitles the finder to purchase one common share of the Corporation for two years at \$0.60 (pre-consolidation: \$0.06). Legal transaction fees for the private placement were \$153,832. TSX filing fees were \$18,000.

The Black-Scholes calculation was based on the following assumptions: a stock price of \$0.70 (pre-consolidation: \$0.07); exercise price for investor warrants \$0.90 (pre-consolidation: \$0.09), for finder warrants \$0.60 (pre-consolidation: \$0.06); time to maturity of 2 years; annual risk-free interest rate of 0.59% based on Bank of Canada 2-year benchmark bond yield; and historical 2-year stock volatility of 99%

During the three and six-month period ending 30 April 2017, certain warrants and stock options were exercised for common shares. The details of the instruments exercised are indicated below:

### Post-consolidation

Date of Issue of Original Instrument	Subscriber Warrants	Agent Warrants	Stock Options	Exercise Price	Cash Consideration
23-Nov-2011	435,000	45,000		\$ 1.00	\$ 480,000
30-Jan-2012	115,600			\$ 1.00	\$ 115,600
13-Nov-2013	343,570			\$ 1.20	\$ 412,284
11-Apr-2014	12,500			\$ 1.20	\$ 15,000
16-Dec-2014	91,858			\$ 0.60	\$ 55,114
16-Dec-2014	41,700			\$ 1.00	\$ 41,700
20-Aug-2015			100	\$ 0.65	\$ 65
1-Jun-2016	166,667			\$ 0.90	\$ 150,000
1-Jun-2016		37,454		\$ 0.60	\$ 22,473
	<b>1,206,895</b>	<b>82,454</b>	<b>100</b>		<b>\$ 1,292,236</b>

The following reflects the above warrants and options exercised on a pre-consolidation basis:

### Pre-consolidation

Date of Issue of Original Instrument	Subscriber Warrants	Agent Warrants	Stock Options	Exercise Price	Cash Consideration
23-Nov-2011	4,350,000	450,000		\$ 0.10	\$ 480,000
30-Jan-2012	1,156,000			\$ 0.10	\$ 115,600
13-Nov-2013	3,435,700			\$ 0.12	\$ 412,284
11-Apr-2014	125,000			\$ 0.12	\$ 15,000
16-Dec-2014	918,576			\$ 0.06	\$ 55,114
16-Dec-2014	417,000			\$ 0.10	\$ 41,700
20-Aug-2015			1,000	\$ 0.065	\$ 65
1-Jun-2016	1,666,667			\$ 0.09	\$ 150,000
1-Jun-2016		374,544		\$ 0.06	\$ 22,473
	<b>12,068,943</b>	<b>824,544</b>	<b>1,000</b>		<b>\$ 1,292,236</b>

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## 16. Warrants

Due to the share consolidation effective 12 May 2017, the terms of the Corporation's outstanding common share purchase warrants have been amended to the effect that ten common share purchase warrants are required in exchange for one common share of the Corporation. The outstanding common share purchase warrants indicated herein reflect the number of common shares which could be issued upon the exercise of the currently outstanding common share purchase warrants.

As at 30 April 2017, the Corporation had 4,774,134 warrants outstanding (pre-consolidation: 47,741,337). The details are as follows:

Date of Issue	Subscriber Warrants	Agent Warrants	Long-term Debt Warrants	Term (Years)	Date of Expiry	Exercise Price
16-Dec-2014	1,195,800			3	16-Dec-2017	\$ 1.00
30-Oct-2015			500,000	4	13-Nov-2019	\$ 1.10
1-Jun-2016	2,774,992			2	1-Jun-2018	\$ 0.90
1-Jun-2016		303,342		2	1-Jun-2018	\$ 0.60
	<b>3,970,792</b>	<b>303,342</b>	<b>500,000</b>			

Of the 500,000 long-term debt warrants issued, 277,778 have vested as at 30 April 2017 (pre-consolidation: of the 5,000,000 long-term debt warrants issued, 2,777,778 have vested as at 30 April 2017).

The following reflects the warrants outstanding on a pre-consolidation basis:

### Pre-consolidation

Date of Issue	Subscriber Warrants	Agent Warrants	Long-term Debt Warrants	Term (Years)	Date of Expiry	Exercise Price
16-Dec-2014	11,958,000			3	16-Dec-2017	\$ 0.10
30-Oct-2015			5,000,000	4	13-Nov-2019	\$ 0.11
1-Jun-2016	27,749,917			2	1-Jun-2018	\$ 0.09
1-Jun-2016		3,033,420		2	1-Jun-2018	\$ 0.06
	<b>39,707,917</b>	<b>3,033,420</b>	<b>5,000,000</b>			

## 17. Share-based payments and stock appreciation rights

The Corporation adopted a stock option plan ("Option Plan") on 4 August 2005. The Option Plan is administered by the Board of Directors of the Corporation who establish exercise prices, at not less than market price at the date of grant, and vesting periods, which to date have been set between one day and three years. Options under the Plan remain exercisable for five years from the date of grant. The option pool was amended on 12 September 2016. As a result, the maximum number of common share reserved for issuance for options that may be granted under the Option Plan is 2,448,003 (pre-consolidation: 24,480,030).

<i>Post-consolidation</i>	Total	Weighted average exercise price
<b>Balance Outstanding at 31 October 2015</b>	<b>1,629,510</b>	<b>\$ 0.895</b>
Expired and forfeited Q2 2016	(50,000)	\$ 1.00
Granted Q3 2016	331,667	\$ 0.80
Expired and forfeited Q3 2016	(66,400)	\$ 0.90
Exercised Q4 2016	(2,000)	\$ 0.65
<b>Balance Outstanding at 31 October 2016</b>	<b>1,842,777</b>	<b>\$ 0.876</b>
Exercised Q1 2017	(100)	\$ 0.65
<b>Balance Outstanding at 31 January 2017</b>	<b>1,842,677</b>	<b>\$ 0.876</b>
Granted Q2 2017	80,000	\$ 1.00
Expired and forfeited Q2 2017	(10,417)	\$ 0.65
Expired and forfeited Q2 2017	(29,167)	\$ 0.80
<b>Balance Outstanding at 30 April 2017</b>	<b>1,883,093</b>	<b>\$ 0.884</b>
<b>Options exercisable as at:</b>	<b>Total</b>	<b>Weighted average exercise price</b>
30 April 2017	1,568,093	\$ 0.894
31 October 2016	1,409,235	\$ 0.907

## Notes to the Unaudited Consolidated Interim Financial Statements

Exercise price	Options Outstanding	Options Exercisable	Weighted average remaining contractual life in months
\$0.70	220,000	220,000	24.7
\$1.00	36,000	36,000	23.1
\$1.00	520,000	520,000	10.4
\$1.00	100,000	100,000	17.5
\$0.90	120,000	105,000	36.7
\$0.65	152,900	111,025	39.7
\$0.80	285,000	106,875	49.8
\$1.00	80,000	0	58.0
\$1.00	268,776	268,776	9.4
\$0.70	51,667	51,667	9.4
\$0.65	26,042	26,042	9.4
\$0.65	5,208	5,208	0.3
\$0.80	11,667	11,667	9.4
\$0.80	5,833	5,833	0.3
	<b>1,883,093</b>	<b>1,568,093</b>	

The following reflects the stock options outstanding and exercisable on a pre-consolidation basis:

	Total	Weighted average exercise price
<b>Pre-Consolidation</b>		
<b>Balance Outstanding at 31 October 2015</b>	<b>16,295,096</b>	<b>\$ 0.0895</b>
Expired and forfeited Q2 2016	(500,000)	\$ 0.10
Granted Q3 2016	3,316,667	\$ 0.08
Expired and forfeited Q3 2016	(664,000)	\$ 0.09
Exercised Q4 2016	(20,000)	\$ 0.065
<b>Balance Outstanding at 31 October 2016</b>	<b>18,427,763</b>	<b>\$ 0.0876</b>
Exercised Q1 2017	(1,000)	\$ 0.065
<b>Balance Outstanding at 31 January 2017</b>	<b>18,426,763</b>	<b>\$ 0.0876</b>
Granted Q2 2017	800,000	\$ 0.10
Expired and forfeited Q2 2017	(104,166)	\$ 0.065
Expired and forfeited Q2 2017	(291,667)	\$ 0.08
<b>Balance Outstanding at 30 April 2017</b>	<b>18,830,930</b>	<b>\$ 0.0884</b>

**Options exercisable as at:**

	Total	Weighted average exercise price
30 April 2017	15,680,930	\$ 0.0894
31 October 2016	14,092,346	\$ 0.0907

**Pre-consolidation**

Exercise price	Options Outstanding	Options Exercisable	Weighted average remaining contractual life in months
\$0.07	2,200,000	2,200,000	24.7
\$0.10	360,000	360,000	23.1
\$0.10	5,200,000	5,200,000	10.4
\$0.10	1,000,000	1,000,000	17.5
\$0.09	1,200,000	1,050,000	36.7
\$0.065	1,529,000	1,110,250	39.7
\$0.08	2,850,000	1,068,750	49.8
\$0.10	800,000	0	58.0
\$0.10	2,687,763	2,687,763	9.4
\$0.07	516,667	516,667	9.4
\$0.065	260,416	260,416	9.4
\$0.065	52,084	52,084	0.3
\$0.08	116,667	116,667	9.4
\$0.08	58,333	58,333	0.3
	<b>18,830,930</b>	<b>15,680,930</b>	

On 22 June 2016, the Corporation issued 331,667 stock options to employees, directors, and consultants (pre-consolidation: 3,316,667). The options will vest over 8 quarters. The stock options were granted pursuant to the terms of the stock option plan and are exercisable at \$0.80 per share (pre-consolidation: \$0.08). The fair value of the options was determined to be \$0.55 (pre-consolidation: \$0.055) based on a Black-Scholes calculation using the following assumptions: a stock price of \$0.70 (pre-consolidation: \$0.07); exercise price of \$0.80 (pre-consolidation: \$0.08); expected life of 5 years; annual risk-free interest rate of 0.70% based on Bank of Canada 5-year benchmark bond yield; and historical 5-year stock volatility of 114%. Volatility was determined by using the

## Notes to the Unaudited Consolidated Interim Financial Statements

historical volatility of the stock over a 3 to 5-year period. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

On 27 February 2017, the Corporation issued 80,000 stock options to employees (pre-consolidation: 800,000). The stock options were granted pursuant to the terms of the stock option plan and are exercisable at \$1.00 per share (pre-consolidation: \$0.10). The fair value of the options was determined to be \$0.76 (pre-consolidation: \$0.076) based on a Black-Scholes value using the following assumptions: a stock price of \$1.00 (pre-consolidation: \$0.10), an exercise price of \$1.00 (pre-consolidation: \$0.10), expected life of 5 years, annual risk-free interest rate of 1.12% based on Bank of Canada 5-year benchmark bond yield, and historical 5-year stock volatility of 102%. Volatility was determined by using the historical volatility of the stock over a 5-year period. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options. 60,000 of the options will vest over 8 quarters and 20,000 options will vest over three years (pre-consolidation: 600,000 over 8 quarters and 200,000 over three years).

For the three month period ended 30 April 2017, the Corporation recorded \$41,497 (30 April 2016: \$32,124) as contributed surplus and compensation expense for the vesting of stock options, which is measured at fair value at the date of grant and is graded and expensed over the option's vesting period. For the six-month period ended 30 April 2017, the Corporation recorded \$85,313 (30 April 2016: \$79,643).

On 11 March 2013, the Corporation granted 242,424 stock appreciation rights (SARs) to the then-Chief Executive Officer with an exercise price of \$0.825 (pre-consolidation: 2,424,242 SARs exercisable at \$0.0825). On 20 May 2014, the Corporation issued 60,000 SARs to the Chairman of the board of directors with an exercise price of \$0.70 (pre-consolidation: 600,000 SARs exercisable at \$0.07). The SARs issued are fully vested and are redeemable into cash or common shares at the option of the Corporation. The SARs are exercisable for a five-year period.

### 18. Accounts payables and accrued liabilities

#### For the periods ended

	<u>30 April 2017</u>	<u>31 October 2016</u>
Trade payable	\$ 69,278	\$ 151,419
Accrued liabilities	\$ 346,402	\$ 0
Related parties	\$ 227,776	\$ 149,667
Staff and board compensation payable	\$ 20,346	\$ 14,185
Management bonuses payable	\$ 165,000	\$ 165,000
<b>Total</b>	<b>\$ 828,802</b>	<b>\$ 480,271</b>

Trade payables are normally settled on 30-day terms. Related party payables are non-interest bearing and are monies due for legal services, key management compensation, and employees' earned vacation pay.

### 19. Expenses: disclosure of expenses by function

<i>For the periods ended:</i>	3 months ending		6 months ending	
	<u>30 April 2017</u>	<u>30 April 2016</u>	<u>30 April 2017</u>	<u>30 April 2016</u>
<b>Selling, general, and administrative</b>				
Salary, wages, and benefits	\$ 520,826	\$ 174,017	\$ 743,725	\$ 351,957
Professional fees and other	\$ 648,655	\$ 245,816	\$ 1,204,805	\$ 356,107
Board fees	\$ 42,085	\$ 7,841	\$ 96,290	\$ 26,845
Share-based payment	\$ 41,497	\$ 32,124	\$ 85,313	\$ 79,643
<b>Total selling, general, and administrative</b>	<b>\$ 1,253,063</b>	<b>\$ 459,798</b>	<b>\$ 2,130,133</b>	<b>\$ 814,552</b>
<b>Research and development</b>				
Salary, wages, and benefits	\$ 129,387	\$ 97,648	\$ 255,587	\$ 197,148
Professional fees and other	\$ 61,429	\$ 43,985	\$ 84,443	\$ 126,147
<b>Total Research and development</b>	<b>\$ 190,816</b>	<b>\$ 141,633</b>	<b>\$ 340,030</b>	<b>\$ 323,295</b>

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## 20. Related party disclosures and key management compensation

Key management consists of the Chief Executive Officer and the Board of Directors.

	3 months ended		6 months ended	
	30 April 2017	30 April 2016	30 April 2017	30 April 2016
Short term employee benefits	\$ 205,840	\$ 94,375	\$ 394,237	\$ 187,750
Termination payment	\$ 303,704	\$ 0	\$ 303,704	\$ 0
Share-based payments	\$ 17,236	\$ 22,397	\$ 42,841	\$ 51,468
<b>For the periods ended</b>	<b>\$ 526,780</b>	<b>\$ 116,772</b>	<b>\$ 740,782</b>	<b>\$ 239,218</b>

For the six-month period ending 30 April 2017, the Corporation has received consulting services from a legal firm that is a related party, as a director of the Corporation is a partner at the legal firm. Of the \$190,015 incurred in the six-month period, \$227,776 is payable as at 30 April 2017.

The Corporation is the ultimate parent entity. The common shares are widely held. Due to holdings held by intermediaries and third parties, the Corporation is not able to provide detailed shareholders' ownership information.

## 21. Financial risk management objectives and policies

The Corporation's primary risk management objective is to protect the Corporation's balance sheet and cash flow.

The Corporation's principal financial liabilities comprise research and development repayable funding (ACOA), long-term debt, and trade and other payables. The main purpose of these financial liabilities is to raise finances and working capital for the Corporation's operations. The Corporation is exposed to market risk, interest rate risk, foreign exchange risk, credit risk, and liquidity risk. The Board of Directors reviews and agrees upon policies for managing each of these risks which are summarized below.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise interest rate risk and foreign currency risk.

### Interest rate risk

The Corporation's exposure to interest rate risk is nominal considering the R&D repayable funding (ACOA) is subject to 0% interest. The long-term debt is subject to a 12% fixed interest rate and is not subject to exposure to interest rate changes. The Corporation invests surplus cash in bank demand deposits at a current rate of 0.78% which, due to their short term nature, do not expose the Corporation to any significant interest rate risks.

### Foreign currency risk

Foreign 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 Corporation's exposure to the risk of changes in foreign exchange rates relates primarily to the Corporation's operating activities, when revenue or expense are denominated in a different currency from the Corporation's functional currency. The Corporation is exposed to foreign exchange fluctuations against the Canadian dollar as some of its sales and expenses are denominated in U.S. dollars, while the majority of expenditures are denominated in Canadian dollars. For the three month period ended 30 April 2017, the Corporation's foreign exchange losses were \$6,442 (30 April 2016: loss of \$4,332). For the six month period ended 30 April 2017, the Corporation's foreign exchange losses were \$14,626 (30 April 2016: loss of \$13,733).

### Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Corporation provides credit to its customers in the normal course of operations. The Corporation sells its products primarily to large corporations, end users, or educational institutions. The carrying amount of cash, trade and other accounts receivable represents the maximum exposure to credit risk and at 30 April 2017 this amounted to \$4,407,385 (31 October 2016 - \$5,183,133). The cash is held by RBC on behalf of the Corporation. Since the inception of the Corporation, no losses have been suffered in relation to cash held in the bank. The trade and other receivables consist of \$57,005 (31 October 2015: \$30,277) in HST input tax credits receivable. No allowance for expected credit losses has been made against the trade and other receivables.

### Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions. The Corporation manages liquidity risk by reviewing its capital requirements on an ongoing basis. See going concern note in Note 4.

### Capital management

The Corporation manages its capital, which consists of cash provided from financing, long-term debt, and research and development repayable funding, with the primary objective being safeguarding sufficient working capital to sustain operations. The board of directors has not established capital benchmarks or other targets. There have

# Notes to the Unaudited Consolidated Interim Financial Statements

been no changes in the Corporation's approach to capital management during the three and six month period ended 30 April 2017. No changes were made in the objectives, policies, or processes during the three and six month period ending 30 April 2017. The Corporation continually assesses the adequacy of its capital structure and capacity and makes adjustments within the context of the Corporation's strategy, economic conditions, and the risk characteristics of the business.

## 22. Commitments, contingencies, guarantees, and collateral

### *Operating lease commitments – Corporation as lessee*

The Corporation is committed under agreements for the rental of office space and equipment at a monthly rate of \$10,932 for the 2017 fiscal year. The agreements will expire on 31 March 2020. They may be terminated by either party with nine months' notice. This operating lease, as the lessee, requires rental payments over the life of the lease as follows:

2017	\$	65,593
2018	\$	132,590
2019	\$	135,024
2020	\$	56,685
<b>Total</b>	<b>\$</b>	<b>389,892</b>

### **Guarantees and collateral**

The Corporation indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Corporation, and maintains liability insurance for its directors and officers. The Corporation has pledged all of the assets of the Corporation for the long-term debt.

## 23. Events after the reporting period

On 8 May 2017, the Board of Directors approved a 10:1 share consolidation (reverse split) which was effective 12 May 2017. The shareholders approved the consolidation on 11 April 2017. The financial statements and notes thereto have been retrospectively restated to reflect the effects of the share consolidation as required by IAS 10 *Events After the Reporting Period* section 22(f) and IAS 33 *Earnings per Share* section 64-65. Although the consolidation occurred after the reporting period (30 April 2017) but before the statements were authorized for issue (24 May 2017), IFRS requires all prior periods presented on the financial results to be presented as if the consolidation occurred at the start of the first period presented. These financial statements present these results as post-consolidated and also highlights the differences from the pre-consolidated results.

Due to the share consolidation effective 12 May 2017, the terms of the Corporation's outstanding common share purchase warrants have been amended to the effect that ten common share purchase warrants are required in exchange for one common share of the Corporation. The outstanding common share purchase warrants indicated herein reflect the number of common shares which could be issued upon the exercise of the currently outstanding common share purchase warrants.

On 12 May 2017, 5,208 stock options were exercised at \$0.65 per share and 5,833 stock options were exercised at \$0.80 per share for a total of 11,041 shares issued in exchange for \$14,052 in cash consideration. (pre-consolidation: 52,083 options at \$0.065 per share and 58,333 options at \$0.08 per share).

Additional information relating to the Corporation may be found at [www.sedar.com](http://www.sedar.com).