

# Avivagen Inc.

## Unaudited Interim Financial Statements

July 31, 2019

### **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 interim financial statements of the Corporation 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 financial statements.

### **Management's Statement of Responsibility**

The unaudited interim 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 interim financial statements are presented fairly, in all material respects, in accordance with IFRS.

The Board of Directors of Avivagen Inc. 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), Avivagen Inc. 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 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 CEO

(Signed)

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Chris Boland CFO (CPA, CA, CMA)

**Unaudited Interim Statements of Total Comprehensive Loss**  
**For the three and nine months ended July 31, 2019 and July 31, 2018 (Expressed in Canadian dollars)**

	Note	3 months ended July 31, 2019	3 months ended July 31, 2018	9 months ended July 31, 2019	9 months ended July 31, 2018
Revenues	3(b), 6	\$ 12,484	\$ 364,213	\$ 638,593	\$ 726,288
Cost of products sold	13	1,146	138,438	289,814	275,914
<b>Gross margin</b>		<b>11,338</b>	<b>225,775</b>	<b>348,779</b>	<b>450,374</b>
Selling, general and administration	19	868,195	979,404	2,847,378	2,990,004
Research	19	131,694	182,828	575,841	528,532
Depreciation of equipment	12	1,159	1,159	3,477	1,381
Finance cost	19	288,975	94,163	635,484	223,379
<b>Total expenses</b>		<b>1,290,023</b>	<b>1,257,554</b>	<b>4,062,180</b>	<b>3,743,296</b>
<b>Income Taxes</b>					
Current and deferred income tax expense	3(c), 7	-	-	-	-
<b>Total comprehensive loss for the period</b>		<b>(1,278,685)</b>	<b>(1,031,779)</b>	<b>(3,713,401)</b>	<b>(3,292,922)</b>
<b>Loss per share, basic and diluted</b>	8	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>	<b>\$ (0.11)</b>	<b>\$ (0.10)</b>
<b>Weighted average common shares issued and outstanding basic and diluted</b>	8	<b>34,907,334</b>	<b>33,507,086</b>	<b>34,180,794</b>	<b>32,886,485</b>

**Interim Statements of Financial Position**  
**As at July 31, 2019 and October 31, 2018 (Expressed in Canadian dollars)**

	Note	July 31, 2019 Unaudited	October 31, 2018 Audited
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	21	1,879,247	2,207,393
Trade and other accounts receivable	14	73,776	226,931
Prepaid expenses		68,010	28,909
Inventories	13	393,802	578,998
<b>Total Current Assets</b>		<b>2,414,835</b>	<b>3,042,231</b>
<b>Non-current Assets</b>			
Equipment	12	182,726	66,999
<b>Total Non-current Assets</b>		<b>182,726</b>	<b>66,999</b>
<b>Total Assets</b>		<b>2,597,561</b>	<b>3,109,230</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payables and accrued liabilities	18	456,197	762,579
Current portion of research and development repayable funding	9	63,859	107,257
Current portion of long-term debt	10	647,937	140,151
<b>Total Current Liabilities</b>		<b>1,167,993</b>	<b>1,009,987</b>
<b>Non-current Liabilities</b>			
Research and development repayable funding	9	273,166	238,152
Long-term debt	10	3,480,254	1,767,312
<b>Total Non-current Liabilities</b>		<b>3,753,420</b>	<b>2,005,464</b>
<b>Total Liabilities</b>		<b>4,921,413</b>	<b>3,015,451</b>
<b>Shareholders' Equity</b>			
Share Capital	15	23,956,537	22,963,948
Reserve	20	250,000	250,000
Contributed surplus	16, 17	3,359,291	3,275,558
Accumulated deficit		(29,889,680)	(26,395,727)
<b>Total Shareholders' Equity</b>		<b>(2,323,852)</b>	<b>93,779</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>2,597,561</b>	<b>3,109,230</b>

*Going Concern - Note 1*

**Unaudited Interim Statements of Changes in Equity**  
**For the periods ending (Expressed in Canadian dollars, except for shares outstanding)**

Note Reference	Shares Outstanding	Share Capital	Reserve	Contributed Surplus				Total Contributed Surplus	Deficit	Total Shareholders Equity
	1	15	20	Warrants 16	Stock Options 17	Stock Appreciation Rights 17				
<b>Balance as at October 31, 2017</b>	<b>29,161,055</b>	<b>\$ 19,910,051</b>	<b>\$ -</b>	<b>\$ 1,241,826</b>	<b>1,277,799</b>	<b>193,255</b>	<b>\$ 2,712,880</b>	<b>\$ (2,454,145)</b>	<b>\$ 168,786</b>	
Loss for the period from operations								\$ (1,241,588)	\$ (1,241,588)	
Issuance of share capital in private placement	4,058,500	\$ 4,058,500							\$ 4,058,500	
Issuance of investor warrants in private placement		\$ (856,195)		\$ 856,195			\$ 856,195			
Issuance of agent warrants in private placement		\$ (154,278)		\$ 154,278			\$ 154,278			
Issuance cost of share capital		\$ (312,487)		\$ (84,418)			\$ (84,418)		\$ (396,905)	
Vesting of share-based payments					\$ 81,151		\$ 81,151		\$ 81,151	
<b>Balance as at January 31, 2018</b>	<b>33,219,555</b>	<b>\$ 22,645,591</b>	<b>\$ -</b>	<b>\$ 2,167,881</b>	<b>\$ 1,358,950</b>	<b>\$ 193,255</b>	<b>\$ 3,720,086</b>	<b>\$ (23,695,733)</b>	<b>\$ 2,669,944</b>	
Loss for the period from operations								\$ (1,019,555)	\$ (1,019,555)	
Issuance cost of share capital		\$ (3,250)							\$ (3,250)	
Exercise of warrants	52,000	\$ 51,480		\$ (20,280)			\$ (20,280)		\$ 31,200	
Exercise of stock appreciation rights						\$ (161,455)	\$ (161,455)	\$ 161,455	\$ -	
Vesting of share-based payments					\$ 96,477		\$ 96,477		\$ 96,477	
Warrants and options expired in the period					\$ (588,009)		\$ (588,009)	\$ 588,009	\$ -	
<b>Balance as at April 30, 2018</b>	<b>33,271,555</b>	<b>\$ 22,693,821</b>	<b>\$ -</b>	<b>\$ 2,147,601</b>	<b>\$ 867,418</b>	<b>\$ 31,800</b>	<b>\$ 3,046,819</b>	<b>\$ (23,965,824)</b>	<b>\$ 1,774,816</b>	
Loss for the period from operations								\$ (1,031,799)	\$ (1,031,799)	
Shares issued in settlement of debt	107,944	\$ 86,355							\$ 86,355	
Exercise of warrants	185,629	\$ 183,772		\$ (72,395)			\$ (72,395)		\$ 111,377	
Vesting of long-term debt warrants				\$ 45,795			\$ 45,795		\$ 45,795	
Vesting of share-based payments					\$ 187,039		\$ 187,039		\$ 187,039	
Warrants and options expired in the period				\$ (10,027)			\$ (10,027)	\$ 10,027	\$ -	
<b>Balance as at July 31, 2018</b>	<b>33,565,128</b>	<b>\$ 22,963,948</b>	<b>\$ -</b>	<b>\$ 2,110,974</b>	<b>\$ 1,054,457</b>	<b>\$ 31,800</b>	<b>\$ 3,197,231</b>	<b>\$ (24,987,596)</b>	<b>\$ 1,173,583</b>	
Loss for the period from operations								\$ (1,541,117)	\$ (1,541,117)	
Common shares reserved for issuance			\$ 250,000						\$ 250,000	
Vesting of share-based payments					\$ 211,313		\$ 211,313		\$ 211,313	
Warrants and options expired in the period					\$ (132,986)		\$ (132,986)	\$ 132,986	\$ -	
<b>Balance as at October 31, 2018</b>	<b>33,565,128</b>	<b>\$ 22,963,948</b>	<b>\$ 250,000</b>	<b>\$ 2,110,974</b>	<b>\$ 1,132,784</b>	<b>\$ 31,800</b>	<b>\$ 3,275,558</b>	<b>\$ (26,395,727)</b>	<b>\$ 93,779</b>	
Loss for the period from operations								\$ (1,141,797)	\$ (1,141,797)	
Vesting of share-based payments					\$ 82,820		\$ 82,820		\$ 82,820	
Warrants and options expired in the period					\$ (15,817)		\$ (15,817)	\$ 15,817	\$ -	
<b>Balance as at January 31, 2019</b>	<b>33,565,128</b>	<b>\$ 22,963,948</b>	<b>\$ 250,000</b>	<b>\$ 2,110,974</b>	<b>\$ 1,199,787</b>	<b>\$ 31,800</b>	<b>\$ 3,342,561</b>	<b>\$ (27,521,707)</b>	<b>\$ (965,198)</b>	
Loss for the period from operations								\$ (1,292,919)	\$ (1,292,919)	
Common shares issued with long-term debt	1,342,206	\$ 1,075,600							\$ 1,075,600	
Issuance cost of common shares		\$ (67,824)							\$ (67,824)	
Equity portion of agent warrants with long-term debt		\$ (15,187)		\$ 75,933			\$ 75,933		\$ 60,746	
Vesting of share-based payments					\$ 54,736		\$ 54,736		\$ 54,736	
Warrants and options expired in the period					\$ (28,099)		\$ (28,099)	\$ 28,099	\$ -	
<b>Balance as at April 30, 2019</b>	<b>34,907,334</b>	<b>\$ 23,956,537</b>	<b>\$ 250,000</b>	<b>\$ 2,186,907</b>	<b>\$ 1,226,424</b>	<b>\$ 31,800</b>	<b>\$ 3,445,131</b>	<b>\$ (28,786,527)</b>	<b>\$ (1,134,859)</b>	
Loss for the period from operations								\$ (1,278,685)	\$ (1,278,685)	
Vesting of share-based payments					\$ 89,692		\$ 89,692		\$ 89,692	
Warrants and options expired in the period					\$ (143,732)	\$ (31,800)	\$ (175,532)	\$ 175,532	\$ -	
<b>Balance as at July 31, 2019</b>	<b>34,907,334</b>	<b>\$ 23,956,537</b>	<b>\$ 250,000</b>	<b>\$ 2,186,907</b>	<b>\$ 1,172,384</b>	<b>\$ -</b>	<b>\$ 3,359,291</b>	<b>\$ (29,889,680)</b>	<b>\$ (2,323,852)</b>	

**Unaudited Interim Statements of Cash Flows**  
**For the three and nine months ended July 31, 2019 and July 31, 2018 (Expressed in Canadian dollars)**

	Note	3 months ended July 31, 2019	3 months ended July 31, 2018	9 months ended July 31, 2019	9 months ended July 31, 2018
<b>Cash Flows from (used in) Operating Activities</b>					
Loss from operations		\$ (1,278,685)	\$ (1,031,779)	\$ (3,713,401)	\$ (3,292,922)
Items not affecting cash and non-cash adjustments:					
Depreciation of equipment	12	1,159	1,159	3,477	1,381
Share-based compensation	17	89,692	187,039	227,248	364,667
Finance cost	19	288,975	94,163	635,484	223,379
Net effect of foreign exchange rates on cash		4,260	799	45	1,408
Changes in operating working capital items:					
Trade and other accounts receivable	14	2,516	60,196	153,155	65,315
Prepaid expenses		(23,934)	23,582	(39,101)	(5,526)
Inventories	13	(6,938)	(191,233)	185,196	(367,637)
Accounts payable and accrued liabilities	18	(56,691)	(76,724)	(306,382)	(33,418)
<b>Cash Flows used in Operating Activities</b>		<b>(979,646)</b>	<b>(932,798)</b>	<b>(2,854,279)</b>	<b>(3,043,353)</b>
<b>Cash Flows from (used in) Investing Activities</b>					
Purchase of equipment	12	(119,204)	-	(119,204)	(69,539)
<b>Cash Flows from (used in) Investing Activities</b>		<b>(119,204)</b>	<b>-</b>	<b>(119,204)</b>	<b>(69,539)</b>
<b>Cash Flows from (used in) Financing Activities</b>					
Proceeds from issuance of private placement units	15	-	-	-	4,058,500
Share issuance cost	15	-	-	-	(400,155)
Proceeds from the issuance of long-term debt	10	-	754,205	4,302,400	754,205
Proceeds from common shares issued with long-term debt	10	-	-	1,075,600	-
Transaction fees on issuance of long-term debt	10	-	-	(397,567)	-
Warrants issued with long-term debt	10	-	45,795	60,746	45,795
Settlement of principal and accrued interest on long-term debt	10	-	-	(2,034,929)	-
Repayment of research and development repayable funding	9	(107,257)	(25,566)	(107,257)	(25,566)
Repayment of interest on long-term debt	10	(135,587)	(19,179)	(253,611)	(58,094)
Proceeds from the exercise of share purchase warrants	15, 16	-	111,377	-	142,577
<b>Cash Flows from (used in) Financing Activities</b>		<b>(242,844)</b>	<b>866,632</b>	<b>2,645,382</b>	<b>4,517,262</b>
<b>Increase (decrease) in cash and cash equivalents during the period</b>		<b>(1,341,694)</b>	<b>(66,166)</b>	<b>(328,101)</b>	<b>1,404,370</b>
Net effect of exchange rate changes on cash and cash equivalents		(4,260)	(799)	(45)	(1,408)
Cash and cash equivalents, beginning of period		3,225,201	3,070,064	2,207,393	1,600,137
<b>Cash and cash equivalents, end of period</b>	21	<b>\$ 1,879,247</b>	<b>\$ 3,003,099</b>	<b>\$ 1,879,247</b>	<b>\$ 3,003,099</b>

# Notes to the Unaudited Interim Financial Statements

In Canadian dollars, for the three and nine months ended July 31, 2019 and July 31, 2018

## 1. Corporate information and going concern

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

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 has also created products intended to improve or maintain quality of life in companion animals.

### Going concern

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

The Corporation has not obtained profitable operations to date. For the three months ended July 31, 2019, the Corporation had a net loss from all operations of \$(1,278,685) (three months ended July 31, 2018: \$(1,031,779)). For the nine months ended July 31, 2019, the Corporation had a net loss from all operations of \$(3,713,401) (nine months ended July 31, 2018: \$(3,292,922)). Whether and when the Corporation can attain profitability and positive cash flow is uncertain. The accumulated deficit is \$(29,889,680) as of July 31, 2019 (October 31, 2018: \$(26,395,727)). These circumstances cast significant doubt as to the ability of the Corporation to meet its obligations as they come due, and accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. Management is actively pursuing the commercialization of its products and is continuously evaluating the availability of additional debt or equity financing to provide adequate cash resources to carry out its business objectives and was successful in raising additional equity and debt financing in the current and prior fiscal year. Nevertheless, there is no assurance that these ongoing initiatives will continue to be successful.

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. These financial statements do not reflect adjustments in the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used that would be necessary if the Corporation were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

## 2. Basis of preparation and statement of compliance

The unaudited interim financial statements have been prepared on a historical cost basis.

The unaudited 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 September 6, 2019.

## 3. Summary of significant accounting policies

### (A) Foreign currency translation

The financial statements are presented in Canadian dollars. The functional currency of the Corporation 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 translated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the statement of total comprehensive 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.

### (B) 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 end of the reporting period, there are no unfulfilled performance obligations extending beyond a year. The Corporation's products are sold without any subsequent pricing adjustments 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 to 60 days. The Corporation's only obligation is to provide an exchange for products under the standard assurance warranty terms and conditions. The warranty requirements, 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.

## Notes to the Unaudited Interim Financial Statements

In Canadian dollars, for the three and nine months ended July 31, 2019 and July 31, 2018

### (C) 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 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 period 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 income tax assets against current income tax liabilities and the deferred tax relate to the same taxable entity and the same taxation authority.

### (D) 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 Atlantic Canada Opportunities Agency (ACOA). The liability related to each individual drawdown of the facility was recorded at its fair value as of each respective drawdown date. The Corporation used the assumption of a 35% discount rate and future projected revenues to determine the fair value. The difference between the amount received in cash on each drawdown date and the related fair value was considered a government grant and was recognized as an item of income in the respective statements of total comprehensive loss. Subsequent to initial recognition, the liability is carried at amortized cost with interest expense recognized to accrete the liability up to its face value over the estimated term of repayment. Scientific Research and Experimental Development (SRED) and Industrial Research Assistance Program (IRAP) funding from the Government of Canada are recognized as government grants.

### (E) 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 cost or fair value through other comprehensive income (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 statements of total comprehensive loss.

#### Financial Assets

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 FVTPL. The gains or losses, if any, arising on remeasurement of FVTPL are recognized within the statements of total comprehensive loss.

The method of measurement of investments in debt instruments will depend on the business model in which the instrument is held. For investments 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.

# Notes to the Unaudited Interim Financial Statements

In Canadian dollars, for the three and nine months ended July 31, 2019 and July 31, 2018

## 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 statements of total comprehensive loss. Such gains or losses recognized in the statement of total comprehensive loss include 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 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 *Financial Instruments*, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

## 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.

## (F) Compound instruments

The component parts of compound instruments (e.g., debt issued with warrants and/or common shares) 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 or common shares. 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 and/or common shares 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. 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 expiry date, the balance recognized in equity will be transferred to retained earnings or deficit. No gain or loss is recognized in the statement of comprehensive 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.

## (G) 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 total comprehensive 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.

## (H) Cash and cash equivalents

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

## (I) 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.

## (J) 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 earnings per share assumes that the proceeds to be received on the exercise of dilutive stock options, warrants, or SARs are used to repurchase common shares at the average market price during the period. Since the Corporation was in a



## Notes to the Unaudited Interim Financial Statements

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loss position in all periods presented herein, the effect of all outstanding stock options, warrants, and SARs is anti-dilutive, therefore diluted loss per share is equal to basic loss per share for both periods.

### **(K) 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.

### **(L) Equipment**

Equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of equipment are required to be replaced at intervals, the Corporation depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of total comprehensive loss as incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the equipment of 15 years.

An item of equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of total comprehensive loss when the asset is derecognized. The residual values, useful lives and methods of depreciation of equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

### **(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 total comprehensive loss on a straight-line basis over the lease term.

### **(N) Impairment of non-financial assets**

The Corporation assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired. If any indication exists, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or the Cash Generating Unit's (CGU's) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or collection of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

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

The Corporation accounts for share-based payment options using the fair value method. Under this method, compensation expense for share-based payments 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 payments 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 payments is recorded as share capital and the related share-based payment is transferred from contributed surplus to share capital.

### **(P) Joint arrangement**

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these unaudited interim financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognized in the statement of financial position at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the joint venture. When the Corporation's share of losses of a joint venture exceeds the Corporation's interest in that joint venture the Corporation discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Corporation has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The requirements of IFRS 9 *Financial Instruments* are applied to determine whether it is necessary to recognize any impairment loss with respect to the Corporation's investment in a joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any

## Notes to the Unaudited Interim Financial Statements

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reversal of that impairment loss is recognized in accordance with IAS 36 *Impairment of Assets* to the extent that the recoverable amount of the investment subsequently increases.

When an entity transacts with a joint venture of the Corporation, profits and losses resulting from the transactions with the joint venture are recognized in the Corporation's financial statements only to the extent of interests in the joint venture that are not related to the Corporation.

### 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 disclosures of contingent assets and 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.

#### **Carrying amount of ACOA research and development repayable funding (ACOA loans)**

The significant assumptions used in determining the discounted cash flows include estimating the amount and timing of future revenue for the Corporation and the discount rate. As the ACOA loans are repayable based on a percentage of gross revenue, the determination of the amount and timing of future revenue significantly impacts the initial fair value of the loans, as well as the carrying value of the loans at each reporting date. The Corporation is in the commercialization and early-revenue stages for its products; accordingly, determination of the amount and timing of revenue requires significant judgment by management. Management's estimate of future revenues assumes some revenue growth in the near future. The discount rate determined on initial recognition of the loans is used to determine the present value of estimated future cash flows expected to be required to settle the debt. In determining the appropriate discount rates, the Corporation considered the interest rates of similar long-term debt arrangements, with similar terms. The loans are repayable based on a percentage of gross revenue, accordingly finding financing arrangements with similar terms is difficult and management was required to use significant judgment in determining the appropriate discount rates. Management used a discount rate of 35% to discount the loans.

If the weighted average discount rate used in determining the initial fair value and the carrying value at each reporting date of all loans, with repayment terms based on future revenue, had been determined to be higher by 10% (45%) or lower by 10% (25%), the carrying value of the long-term debt at July 31, 2019 would have been an estimated \$78,985 lower or \$124,741 higher, respectively. A 10% increase or decrease in the total forecasted revenue would result in the carrying value at July 31, 2019 being an estimated \$21,407 higher or \$22,555 lower, respectively. If the total forecasted revenue were reduced to \$nil, no amounts would be forecast to be repaid on the non-current portion of the ACOA loans and the ACOA loan at July 31, 2019 would be \$63,859, which would be a reduction in the ACOA loan by \$273,166.

#### **Share-based Payments**

Share-based payments are estimated using a Black-Scholes pricing model (Black Scholes). This model requires management estimates and assumptions on the life of the instrument and the volatility.

### 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 January 13, 2016 a new accounting standard called IFRS 16 *Leases*. IFRS 16 *Leases* replaces IAS 17 *Leases*. IFRS 16 *Leases* requires all leases to be reported on an entity's statement of financial position as assets and liabilities. IFRS 16 *Leases* is effective January 1, 2019. The Corporation has assessed and determined that there will be no impact to the financial statements when adopted on November 1, 2019. As at November 1, 2019, the Corporation will have five months remaining on certain lease contracts. The Corporation has another lease contract for office space which has a remaining duration of less than one year. The Corporation will adopt the modified retrospective approach and elect the short-term lease exemption. Therefore, no asset or liability will be recognized as at November 1, 2019 unless the Corporation renews the lease before November 1, 2019 and for a lease period exceeding one year.

All other new standards were early adopted and/or had no impact on the unaudited interim financial statements.

### 6. Operating segment information

The Corporation's chief operating decision maker, the Chief Executive Officer, monitors the Corporation's operations as one segment: products based on OxC-beta™ Technology.

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

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Sales for periods ending:	3 months ended		9 months ended	
	July 31, 2019	July 31, 2018	July 31, 2019	July 31, 2018
United States	\$ 12,484	\$ 24,544	\$ 44,304	\$ 62,958
Canada	Nil	Nil	124	Nil
Philippines	Nil	326,300	585,048	647,705
Taiwan	Nil	Nil	Nil	2,256
Thailand	Nil	Nil	429	Nil
China	Nil	13,369	8,688	13,369
	<b>\$ 12,484</b>	<b>\$ 364,213</b>	<b>\$ 638,593</b>	<b>\$ 726,288</b>

The Corporation had no significant sales to one customer in the three months ended July 31, 2019 (three months ended July 31, 2018: sales to one customer of \$326,300 or 90% of all revenue). The Corporation had significant sales to one customer of \$585,048 (92% of all revenue) in the nine months ended July 31, 2019 (nine months ended July 31, 2018: \$647,705 or 89% of all revenue to one customer).

### 7. Income taxes

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

2026	\$	544,416
2027		911,198
2028		437,970
2029		1,369,413
2030		1,955,539
2031		2,857,669
2032		2,079,046
2033		1,056,010
2034		1,862,826
2035		2,453,329
2036		2,410,118
2037		4,762,281
2038		3,561,659
2039		3,670,343
Indefinite <sup>1</sup>		1,540,949
	<b>\$</b>	<b>31,472,766</b>

Note 1: The Corporation has \$1,540,949 of unclaimed Canadian federal and provincial Scientific Research and Experimental Development (SRED) expenditures which will not expire in future periods.

The Corporation also has the following unrecognized deferred income tax assets and liabilities for the periods ended as indicated below, however they were not recorded on the statements of financial position because it was not probable that they would be utilized:

Deferred Tax Assets	July 31	October 31
	2019	2018
Non-capital loss carry-forwards	\$ 7,851,448	\$ 6,894,910
Cumulative eligible capital expenditures and PP&E	446,225	445,304
SRED tax credits and investment tax credits	488,835	488,835
Share issue costs	212,159	212,159
Common shares reserved for future issuance	66,250	66,250
Total deferred income tax assets not recognized	9,064,917	8,107,458
Deferred income tax assets on the statement of financial position	\$ Nil	\$ Nil

  

Deferred Tax Liabilities	July 31	October 31
	2019	2018
ACOA loan temporary difference	\$ 768,428	\$ 794,630
Deferred income tax liabilities on the statement of financial position	\$ Nil	\$ Nil

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### Reconciliation of taxable losses for the three months ended

	July 31 2019	July 31 2018
Loss before income taxes	\$ (1,278,685)	\$ (1,031,779)
Income tax (recovery) at the combined federal and provincial tax rate of 26.5%	\$ (338,852)	(273,421)
Non-deductible share-based payments	23,768	49,565
Depreciation on equipment	307	307
Interest accretion on long-term debt	5,699	5,024
Share issue costs	(16,263)	Nil
Income tax recovery not probable to be utilized	325,341	218,525
Income tax recovery recognized on the statement of comprehensive loss	\$ Nil	\$ Nil

### Reconciliation of taxable losses for the nine months ended

	July 31 2019	July 31 2018
Loss before income taxes	\$ (3,713,401)	\$ (3,292,922)
Income tax (recovery) at the combined federal and provincial tax rate of 26.5%	(984,051)	(872,624)
Non-deductible share-based payments	60,221	96,637
Depreciation on equipment	921	366
Interest accretion on long-term debt	(942)	14,209
Share issue costs	(48,790)	Nil
Income tax recovery not probable to be utilized	972,641	761,413
Income tax recovery recognized on the statement of comprehensive loss	\$ Nil	\$ Nil

## 8. Loss per share

The outstanding number and type of securities that could potentially dilute basic earnings 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 July 31, 2019 are as noted below.

	Number Outstanding July 31 2019	July 31 2018
Stock Appreciation Rights (SARs) – expired May 20, 2019	-	60,000
Options – Share-based payments	2,291,062	2,079,054
Subscriber Warrants	5,967,980	5,967,980
Agent Warrants	516,317	283,080
Long-term Debt Warrants	500,000	500,000
<b>Total</b>	<b>9,275,359</b>	<b>8,890,114</b>

Reserve for common shares to be issued upon wind-up of China joint venture	416,667	Nil
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	Three months ended	
	July 31 2019	July 31 2018
Loss attributable to equity holders for basic loss from continuing operations	\$ (1,278,685)	\$ (1,031,779)
<b>Loss attributable to equity holders adjusted for dilution</b>	<b>\$ (1,287,685)</b>	<b>\$ (1,031,779)</b>
Weighted average number of common shares for basic loss per share	34,907,334	33,507,086
<b>Loss per share (basic and diluted)</b>	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>

	Nine months ended	
	July 31 2019	July 31 2018
Loss attributable to equity holders for basic loss from continuing operations	\$ (3,713,401)	\$ (3,292,922)
<b>Loss attributable to equity holders adjusted for dilution</b>	<b>\$ (3,713,401)</b>	<b>\$ (3,292,922)</b>
Weighted average number of common shares for basic loss per share	34,180,794	32,886,485
<b>Loss per share (basic and diluted)</b>	<b>\$ (0.11)</b>	<b>\$ (0.10)</b>

## 9. Atlantic Canada Opportunities Agency (ACOA) 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 \$32,498 was repaid for a remaining obligation of \$2,019,633. Under the second agreement, the Corporation drew \$1,334,400 of which \$117,278 was repaid for a remaining obligation of \$1,227,122.

The ACOA loans were initially recognized at their fair value and are subsequently carried at amortized cost as determined by using a discounted cash flow analysis, which requires a number of assumptions. The significant

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assumptions used in determining fair value using discounted cash flows include estimating the amount and timing of future revenue for the Corporation and the discount rate. As the loans are repayable based on a percentage of gross revenue, the determination of the amount and timing of future revenue significantly impacts the initial fair value of the loan, as well as the carrying value of the loans at each reporting date. Management recalculates the carrying amount by computing the present value of the estimated future cash flows at the original effective interest rate of 35%. Any adjustments are recognized in the statement of total comprehensive loss as accreted interest after initial recognition.

The Corporation commenced repayment on June 30, 2014. Yearly repayments are capped at 10% of product revenues of the prior year from the resulting product. The next ACOA repayment is currently recorded as \$63,859 based on OxC-beta product sales of \$638,593 in the nine months ended July 31, 2019 and is due on June 30, 2020.

	Project 1	Project 2	Total
<b>Balance as at October 31, 2017</b>	<b>\$ 17,326</b>	<b>\$ 166,770</b>	<b>\$ 184,096</b>
Interest accretion during the year	6,772	65,956	72,728
Adjustment during the year	4,813	109,338	114,151
Repayment of loan during the year	(2,998)	(22,568)	(25,566)
<b>Balance as at October 31, 2018</b>	<b>25,913</b>	<b>319,496</b>	<b>345,409</b>
Interest accretion during the period	2,334	28,780	31,114
<b>Balance as at January 31, 2019</b>	<b>28,247</b>	<b>348,276</b>	<b>376,523</b>
Interest accretion during the period	2,544	31,372	33,916
<b>Balance as at April 30, 2019</b>	<b>\$ 30,791</b>	<b>\$ 379,648</b>	<b>\$ 410,439</b>
Interest accretion during the period	2,408	31,435	33,843
Repayment of loan during the period	(12,547)	(94,710)	(107,257)
<b>Balance as at July 31, 2019</b>	<b>20,652</b>	<b>316,373</b>	<b>\$ 337,025</b>
		<b>July 31, 2019</b>	<b>October 31 2018</b>
Current portion of repayable funding		\$ 63,859	\$ 107,257
Non-current portion of repayable funding		273,166	238,152
<b>Total ACOA repayable funding</b>		<b>\$ 337,025</b>	<b>\$ 345,409</b>

Annual repayments of the ACOA repayable funding are calculated as 10% of the gross revenues resulting from products for Project 1 and Project 2. The estimated current portion of the ACOA liability payable on June 30, 2020 is calculated as follows:

	Project 1	Project 2	Total
<b>For the nine months ended July 31, 2019</b>			
Revenues from Project 1	\$ 44,428	\$ -	\$ 44,428
Revenues from Project 2	-	594,165	594,165
<b>Total revenues allocated to each ACOA Project</b>	<b>44,428</b>	<b>594,165</b>	<b>638,593</b>
<b>Total current portion of repayable funding (at 10%)</b>	<b>\$ 4,443</b>	<b>\$ 59,416</b>	<b>\$ 63,859</b>

Under the agreements, the Corporation must maintain a minimum shareholders' equity. The Corporation was in compliance with the covenant agreements as at July 31, 2019 and October 31, 2018. Under the terms of the ACOA repayable funding agreements, no dividends may be paid until the ACOA obligations are fully repaid.

## 10. Long-term debt

### **Bloom Burton Healthcare Lending Trust**

On October 30, 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 accrue interest at 12% annually, with 7% repayable each calendar quarter and the remaining 5% accruing to be repaid at maturity. On March 28, 2019, the Corporation fully repaid the \$1.8 million principal of the credit facility and \$234,929 in accrued interest.

In consideration for the credit facility, the Trust has been issued 500,000 warrants to purchase common shares of the Corporation at an exercise price of \$1.10. Such warrants vested and became exercisable in amounts proportionate to the amount of the facility which was drawn down. The warrants will remain exercisable up to November 13, 2019.

Under IAS 32 *Financial Instruments: Presentation*, 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

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rate was determined to be 16%. As the credit facility is drawn, the financial liability was recorded at its discounted value of 16% with the difference, being the value of the warrants, accounted for as an equity transaction.

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

On November 13, 2015, the Corporation drew \$1,000,000 from the credit facility and vested 277,778 warrants. The debt was recognized at \$866,477 and the equity was recognized at \$133,523. On May 17, 2018, the Corporation drew the remaining \$800,000 from the facility and vested the remaining 222,222 warrants. The debt was recognized at \$754,205 and the equity was recognized at \$45,795.

The warrants were charged to the contributed surplus account until such time as the warrants are exercised or expired.

<b>Balance as at October 31, 2017</b>	<b>\$ 996,603</b>
Amounts drawn from credit facility at present value	754,205
Interest paid during the year	(91,566)
Interest accretion during the year	226,448
Amortization of transaction costs during the year	21,773
<b>Balance as at October 31, 2018</b>	<b>1,907,463</b>
Interest accretion during the period	76,997
Interest paid during the period	(34,669)
Amortization of transaction costs during the period	5,443
<b>Balance as at January 31, 2019</b>	<b>1,955,234</b>
Interest accretion during the period	48,953
Interest paid during the period	(35,107)
Amortization of transaction costs during the period	3,402
Accrued interest paid on settlement of long-term debt	(234,929)
Principal repaid during the period	(1,800,000)
Interest accretion on settlement of long-term debt	62,447
<b>Balance as at April 30, 2019</b>	<b>Nil</b>
<b>Balance as at July 31, 2019</b>	<b>\$ Nil</b>

### Senior Secured Debentures

On March 28, 2019, the Corporation closed an offering of Senior Secured Debentures (the "First Closing Debentures") in the aggregate principal amount of \$5,264,000 for gross proceeds in the same amount. A second closing of Senior Secured Debentures (the "Second Closing Debentures" and together with the First Closing Debentures the "Debentures") took place on April 9, 2019 in the aggregate principal amount of \$114,000 for gross proceeds in the same amount. The Debentures will bear interest at 10% per year, payable quarterly in cash. The Corporation will also pay an annual credit maintenance fee of 2% in cash or shares at the Corporation's discretion. The First Closing Debentures will mature on March 27, 2022 and the Second Closing Debentures will mature on April 8, 2022, at which time the principal amount and all accrued and unpaid interest will be repayable in cash.

Purchasers of First Closing Debentures also received an aggregate of 1,316,000 common shares of the Corporation, being an amount equal to 20% of the principal amount of the First Closing Debentures divided by \$0.80 per share.

The principal amount of the First Closing Debentures and any accrued and unpaid interest may be repaid in full after March 28, 2020. Between March 28, 2020 and March 28, 2021 an early repayment is subject to a 2% fee and between March 28, 2021 and March 27, 2022 an early repayment is subject to a 1% fee. The early repayment fee may be paid in cash or shares at the Corporation's discretion.

The Corporation paid agent fees in connection with the First Closing Debentures of \$180,300 and issued 225,375 agent warrants. Each agent warrant entitles the agent to purchase one common share of the Corporation for two years at \$0.80. The warrants were recognized at a fair value of \$72,796 using a Black-Scholes calculation with the following inputs: stock price of \$0.74, exercise price of \$0.80, life of 2 years, annual risk-free interest rate of 1.49% based on the Bank of Canada benchmark 2-year bond yield, and annualized volatility of 84.57%. The warrants were charged to the contributed surplus account until such time as the warrants are exercised or expired.

Under IAS 32 *Financial Instruments: Presentation*, an entity is required to separate a financial instrument that contains a financial liability and an equity component using the residual method. The common shares are considered to be an equity component and the First Closing Debentures are 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 for the First Closing Debentures was determined to be 20.78%.

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Initial recognition of the debt component of the First Closing Debentures was at its fair value at a discount rate of 20.78%. \$4,211,200 was recognized as debt and \$1,052,800 was recognized as equity. Subsequent recognition of the debt component will use the effective interest method.

Purchasers of Second Closing Debentures also received an aggregate of 26,206 common shares of the Corporation, being an amount equal to 20% of the principal amount of the Second Closing Debentures divided by \$0.87 per share. The principal amount of the Second Closing Debentures and any accrued and unpaid interest may be repaid in full after April 9, 2020. Between April 9, 2020 and April 9, 2021 an early repayment is subject to a 2% fee and between April 9, 2021 and April 8, 2022 an early repayment is subject to a 1% fee. The early repayment fee may be paid in cash or shares at the Corporation's discretion.

The Corporation paid agent fees in connection with the Second Closing Debentures of \$6,840 and issued 7,862 agent warrants. Each agent warrant entitles the agent to purchase one common share of the Corporation for two years at \$0.87. The warrants were recognized at a fair value of \$3,137 using a Black-Scholes calculation with the following inputs: stock price of \$0.87, exercise price of \$0.87, life of 2 years, annual risk-free interest rate of 1.60% based on the Bank of Canada benchmark 2-year bond yield, and annualized volatility of 84.45%. The warrants were charged to the contributed surplus account until such time as the warrants are exercised or expired.

Under IAS 32 *Financial Instruments: Presentation*, an entity is required to separate a financial instrument that contains a financial liability and an equity component using the residual method. The common shares are considered to be an equity component and the Second Closing Debentures are 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 for the Second Closing Debentures was determined to be 20.23%.

Initial recognition of the debt component of the Second Closing Debenture was at its fair value at a discount rate of 20.23%. \$91,200 was recognized as debt and \$22,800 was recognized as equity. Subsequent recognition of the debt component will use the effective interest method.

Transaction costs associated with the Debentures in the amount of \$412,180 have been recorded 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 Debentures.

<b>Balance as at October 31, 2018</b>	<b>\$ Nil</b>
<b>Balance as at January 31, 2019</b>	<b>\$ Nil</b>
Issuance of secured debenture	\$ 4,302,400
Transaction costs allocated to long-term debt	(329,743)
Interest accretion during the period	74,467
Interest paid during the period	(48,248)
Amortization of transaction costs during the period	9,770
<b>Balance as at April 30, 2019</b>	<b>\$ 4,008,646</b>
Interest accretion during the period	227,378
Interest paid during the period	(135,587)
Amortization of transaction costs during the period	27,754
<b>Balance as at July 31, 2019</b>	<b>\$ 4,128,191</b>
	<hr/>
Current portion of long-term debt	\$ 647,937
Non-current portion of long-term debt	3,480,254
<b>Balance as at July 31, 2019</b>	<b>\$ 4,128,191</b>

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

2019	\$ 135,555
2020	647,937
2021	645,360
2022	5,703,192
<b>Total</b>	<b>\$ 7,132,044</b>

### 11. Fair values

All financial assets and financial liabilities are carried at amortized cost under the business model as required under IFRS 9 *Financial Instruments*. Due to the short-term nature of the current financial assets and liabilities, the carrying value is approximately equal to the fair value and are assessed as a Level 3. 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 to still be 20%).

## Notes to the Unaudited Interim Financial Statements

In Canadian dollars, for the three and nine months ended July 31, 2019 and July 31, 2018

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. Equipment

	<u>Laboratory equipment</u>
<b>Cost:</b>	
<b>At October 31, 2017</b>	\$ Nil
Acquisition	69,539
<b>At October 31, 2018</b>	<u>69,539</u>
<b>At January 31, 2019</b>	<u>69,539</u>
<b>At April 30, 2019</b>	<u>69,539</u>
Acquisition	119,204
<b>At July 31, 2019</b>	<u>\$ 188,743</u>
<b>Depreciation:</b>	
<b>At October 31, 2017</b>	\$ Nil
Depreciation charge for the period	2,540
<b>At October 31, 2018</b>	<u>2,540</u>
Depreciation charge for the period	1,159
<b>At January 31, 2019</b>	<u>3,699</u>
Depreciation charge for the period	1,159
<b>At April 30, 2019</b>	<u>\$ 4,858</u>
Depreciation charge for the period	1,159
<b>At July 31, 2019</b>	<u>\$ 6,017</u>
<b>Carrying amount:</b>	
<b>At July 31, 2019</b>	<u>\$ 182,726</u>
<b>At October 31, 2018</b>	<u>\$ 66,999</u>

### 13. Inventories

	<u>July 31 2019</u>	<u>October 31 2018</u>
Raw materials	\$ 20,504	\$ 4,918
Work in process	149,730	\$ 39,426
Finished goods	223,568	\$ 534,654
<b>Total inventory</b>	<u>\$ 393,802</u>	<u>\$ 578,998</u>

The amount of the inventories recognized as an expense in the three months ended July 31, 2019 is \$11,425 (three months ended July 31, 2018: \$140,433). Inventory expense in the three months ended July 31, 2019 consists of \$1,146 in cost of product sold, \$669 expensed for marketing and trials, and \$9,610 impaired. Inventory expense in the three months ended July 31, 2018 consisted of \$138,438 in cost of product sold and \$2,005 expensed for product trials.

The amount of the inventories recognized as an expense in the nine months ended July 31, 2019 is \$320,745 (nine months ended July 31, 2018: \$293,994). Inventory expense in the nine months ended July 31, 2019 consists of \$289,814 in cost of product sold, \$8,121 expensed for marketing and trials, and \$22,810 impaired. Inventory expense in the nine months ended July 31, 2018 consisted of \$275,914 in cost of product sold and \$18,080 in inventory expensed for marketing purposes.

### 14. Trade and other accounts receivables

	<u>July 31 2019</u>	<u>October 31 2018</u>
Trade and other receivables	\$ 13,848	\$ 14,014
Receivables from tax authorities for HST input credits	\$ 59,928	\$ 38,805
Receivables from tax authorities for SRED tax credits	\$ -	\$ 174,112
	<u>\$ 73,776</u>	<u>\$ 226,931</u>

Trade and other receivables are non-interest bearing and are on 30-day terms. As at July 31, 2019, no trade and other receivables were impaired (October 31, 2018: \$210). The ageing analysis of trade and other receivables is as follows:



## Notes to the Unaudited Interim Financial Statements

In Canadian dollars, for the three and nine months ended July 31, 2019 and July 31, 2018

	Total	Neither past due nor impaired	Past due but not impaired (days)		
			< 30	30-60	> 60
July 31, 2019	\$13,848	\$2,738	\$Nil	\$Nil	\$11,110
October 31, 2018	\$14,014	\$83	\$Nil	\$13,931	\$Nil

### 15. Common Shares

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

On November 30, 2017, the Corporation completed a brokered and non-brokered private placement of 4,058,500 units for gross proceeds of \$4,058,500. Each unit consisted of one common share and one half common share purchase warrant for a unit price of \$1.00. Each whole warrant entitles the holder to acquire one common share of the Corporation at a purchase price of \$1.20 for three years. Related parties participated in the financing in the amount of \$510,000.

Based on the gross proceeds of \$4,058,500, the relative fair value of the common shares was \$3,202,305 and the investor warrants were assigned a relative fair value of \$856,195. The Corporation paid agent fees in connection with the transaction in the amount of \$286,330 and issued 283,080 agent warrants. These were based on a payment of 8% of the brokered proceeds. The agent warrants were assigned a fair value of \$154,278 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 three years at \$1.00. Legal transaction fees for the private placement were \$93,387. TSX.V and other filing fees were \$20,438.

The Black-Scholes calculation was based on the following assumptions: a stock price of \$0.95; exercise price for investor warrants \$1.20, for finder warrants \$1.00; time to maturity of 3 years; annual risk-free interest rate of 1.48% based on Bank of Canada 3-year benchmark bond yield; and historical 3-year stock volatility of 92%

On May 8, 2018, the Corporation settled a \$165,000 management bonus payable by issuing 107,944 common shares at a deemed price of \$0.80 per share and the remittance of certain amounts in statutory deductions to the Canada Revenue Agency on behalf of the employee.

On March 28, 2019, the Corporation issued 1,316,000 common shares of the Corporation in connection with a private placement of Senior Secured Debentures. See Note 10.

On April 9, 2019, the Corporation issued 26,206 common shares of the Corporation in connection with a private placement of Senior Secured Debentures. See Note 10.

### 16. Warrants

As at July 31, 2019, the Corporation had 6,984,297 warrants outstanding, as follows:

Date of Issue	Subscriber Warrants	Agent Warrants	Long-term Debt Warrants	Term (Years)	Date of Expiry	Exercise Price
16-Dec-2014	1,163,738			4.9	30-Oct-2019 <sup>1</sup>	\$ 1.00
30-Oct-2015			500,000	4.0	13-Nov-2019	\$ 1.10
1-Jun-2016	2,774,992			3.4	30-Oct-2019 <sup>1</sup>	\$ 0.90
30-Nov-2017	2,029,250			3.0	30-Nov-2020	\$ 1.20
30-Nov-2017		283,080		3.0	30-Nov-2020	\$ 1.00
28-Mar-2019		225,375		2.0	28-Mar-2021	\$ 0.80
9-Apr-2019		7,862		2.0	9-Apr-2021	\$ 0.87
	<b>5,967,980</b>	<b>516,317</b>	<b>500,000</b>			

Note 1: On January 17, 2019, 1,163,738 subscriber warrants and 2,774,992 subscriber warrants were approved by the TSX.V to be extended to October 30, 2019. These subscriber warrants were previously extended.

## Notes to the Unaudited Interim Financial Statements

In Canadian dollars, for the three and nine months ended July 31, 2019 and July 31, 2018

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

The Corporation adopted a stock option plan (Plan) on August 4, 2005. The Plan is administered by the Board of Directors 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 February 26, 2018 such that the maximum number of common shares reserved for issuance for options that may be granted under the Plan is 3,321,955. The following table represents options granted, exercised, expired, and forfeited.

	Total	Weighted average exercise price
<b>Balance Outstanding at October 31, 2017</b>	<b>2,275,485</b>	<b>\$ 0.927</b>
Granted	712,540	0.90
Granted	200,000	0.57
Forfeited	(45,311)	1.10
Expired and forfeited	(902,108)	1.00
Expired and forfeited	(67,500)	0.90
Expired and forfeited	(51,667)	0.70
Expired and forfeited	(31,667)	0.80
Expired and forfeited	(26,043)	0.65
<b>Balance Outstanding at October 31, 2018</b>	<b>2,063,729</b>	<b>0.86</b>
Expired	(6,667)	1.00
Expired	(2,500)	0.90
Forfeited	(937)	1.10
Forfeited	(3,125)	0.90
<b>Balance Outstanding at January 31, 2019</b>	<b>2,050,500</b>	<b>0.86</b>
Expired	(36,000)	1.00
Expired	(3,750)	0.80
Expired	(2,813)	1.10
Expired	(1,875)	0.90
Forfeited	(1,250)	1.10
Forfeited	(5,000)	0.90
<b>Balance Outstanding at April 30, 2019</b>	<b>1,999,812</b>	<b>0.85</b>
Granted	545,000	0.61
Expired	(215,000)	0.70
Expired	(10,000)	0.65
Expired	(15,000)	0.80
Expired	(8,750)	1.10
Expired	(5,000)	0.90
<b>Balance Outstanding at July 31, 2019</b>	<b>2,291,062</b>	<b>\$ 0.81</b>

<b>Options exercisable at:</b>	<b>Total</b>	<b>Weighted average exercise price</b>
July 31, 2019	1,488,235	\$ 0.87
October 31, 2018	1,385,653	\$ 0.82

<b>Exercise price</b>	<b>Options Outstanding</b>	<b>Options Exercisable</b>	<b>Weighted average remaining contractual life in months</b>
\$0.90	60,000	60,000	9.6
\$0.65	132,900	132,900	12.7
\$0.80	236,250	236,250	22.8
\$1.00	60,000	60,000	31.0
\$1.10	369,372	369,372	34.0
\$0.90	60,000	37,500	40.8
\$0.90	627,540	392,213	44.4
\$0.57	200,000	200,000	49.5
\$0.61	545,000	-	58.2
	<b>2,291,062</b>	<b>1,488,235</b>	

The Corporation has issued certain stock options to employees, consultants, and members of the Board of Directors. The fair value of the options issued was determined based on a Black-Scholes calculation using the inputs listed below.

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<b>Date of Issue</b>	<b>Dec 22 2017</b>	<b>Apr 10 2018</b>	<b>Sep 13 2018</b>	<b>Jun 5 2019</b>
Quantity issued	60,000	652,540	200,000	545,000
Vesting period	8 quarters	8 quarters	Day 1	8 quarters
Exercise and issue price	\$0.90	\$0.90	\$0.57	\$0.61
Expected life	5 years	5 years	5 years	5 years
Interest rate	1.84%	2.03%	2.25%	1.30%
Volatility over expected life	92.03%	110.11%	108.00%	104.03%
Fair value	\$0.639	\$0.713	\$0.448	\$0.466

Volatility was determined by using the 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 May 20, 2014, the Corporation issued 60,000 SARs to the then-current Chairman of the Board of Directors with an exercise price of \$0.70. The SARs expired on May 20, 2019.

For the three months ended July 31, 2019, the Corporation recorded \$89,692 (three months ended July 31, 2018: \$187,039) as contributed surplus and compensation expense for the vesting of share-based payments, which is measured at fair value at the date of grant and is graded and expensed over the option's vesting period. For the nine months ended July 31, 2019, the Corporation recorded \$227,248 (July 31, 2018: \$364,667)

### 18. Accounts payables and accrued liabilities

<b>As at the periods ended</b>	<b>July 31 2019</b>	<b>October 31 2018</b>
Trade payable and accrued liabilities	\$ 418,821	\$ 697,763
Staff and board compensation payable	37,376	64,816
<b>Total</b>	<b>\$ 456,197</b>	<b>\$ 762,579</b>

Trade payables are normally settled on 30-day terms. All other payables are non-interest bearing and are monies due for key management compensation and employees' earned vacation pay.

### 19. Disclosure of expenses by nature and finance cost

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>July 31, 2019</b>	<b>July 31, 2018</b>	<b>July 31, 2019</b>	<b>July 31, 2018</b>
<b>Selling, general, and administrative</b>				
Salary, wages, and benefits	\$ 194,744	\$ 239,991	\$ 612,450	\$ 688,947
Professional fees and other	535,592	508,378	1,863,773	1,797,105
Board fees	48,167	43,996	143,907	139,285
Share-based payment	89,692	187,039	227,248	364,667
<b>Total selling, general, and administrative</b>	<b>\$ 868,195</b>	<b>\$ 979,404</b>	<b>2,847,378</b>	<b>\$ 2,990,004</b>
<b>Research</b>				
Salary, wages, and benefits	\$ 90,615	\$ 113,872	\$ 444,764	\$ 330,645
Professional fees and other	41,079	68,956	148,424	197,887
Government grant on research expenses	Nil	Nil	(17,347)	Nil
<b>Total research</b>	<b>\$ 131,694</b>	<b>\$ 182,828</b>	<b>\$ 575,841</b>	<b>\$ 528,532</b>
<b>Finance cost (See Note 9 and 10)</b>				
Interest accretion on ACOA repayable funding	\$ 33,843	\$ 18,959	\$ 98,873	\$ 153,430
Interest accretion on BBHLT long-term debt	Nil	69,761	125,950	53,619
Amortization of transaction costs on BBHLT long-term debt	Nil	5,443	8,845	16,330
Interest accretion on settlement of BBHLT long-term debt	Nil	Nil	62,447	Nil
Interest accretion on debenture long-term debt	227,378	Nil	301,845	Nil
Amortization of transaction costs on debenture long-term debt	27,754	Nil	37,524	Nil
<b>Total finance cost</b>	<b>\$ 288,975</b>	<b>\$ 94,163</b>	<b>\$ 635,484</b>	<b>\$ 223,379</b>

## Notes to the Unaudited Interim Financial Statements

In Canadian dollars, for the three and nine months ended July 31, 2019 and July 31, 2018

### 20. Related party disclosures and key management compensation

Key management consists of the Chief Executive Officer and the Board of Directors. Their compensation is as follows:

	Three months ended		Nine months ended	
	July 31, 2019	July 31, 2018	July 31, 2019	July 31, 2018
Short term employee benefits	\$ 183,613	\$ 176,565	\$ 534,040	\$ 554,587
Share-based payments	66,161	135,313	169,259	252,721
<b>Total key management compensation</b>	<b>\$ 249,774</b>	<b>\$ 311,878</b>	<b>\$ 703,299</b>	<b>\$ 807,308</b>

For the three and nine months ended July 31, 2019 and July 31, 2018, the Corporation had no related party transactions.

On July 24, 2018, the Corporation entered into an agreement to wind up Shaanxi Jintai China-Canada Beta-carotene Oxidation Biological Company, its joint venture in China (the "China JV"). Upon the completion of the wind-up, the Corporation will issue up to 500,000 common shares of the Corporation at \$0.60 per share as reimbursement to the China JV partner for expenses incurred to date. The termination agreement also provides for issue of additional common shares of the Corporation with a value of \$350,000 contingent on certain conditions being met. These conditions are not probable to be met. The Corporation will enter into a future consulting agreement with a former director of the China JV to provide business advice in the China market. Under the terms of the agreement, subject to TSX.V approval, the consultant will be issued common shares of the Corporation equal in value to \$50,000 per year, valued at the closing share price on the date of each anniversary of the execution of the agreement.

For the fiscal year ended October 31, 2018, the Corporation recorded \$250,000 as an expense representing 416,667 common shares to be issued in the future at \$0.60 per common share. The issue of such reserve for common shares is conditional on the successful winding up of the joint venture. Should the joint venture not be successfully wound up, the Corporation will reverse the \$250,000 expense and the 416,667 reserve for common shares from equity.

On June 13, 2019, the Corporation signed a Shareholder's Agreement with Mimi's Rock, Corp. ("MRI") to create a new joint venture, Centre Beach, Inc. ("Centre Beach") for the purposes of marketing and selling Vivamune Health Chews or a similar brand through internet sales world-wide. MRI and the Corporation each hold 50% of the outstanding shares of Centre Beach and each occupy 50% of the seats on the Board of Directors of Centre Beach.

Under the terms of the Shareholder's Agreement, the Corporation is responsible for providing Centre Beach with the active ingredient, OxC-Beta, and providing for necessary registrations in various countries. MRI is responsible for the production, marketing, and sale of Vivamune Health Chews (or a similar brand) as well as administration of Centre Beach.

The Corporation and MRI will fund Centre Beach on a pro rata basis (based on shareholdings) of the expenses of Centre Beach through shareholder loans. The amounts of the loans shall be determined by the Board of Directors of Centre Beach on a quarterly basis. All shareholder loans shall rank pari passu with one another in right of repayment.

Since decisions that impact the variable returns require the unanimous consent of both Avivagen and MRI, as each hold 50% of the voting rights, Avivagen and MRI have joint control over the entity on the basis of Board of Directors seats or shareholder voting rights. The entity is a joint venture and equity accounting will be applied under IAS 28 *Investments in Associates and Joint Ventures*.

The Corporation is the ultimate parent entity. The common shares are widely held, with no controlling shareholder.

### 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 assets are cash and cash equivalents. 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 currency 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 ACOA R&D repayable funding is subject to 0% interest. The long-term debt is subject to a 10% fixed interest rate and accordingly is not subject to exposure to interest rate changes. The Corporation invests surplus cash in bank demand deposits at its financial

## Notes to the Unaudited Interim Financial Statements

In Canadian dollars, for the three and nine months ended July 31, 2019 and July 31, 2018

institution at a current rate of 1.45% 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 revenues or expenses 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 the majority of its revenues and some of its expenses are denominated in U.S. dollars, while the majority of expenditures are denominated in Canadian dollars. For the three months ended July 31, 2019, the Corporation's foreign exchange gains were \$5,276 (three months ended July 31, 2018: gains of \$2,109). For the nine months ended July 31, 2019, the Corporation's foreign exchange losses were \$6,163 (nine months ended July 31, 2018: losses of \$2,075). The U.S. foreign exchange rates were as follows:

<u>As at:</u>	<u>US to CAD exchange rate</u>
July 31, 2019	1.3148
October 31, 2018	1.3142
July 31, 2018	1.3017

The Canadian dollar carrying value of U.S. dollar financial instruments are as follows:

Cash and cash equivalents	\$	167,109
Trade and other accounts receivables		13,848
Accounts payable and accrued liabilities		(53,794)
<b>Total</b>	<b>\$</b>	<b>127,163</b>

The impact of a 10% fluctuation in the U.S. dollar exchange rate on the statement of total comprehensive loss and statement of changes in equity would be \$12,716.

### Credit risk

Credit risk is the risk that a 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 or with payment on receipt or in advance. The carrying amount of cash and cash equivalents and trade and other accounts receivable represents the maximum exposure to credit risk and at July 31, 2019 this amounted to \$1,953,023 (October 31, 2018 - \$2,434,324). The cash and cash equivalents are held by two high credit quality financial institutions on behalf of the Corporation, therefore the Corporation considers the risk of non-performance to be remote.

Cash and cash equivalents are held as follows: \$436,968 held in interest and non-interest-bearing operating accounts at the Corporation's financial institution and payable on demand, \$1,407,279 in GICs payable on demand, and \$35,000 in cash which is held as collateral against the Corporation's credit cards and redeemable if the Corporation closes its credit card accounts.

### Collection Risk

The trade and other accounts receivables consist of \$59,928 (October 31, 2018: \$38,805) in HST input tax credits receivable. HST is not a financial instrument as they are statutory obligations and rights and are not contractual obligations and rights. Accordingly, it is considered collection risk by the Corporation. The collection risk is considered low by the Corporation.

### 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 1.

The following table summarizes the amount of contractual future cash flow requirements for financial instruments as at July 31, 2019:

	<u>0 to 30 Days</u>	<u>31 to 365 Days</u>	<u>&gt;365 Days</u>
Trade payable	\$ 456,197	\$ Nil	\$ Nil
Long-term debt	\$ Nil	\$ 783,492	\$ 6,348,552
ACOA repayable funding	\$ Nil	\$ Note 1	\$ Note 1

Note 1: The ACOA repayable funding is based on 10% of prior years' revenue. It is not possible to estimate the future payments at this time (See Note 9).

### Capital management

The Corporation manages its capital, which consists of cash provided from financing, long-term debt, and ACOA research and development repayable funding, with the primary objective being safeguarding sufficient working

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capital to sustain operations. The Board of Directors has not established capital benchmarks or other targets. 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, guarantees, and collateral

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

The Corporation is committed under three agreements for the rental of office space at a current monthly rate of \$13,563 which is subject to increases in future periods. Two of the agreements will expire on March 31, 2020. The third agreement will expire on April 30, 2020. This operating lease requires rental payments over the life of the lease as follows (undiscounted value per fiscal year):

2019	\$	40,690
2020	\$	70,167
<b>Total</b>	<b>\$</b>	<b>110,857</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. Except for a \$35,000 term deposit for which RBC holds a lien against and which the Corporation can release upon the cancellation of the credit cards, the Corporation has pledged all of the assets of the Corporation in connection with the Senior Secured Debentures.

### 23. Events subsequent to the reporting period

Subsequent to July 31, 2019, the Corporation fulfilled an order for 2,000kg of OxC-Beta for Livestock from a customer in the Philippines and an order for Vivamune Health Chews from a customer in Taiwan.

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