

**SIRONA BIOCHEM CORP.**  
**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited – Prepared by Management)**  
**(Expressed in Canadian Dollars)**  
**FOR THE SIX MONTHS ENDED APRIL 30, 2019**

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

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditor.

**SIRONA BIOCHEM CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian dollars)

As at	April 30 31, 2019	October 31, 2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 375,676	\$ 339,076
Trade and other receivables (Note 6)	31,254	9,759
Tax receivables (Note 7)	428,543	293,822
Share subscription receivable (Note 19)	256,300	-
Prepaid expenses and deposits (Note 8)	186,140	127,853
	<b>1,277,913</b>	<b>770,510</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 9)	\$ 582,363	\$ 442,620
Convertible debentures (Note 10)	587,066	918,226
Current portion of lease obligation (Note 13)	37,040	36,118
Current portion of long-term debt (Note 12)	97,987	223,328
Short-term loan (Note 11)	-	236,000
	<b>1,304,456</b>	<b>1,856,292</b>
<b>Long-term debt (Note 12)</b>	<b>1,095,251</b>	<b>956,040</b>
<b>Lease obligation (Note 13)</b>	<b>123,335</b>	<b>140,329</b>
<b>Employee benefits (Note 15)</b>	<b>96,614</b>	<b>78,815</b>
	<b>\$ 2,619,656</b>	<b>\$ 3,031,476</b>
<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Share capital (Note 16)	\$ 22,298,948	\$ 20,396,599
Contributed surplus	5,058,378	4,164,638
Equity Portion of convertible debenture	27,549	26,744
Foreign translation reserve	(42,656)	(38,817)
Accumulated deficit	(28,683,962)	(26,810,130)
	<b>(1,341,743)</b>	<b>(2,260,966)</b>
	<b>\$ 1,277,913</b>	<b>\$ 770,510</b>

Commitments (Note 18)

Subsequent events (Notes 11 & 21)

APPROVED ON BEHALF OF THE BOARD:

"Howard Verrico" Director  
Howard Verrico

"Casper Bych" Director  
Casper Bych

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

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**SIRONA BIOCHEM CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Expressed in Canadian dollars)

	Three Months Ended April 30, 2019	Three Months Ended April 30, 2018	Six Months Ended April 30, 2019	Six Months Ended April 30, 2018
<b>Revenue</b>	\$ -	\$ 3,378	\$ 64,500	\$ 565,556
<b>Expenses</b>				
Research expenses	338,911	281,793	580,064	514,783
Consulting fees	249,692	38,889	393,980	83,889
Office and administration	52,026	50,389	105,757	109,128
Accounting and audit fees	107,070	92,115	140,070	150,431
Wages, salaries and benefits	31,077	48,501	60,931	94,971
Management fees	36,000	36,000	72,000	77,000
Director fees and bonus	159,000		159,000	-
Travel and entertainment	12,554	2,002	18,451	11,499
Rental expenses	966	3,294	2,415	6,131
Investor relations	80,563	15,110	136,792	30,610
Legal fees	505	895	1,620	37,638
Filing fees and transfer agent fees	18,766	12,836	20,186	17,075
Management conferences and meetings	-	-	-	1,082
Exchange (gain)/loss	(19,213)	6,063	(9,549)	30,681
Share-based payments	199,235	-	199,235	78,942
	(1,267,152)	(584,509)	(1,816,452)	(678,304)
<b>Other income/(expenses)</b>				
Other income	10,228	14,134	10,228	39,932
Impairment of long term assets	-	23	-	130
Finance expense	(40,752)	(46,141)	(76,942)	(92,660)
	(30,524)	(31,984)	(66,714)	(52,598)
<b>Loss for the period</b>	(1,297,676)	(616,493)	(1,883,166)	(730,902)
Income taxes recovery (expense)	5,351	1,878	9,334	(1,572)
<b>Net loss for the period</b>	(1,292,325)	(614,615)	(1,873,832)	(732,474)
<b>Other comprehensive loss for the period</b>				
Foreign currency translation	(5,447)	(23,057)	(3,839)	(28,948)
<b>Net loss and comprehensive loss for the period</b>	\$ (1,297,772)	\$ (637,672)	\$ (1,877,671)	\$ (761,422)
<b>Loss per share - basic and diluted</b>	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.00)
<b>Weighted average number of common shares outstanding - basic and diluted</b>	192770380	171,157,286	185,936,763	170,676,738

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

**SIRONA BIOCHEM CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY**  
(Expressed in Canadian Dollars, except share number)

	Issued Common Shares		Contributed surplus	Foreign translation reserve	Equity portion of convertible debenture	Accumulated Deficit	Total Equity (Deficiency)				
	Number	Amount									
<b>BALANCE, OCTOBER 31, 2017</b>	170,030,882	19,669,985	3,823,935	-	(28,344)	-	(25,536,884)	-	(2,040,582)		
Loss for the period	-	-	-	-	-	-	(732,474)	-	(732,474)		
Issuance of stock options (Note 16)	-	-	78,943	-	-	-	-	-	78,943		
Exercise of options (Note 16)	2,200,000	239,598	(9,599)	-	-	-	-	-	229,999		
Foreign currency translation	-	-	-	(28,948)	-	-	-	-	(28,948)		
<b>BALANCE, April 30, 2018</b>	172,230,882	19,909,583	3,893,279	-	(57,292)	-	(26,269,358)	-	(2,493,062)		
<b>BALANCE, OCTOBER 31, 2018</b>	179,325,982	20,396,599	4,164,638	-	(38,817)	-	(26,810,130)	-	(2,260,966)		
Loss for the period	-	-	-	-	-	-	(1,873,832)	-	(1,873,832)		
Convertible debentures, net of issuance costs	2,354,286	339,871	-	-	805	-	-	-	340,676		
Issuance of stock options	-	-	349,354	-	-	-	-	-	349,354		
Exercise of warrant	400,000	72,000	-	-	-	-	-	-	72,000		
Exercise of options	2,150,000	496,950	(183,450)	-	-	-	-	-	313,500		
Issuance of common shares, net of issuance costs	17,835,000	993,528	727,836	-	-	-	-	-	1,721,364		
Foreign currency translation	-	-	-	(3,839)	-	-	-	-	(3,839)		
<b>BALANCE, April 30, 2019</b>	202,065,268	22,298,948	5,058,378	-	(42,656)	-	(27,549)	-	(28,683,962)	-	(1,341,743)

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**SIRONA BIOCHEM CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS PERIOD ENDED APRIL 30,**  
(Expressed in Canadian Dollars)

	2019	2018
<b>Operating Activities</b>		
Net loss for the period	(1,873,832)	(732,474)
Items not requiring use of cash:		
Consulting fees	45,155	51,370
Deferred tax recovery	-	1,572
Share-based payments	199,235	78,942
Interest accretion	9,515	13,984
Changes in operating assets and liabilities:		
Trade and other receivable	(131,110)	57,106
Prepaid expenses and deposits	46,826	398
Trade and other payables	(77,468)	8,735
Employee benefits	16,924	6,119
Deferred revenue	-	1,778
Tax receivable	(12,560)	128,926
<b>Cash provided (used) in operating activities</b>	<b>(1,777,315)</b>	<b>(383,544)</b>
<b>Financing Activities</b>		
Shares issued for cash, net of share issuance costs	1,615,064	279,000
Option and warrants exercised	235,500	5,000
(Repayment)/borrowings	(254,204)	(18,433)
<b>Cash provided (used) by financing activities</b>	<b>1,596,360</b>	<b>265,567</b>
Increase (Decrease) in cash and cash equivalents	(180,955)	(117,977)
Effect of exchange rate fluctuations	217,555	4,913
<b>Cash and cash equivalents, beginning of period</b>	<b>339,076</b>	<b>272,274</b>
<b>Cash and cash equivalents, end of period</b>	<b>375,676</b>	<b>159,210</b>

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**SIRONA BIOCHEM CORP.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

April 30, 2019

(Expressed in Canadian dollars)

**1. NATURE OF OPERATIONS**

The Company was incorporated on October 19, 2006 under the Business Corporations Act of British Columbia. The Company is a development stage public company listed for trading on the TSX Venture Exchange (the “Exchange”) under the symbol SBM. The Company is a cosmetic ingredient and drug discovery company with a proprietary technology platform developed at its laboratory facility in France with a specialization in the stabilization of carbohydrate molecules. The principle activities of the Company are dedicated to the development of safer, more effective cosmetic and pharmaceutical active ingredients which are licensed to partners in exchange for upfront, milestone and royalty payments.

The head office, principal address and registered and records office of the Company are located at Suite 1600 – 595 Burrard Street, Vancouver, BC, V7X1L4.

**2. BASIS OF PRESENTATION AND GOING CONCERN**

**Statement of compliance**

The unaudited condensed interim consolidated financial statements (the “Interim Financial Statements”) include the accounts of the Company and its wholly owned subsidiary, TFChem S.A.R.L. Any reference to “the Company” throughout these Interim Financial Statements refers to the Company and its subsidiary. All inter-entity transactions have been eliminated. The results of the operations of the subsidiary acquired during the year are included from the date of acquisition.

The Interim Financial Statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”), using the accounting policies the Company adopted in its consolidated financial statements as at and for the financial year ended October 31, 2018.

**Going concern**

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. To date, the Company has not achieved a scalable commercialization of its products. As of April 30, 2019, the Company has an accumulated deficit of \$28,683,962 (2018 - \$26,810,130). For the period ended April 30, 2019, the Company incurred a net loss of \$1,873,832 (2018 – \$732,474) and used net cash in operating activities of \$1,777,315 (provided net cash in operating activities of 2018 – \$383,544).

The Company’s ability to continue as a going concern is dependent upon its ability to generate product sales, negotiate collaboration or license agreements with upfront payments, raise additional funding via debt and equity financing, and ultimately attain and maintain profitable operations. While the Company is striving to act on these initiatives, there is no assurance that these and other strategies will be successful or sufficient to permit the Company to continue as a going concern.

These circumstances comprise a material uncertainty which may cast significant doubt as to the Company’s ability to continue as a going concern. These consolidated financial statements do not reflect adjustments to the carrying values of the Company’s assets and liabilities, revenue and expenses, and the statement of financial position classifications used, that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

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April 30, 2019

(Expressed in Canadian dollars)

**Basis of measurement**

These unaudited condensed interim consolidated financial statements have been prepared on a historical costs basis except for certain financial instruments which are measured at their fair value as explained in the accounting policies set out below. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

**Functional and presentation currency**

These unaudited condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional and reporting currency. The functional currency of its wholly owned subsidiary, TFChem S.A.R.L. ("TFC"), is Euro.

**Use of estimates**

The preparation of these unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments and estimates and form assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the periods reported. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be relevant. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and may change if new information becomes available. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

**Principles of consolidation**

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, TFC, a biopharmaceutical company based in Rouen, France.

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All significant inter-company balances and transactions between the Company and its wholly-owned subsidiary have been eliminated in preparing the consolidated financial statements.

**Foreign currency**

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company and its subsidiary at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in other than the functional currency is translated at the exchange rates in effect at the financial position date. The resulting exchange gains and losses are recognized in profit or loss. Non-monetary assets and liabilities denominated in other than the functional currency that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in other than the functional currency is translated using the exchange rate at the date of transaction.



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Foreign operations

For consolidation purposes, the assets and liabilities of foreign operations are translated to the presentation currency using the exchange rate prevailing at the financial position date. The income and expenses of foreign operations are translated to the presentation currency using the average rates of exchange during the year. All resulting exchange differences are recorded as other comprehensive loss and accumulated in a separate component of shareholders' equity (deficit), described as foreign translation reserve.

**Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Classification and measurement

At initial recognition, financial instruments are classified into the following categories depending on the purposes for which the instruments were acquired:

- Financial assets and liabilities at fair value through profit and loss ("FVTPL"):  
A financial asset or liability is classified as FVTPL if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the statement of comprehensive loss in the period in which they arise. Financial assets and liabilities at FVTPL are classified as current except for the portion expected to be realized or paid beyond twelve months of the financial position date, which is classified as non-current.

**Financial instruments**

Classification and measurement

- Loans and receivables:  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. They are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period.
- Held-to-maturity investments  
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less a provision for impairment. They are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.
- Financial liabilities at amortized cost:  
Financial liabilities other than those classified as FVTPL are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently,

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(Expressed in Canadian dollars)

they are measured at amortized cost using the effective interest method. Financial liabilities at amortized costs are classified as current liabilities if payment is due within twelve months after the end of the reporting period. Otherwise, they are presented as non-current liabilities.

- **Compound financial instruments:**  
Convertible debentures are compound financial instruments, consisting of the debt instrument and the equity conversion feature. The debt instrument is fair valued using a rate applicable to a non-compound debt instrument at issuance and carried at amortized cost. The excess of the proceeds over the value assigned to the debt instrument is allocated as the fair value of the equity component of the convertible debentures. Transaction costs are netted against the debt instrument and equity component based on the pro-rata allocation of the fair value of each instrument at initial recognition.

Transaction costs associated with financial assets or financial liabilities carried at FVTPL are expensed as incurred while transaction costs associated with all other financial assets or financial liabilities are included in the initial carrying amount of the asset or liabilities.

The Company classifies cash and cash equivalents as FVTPL, trade and other receivables and share subscription receivable as loans and receivables, and trade and other payable, lease obligation, short-term loan, convertible debentures, short-term loan, and long-term debt as financial liabilities at amortized cost. The Company does not have any derivative financial instruments.

**Impairment of financial assets**

Financial assets not carried at FVTPL are assessed for impairment at each reporting date by determining whether there is objective evidence that indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and highly liquid instruments that are readily convertible to cash with a maturity of three months or less when initially purchased. There were no cash equivalents as at April 30, 2019 and October 31, 2018.

**Trade and other receivables**

Trade and other receivables are stated at their amortized cost less impairment losses. An allowance for doubtful account is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

**Leases**

**Finance leases**

Leases of property and equipment where substantially all the risks and benefits incidental to the ownership of the asset are transferred the Company are classified as finance leases. Assets under finance leases are capitalized by recording an asset and a liability at the lower of the fair value of the leased property and equipment or the present value of the minimum lease payments, including any guaranteed residual values. Minimum lease payments are apportioned between the reduction of the outstanding lease liability and finance expense. Finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of liability. Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term, unless there is a reasonable certainty the Company will obtain ownership of the leased asset by the end of the lease term in which case it is depreciated over its useful life.

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Operating leases

Other leases are operating leases and not recognized in the statement of financial position. Lease payments made under operating leases are charged as expenses on a straight-line basis over the term of the lease. Lease incentives received under operating leases are recognized as a reduction to the lease expense on a straight-line basis over the life of the lease term.

**Intangible assets**

Intangible assets acquired through a business combination are identified and recognized separately from goodwill where they arise from legal or contractual rights or are capable of being separated from the acquiree and sold, transferred, licensed or exchanged. The cost of such intangible assets is deemed to be their fair value at the acquisition date. Intangible assets not acquired through a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Internally-generated intangible assets are recognized to the extent the criteria in IAS 38 - Intangible Assets are met. Development costs for internally-generated intangible assets are capitalized at cost if, and only if, the Company can demonstrate:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Subsequent to initial recognition, they are recorded at cost less accumulated amortisation and accumulated impairment losses. Identified intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. The estimated lives are reviewed at least annually and are adjusted as appropriate. As at April 30, 2019 and October 31, 2018, the Company expensed all research expenditures and did not recognized internally- generated intangible assets.

**Impairment of non-financial assets**

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is defined as the estimated price that would be received on the sale of the asset in an orderly transaction between market participants at the measure date. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of the cash generating units are allocated first to reduce the carrying amount of

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any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

**Provisions**

Provisions for legal or constructive obligations are recognized when the Company has a present legal or constructive obligation that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**Share capital**

The Company's ordinary common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, warrants and stock options, net of any tax effects, are recognized as a deduction from equity.

**Revenue recognition**

Effective November 1, 2018 the Company adopted IFRS 15 "Revenue from Contracts with Customers". The Company from time to time enters into licensing and collaboration agreements. The terms of the agreements may include non-refundable signing and licensing fees, milestone payments and royalties on any product sales derived from licensing arrangements.

We will only recognize if a contract meets the following parameters: when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Once it is determined that a contract exists, we will evaluate the performance obligations within the agreement. Performance obligations will be analyzed to determine whether the performance obligations are distinct or whether they must be accounted for as a single unit of multiple related distinct goods and services. We will then perform an analysis to determine the total transaction price that we expect to receive from satisfying the performance obligations in the agreement.

The contract also provides for development and regulatory milestone payments, royalties and sales-based milestone payments. These amounts are contingent on the occurrence of a future event and therefore give rise to variable consideration. We estimate variable consideration at the most likely amount to which we expect to be entitled. We include estimated amounts in the transaction price when it becomes highly probable that the amount will not be subject to significant reversal when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us. Based on this information and related analysis, any quarterly adjustments to revenue are recognized as necessary in the period they become known.

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The upfront license fee is not considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract and to protect us from the other party failing to adequately complete some or all of its obligations under the contract.

Sales-based royalty revenue and sales-based milestone payments will be recognized when the later of the following events occurs: the subsequent sale occurs or the performance obligation to which some or all of the sales-based royalty or sales-based milestone payment has been allocated has been satisfied. The calculated transaction price will then be allocated to the separate performance obligations based upon the relative standalone selling price of the performance obligations. If standalone selling price cannot be determined a residual approach may be used to estimate the standalone selling price when the selling price for a good or service is highly variable or uncertain.

Contract receivable - Contract receivable includes amounts billed and currently due from customers. When appropriate, we provide for an allowance for doubtful accounts by reserving for specifically identified doubtful accounts. We perform a review of our customer's credit risk and payment histories, including payments made subsequent to year-end.

Contract liability (deferred revenue) - Our contract liability includes upfront license fees and billings in excess of revenue recognized. Contract liabilities are recognized as revenue as or when we perform under the contract. We classify our contract liability as current or noncurrent based on the timing of when we expect to recognize revenue.

**Research and development**

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. No development expenditures have been deferred to date.

Research and development costs includes fees paid to contract research organizations and other vendors who conduct certain research and development activities on behalf of the Company. The amount of expenses recognized in a period related to research arrangements with third parties is based on estimates of work performed using an accrual basis of accounting. These estimates are based on services provided, contractual terms and experience with similar contracts. The Company monitors these factors and adjusted the estimates accordingly.

**Employee benefit**

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Long term employee benefits

A liability is recognized for benefits accruing to employees when it is probable that settlement will be required and it is capable of being measured reliably. Liabilities recognized in respect of employee benefits which are not due to be settled within one year are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by

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employees up to the reporting date. As of October 31, 2018 and 2017, the employee benefit amount represent the retirement allowance payable accrued by TFC.

**Share-based payment transactions**

The Company awards shares of the Company's stock or stock options to directors, officers, employees and/or 3<sup>rd</sup> party goods/service providers and uses the fair-value based method of accounting for share-based compensations for all awards granted. The resulting compensation expense, based on the fair value of the awards granted is charged to profit or loss over the period that the employees unconditionally become entitled to the award or when goods/services are rendered, with a corresponding increase to contributed surplus. Any consideration received on exercise of stock options or purchase of shares, together with the amount initially recorded in contributed surplus, is credited to share capital.

The Board of Directors grants stock options with vesting periods determined at the sole discretion of the Board and at prices reflecting the share price on the date the options were granted. An individual is classified as an employee when the individual is an employee for legal or tax purposes ("direct employee") or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value of employee stock options granted is measured using the Black-Scholes option pricing model as of the grant date, taking into account the terms and conditions upon which the options are granted. The cumulative expense recognized at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of options that will ultimately vest. The compensation expense for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Where the terms of a stock option are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the stock-based compensation arrangement, or is otherwise beneficial to the employee as measured at the date of modification over the remaining vesting period.

Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

**Government assistance and research & development tax credits**

Government assistance and research and development tax credits are recorded as either a reduction of the cost of the applicable assets or credited against the related expense incurred in profit or loss, as determined by the terms and conditions of the agreements under which the assistance is provided to the Company or the nature of the expenditures which give rise to the credits.

Government assistance are recorded at their fair value where there is a reasonable assurance that the grants will be received, and the Company will comply with all attached conditions. Research and development tax credits are accrued when qualifying expenditures are made and there is reasonable assurance that the credits will be realized.

The benefit of loans from government at a below-market interest rate are measured and recognized as the difference between the amount expected to be received less, when material a discount to reduce the loan to fair value. The benefit amount is presented with the carrying value of the loans as long-term debt in the consolidated financial statements of financial position. The benefit amount will be amortized over the repayment period of the loans and the accretion of the loans will be amortized using the effective interest method.

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**Income Taxes**

The Company follows the asset and liability method of accounting for income tax. Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination, nor is it recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**Other comprehensive income (loss)**

Other comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net income (loss) such as unrealized gains or losses on available-for-sale investments and translation gains or losses on translation of foreign operations to the presentation currency of the Company.

**Segment reporting**

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one operating segment.

**Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing the profit (loss) for the year attributable to ordinary common shareholders of the Company by the weighted average number of common shares outstanding during the year, adjusted for treasury shares. Diluted earnings (loss) per share is calculated using the treasury stock method.

Under the treasury stock method, the dilution is computed based upon the number of common shares issued should "in the money" options or warrants, if any, be exercised. When the effects of

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outstandingly stock-based compensation arrangements would be anti-dilutive, diluted loss per share is not calculated.

#### **4. CRITICAL JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

##### **Critical accounting judgments**

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognized in these unaudited condensed interim consolidated financial statements are as follows:

##### Evaluation of the Company's ability to continue as a going concern

Management has applied judgements in the assessment of the Company's ability to continue as a going concern when preparing these consolidated financial statements. Management prepares the unaudited condensed interim consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The assessment of the Company's ability to execute its strategy and finance the operations through achieving positive cash flow from operations or by obtaining additional funding through debt or equity financing involves judgments. Management monitors future cash requirements to assess the Company's ability to realize assets and discharge its liabilities in the normal course of operations.

##### Determination of functional currency of the Company

The functional currency for each of the Company and its subsidiary is the currency of the primary economic environment in which each entity operates. The determination of each entity's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the management to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency, the management analyzed both the primary and secondary factors, including the currency of each entity's operating cash flow, and sources of financing.

##### Capitalization of development costs

Management applies judgement in evaluating whether or not development costs incurred by the Company in the internal development of intangible assets meet the criteria for capitalizing. Management determined that as at October 31, 2018, it was not able to demonstrate with sufficient certainty that it is probable the economic benefits will flow to the Company. Accordingly, all internal development costs incurred to date have been expensed.

##### **Key sources of estimation uncertainty**

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of the financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

##### Convertible debentures

The calculation of the fair value of the debt component of the convertible debenture requires using an interest rate that the Company would have had to pay had the loan been obtained without a conversion feature. Such interest rate requires management's estimate by reference to loan interest paid by



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comparable companies in the similar sector. The Company estimates 15.4% and 16.3% being the reasonable interest rate a comparable company in biotechnology sector would likely pay in obtaining loans. Changes to these estimates may affect the carrying value of convertible debentures and the equity portion of convertible debentures.

Long-term debt

The calculation of benefit of the loans from government at a below-market interest rate requires using an interest rate that the Company would have had to pay if the loan was obtained from the third party. Such interest rate requires management's estimate by reference to loan interest paid by comparable companies in the similar sector. The Company estimates 14.9% being the reasonable interest rate a comparable biotechnology company in France would likely pay in obtaining loans.

Long-term employee benefits

The present value of long-term employee benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related employee benefits. Determination of the benefit costs requires assumptions such as the discount rate to measure employee benefits obligations, the projected age of employees upon retirement, the probability of survival, the probability of employee turnover, and the amount of the employees' last month salary prior to retirement. Actual results may differ from results which are estimated based on assumptions.

Revenue recognition

We entered into a Licensing Agreement. Management uses its judgment when determining the extent of progress towards completion of the performance obligation. Revenue recognition requires assumptions and estimates regarding total estimated costs, the complexity of the work to be performed, and the length of time to complete the performance obligation, among other variables.

Share-based payments

The Company uses the fair value method of valuing compensation expense associated with the Company's share-based compensation plan. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility and expected life of options. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measurement of the fair value of the Company's stock options.

Current and deferred taxes

Accounting for income taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgments relating to the application of tax law, the estimated timing of temporary difference reversals, and the estimated realization of tax assets. The Company recognizes the deferred tax benefit related to deferred tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in the future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. In addition, all tax filings are subject to subsequent government audits and potential reassessment. These interpretations, judgments and changes related to them impact current and deferred tax provisions, deferred tax assets and liabilities and results of operations.

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**5. IFRS STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The following is an overview of accounting standard changes that the Company will be required to adopt in future years. The Company is still in the process of assessing the impact on the consolidated financial statements of these new standards:

**IFRS 16 Leases**

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for reporting periods beginning on or after January 1, 2019, with early application permitted.

Other new standards or amendments are either not applicable or not expected to have a significant impact on the Company's consolidated financial statements.

**6. TRADE AND OTHER RECEIVABLES**

	<b>April 30, 2019</b>	<b>October 31, 2018</b>
Other receivables	31,254	9,759
	\$ 31,254	\$ 9,759

As of April 30, 2019, and October 31, 2018, there were no trade and other receivables past due, all amounts included in trade and other receivables were due to timing-related matters and expected to be collected within one year and the Company did not hold any collateral for amounts due.

**7. TAX RECEIVABLES**

	<b>April 30, 2019</b>	<b>October 31, 2018</b>
R&D tax credit	\$ 414,759	\$ 278,752
VAT and other tax receivables	-	8,607
GST/HST receivables	13,784	6,463
	\$ 428,543	\$ 293,822

Tax receivables are mainly related to R&D tax credit and value added taxes ("VAT"). The Company expects full recovery of R&D tax credit, VAT and other tax receivables and GST/HST receivables based on the past receipt history and consequently has not recorded any allowance against these receivables. As of October 31, 2018, there were no tax receivables past due, all amounts included in tax receivables were due to timing-related matters and expected to be collected within one year and the Company did not hold any collateral for amounts due.

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**8. PREPAID EXPENSES AND DEPOSITS**

	<b>April 30, 2019</b>	<b>October 31, 2018</b>
Prepaid expenses	\$ 185,387	\$ 127,109
Other investments	753	744
	<u>\$ 186,140</u>	<u>\$ 127,853</u>

**9. TRADE AND OTHER PAYABLES**

	<b>April 30, 2019</b>	<b>October 31, 2018</b>
Trade payables	\$ 485,749	\$ 291,916
Payroll liabilities	96,614	150,704
	<u>\$ 582,363</u>	<u>\$ 442,620</u>

**10. CONVERTIBLE DEBENTURES**

On November 30, 2018, the Company issued convertible notes (“Notes D”) for total gross proceeds of \$487,000. Each Note will be convertible at the option of the holder into one common share of the Company at a conversion price of \$0.14 per share during the 12-month term of the Notes D. The Notes D will mature in 12 months from the date of issuance and bear interest at the rate of 12% per annum, payable quarterly, until the Notes D are converted or repaid. The Company will be entitled to repay the principal amount of the Notes D, together with accrued and unpaid interest, at any time commencing four months after the date of issuance.

The Company initially recorded \$471,826 related to the fair value of the debt component of the Notes D using a market interest rate for comparable companies of 16.3% for an equivalent, non-convertible, loan at the date of issue. The residual amount of \$11,076, net of taxes was assigned to the equity conversion component and included in the shareholders’ equity. The Company amortizes the debt component of the Notes D using an effective interest rate of 15.39% over the term of the Notes D. For the period ended April 30, 2019, \$30,345 interest expense was recorded in the consolidated statement of loss and comprehensive loss (2018- \$nil). During the period ended April 30, 2019, \$202,000 of Notes D were converted into the Company’s shares and a total of 1,442,857 shares were issued upon conversion. The equity component of the Notes D of \$6,293 with the fully accreted debt component were reclassified into share capital of the Company upon the conversion.

On August 31, 2018, the Company issued convertible notes (“Notes C”) for total gross proceeds of \$443,600. Each Note will be convertible at the option of the holder into one common share of the Company at a conversion price of \$0.14 per share during the 12-month term of the Notes C. The Notes C will mature in 12 months from the date of issuance and bear interest at the rate of 12% per annum, payable quarterly, until the Notes C are converted or repaid. The Company will be entitled to repay the principal amount of the Notes C, together with accrued and unpaid interest, at any time commencing four months after the date of issuance.

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The Company initially recorded \$429,774 related to the fair value of the debt component of the Notes C using a market interest rate for comparable companies of 16.3% for an equivalent, non-convertible, loan at the date of issue. The residual amount of \$10,093, net of taxes was assigned to the equity conversion component and included in the shareholders' equity. The Company amortizes the debt component of the Notes C using an effective interest rate of 15.39% over the term of the Notes C. For the period ended April 30, 2019, \$33,358 interest expense was recorded in the consolidated statement of loss and comprehensive loss (2018- \$nil). During the period ended April 30, 2019, \$127,600 of Notes C were converted into the Company's shares and a total of 911,429 shares were issued upon conversion. The equity component of the Notes C of \$3,977 with the fully accreted debt component were reclassified into share capital of the Company upon the conversion.

During May 2017, the Company issued convertible notes ("Note B") for a total gross proceed of \$587,000. Each Note will be convertible at the option of the holder into one common share of the Company at a conversion price of \$0.18 per share during the 18 month term of the Notes B. The Notes B will mature in 18 months from the date of issuance and bear interest at the rate of 12% per annum, payable quarterly, until the Notes B are converted or repaid. The Company will be entitled to repay the principal amount of the Notes B, together with accrued and unpaid interest, at any time commencing four months after the date of issuance.

The Company initially recorded \$564,498 related to the fair value of the debt component of the Notes B using a market interest rate for comparable companies of 16.3% for an equivalent, non-convertible, loan at the date of issue. The residual amount of \$16,651, net of taxes (\$5,851) was assigned to the equity conversion component and included in the shareholders' equity. The Company amortizes the debt component of the Notes B using the effective interest rate of 14.86% over the term of the Notes B. For the year ended October 31, 2018, \$98,611 (2017-\$35,903) interest expense was recorded in the consolidated statement of loss and comprehensive loss. In year 2018, \$100,000 of principle amount of Notes B was repaid. During the period, \$487,000 of principle amount of Notes B was repaid.

## **11. SHORT-TERM LOAN**

In year 2018, the Company entered into an unsecured loan agreement with a third party for a total amount of \$200,000. The loan and accrued interest will mature in 90 days from the date of issuance and 400,000 shares of the Company will be issued to the lender as interest. \$36,000 interest expenses have been accrued as at October 31, 2018. The principal has been paid during the period.

During the period ended April 30, 2019, the Company borrowed \$200,000 short term loans from a director. The loans are non-interest bearing and due on demand. Subsequently, \$200,000 of this advance was repaid.

## **12. LONG-TERM DEBT**

During the year ended October 31, 2015, TFC entered into two loan agreements with Bpifrance Financement ("BPI") for a total amount of \$1,262,604 (€840,000). The loans were provided to TFC as a regional innovation fund to assist with TFC's research project and the loans are non-interest bearing with fixed repayment terms, commencing April 1, 2018. In November 2014, the Company received the first draw of the loan totalling \$757,562 (€504,000). During the fiscal year 2017, the Company received the second draw of the loan totalling \$505,042 (€336,000).

Repayment terms of BPI loan are as follows:

- 23.42% of profit, excluding taxes, of sales or concessions of patent licenses or know-how collected during the year related to the research project, financed by BPI loan.

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- 23.42% of profit, excluding taxes, generated by the marketing and the sale to a third party or the Company's own use
- Minimum repayment per year, commencing April 1, 2018.

Minimum payments under the long-term debt at April 30, 2019, are as follows:

2019	\$ 97,987	€ 75,000
2020	270,990	180,000
2021	331,210	220,000
2022	391,430	260,000
Thereafter	101,621	67,500
	\$ 1,193,238	€ 802,500

### 13. LEASE OBLIGATION

On June 6, 2016, TFC entered into a lease agreement with NATIXIS Lease to lease a scientific instrument. The lease agreement bears interests of 2.7% annually, and expires in seven years on May 6, 2023, with monthly lease payment of \$3,408 (€2,265) or annual lease payment of \$40,903 (€27,176). Management has assessed that the lease is a finance lease. The lease is guaranteed by BPI.

Minimum payments under the finance leases at April 30, 2019, are as follows:

2019	\$ 36,775
2010	40,903
2021	40,903
2022	40,903
Thereafter	26,459
	190,071
Less: amount representing interest	(29,696)
Principal	\$ 160,375

### 14. LICENSING AGREEMENTS

#### **Agreement with Wanbang Biopharmaceuticals (“Wanbang”)**

On January 23, 2014, the Company entered into a licensing and co-development agreement with Wanbang, pursuant to which the Company grants an exclusive, non-sublicensable, non-transferrable license of its IP rights to use the licensed information to conduct clinical research, development, registration, promotion, manufacturing and distribution and sales of anti-diabetic SGLT2 inhibitor in the People's Republic of China excluding Hongkong and Macau. In consideration for the license grant, Wanbang agrees to make upfront, milestone and royalty payments as below:

- i. US\$200,000 upon the signing of this agreement (paid in F2014 and recorded as revenue);
- ii. US\$300,000 upon successful completion of the first line test (paid in F2016 and recorded as revenue);
- iii. US\$500,000 upon successful filing of IND application under CFDA (paid in F2018 and recorded as revenue);
- iv. US\$500,000 upon receipt of CTA by CFDA for a Phase I study in the territory (paid in F2018 and recorded as revenue);

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- v. US\$1,500,000 upon receipt of CTA by CFDA for a Phase III study;
- vi. US\$2,500,000 upon successful completion of a first Phase III study;
- vii. US\$4,000,000 upon NDA approval by CFDA in the territory; and
- viii. Running royalties of 5% on product net sales during the royalty period.

## **15. EMPLOYEE BENEFITS**

As of October 31, 2018, and 2017, the employee benefit amount represents the retirement allowance payable accrued by TFC. The obligation of TFC is limited to legal obligations applicable in France. For each employee, a calculation is made based on future benefits they have earned during their service in the current and prior years. The benefit is discounted to determine its present value. The calculation is made annually using the projected benefit method using following assumptions:

- Discount rate: 1.41%
- Increase in salaries: 1.50%
- Turnover: 5.1% for under 55 years old and 0% over 55 years old

## **16. SHARE CAPITAL**

### **Share capital**

- a) Authorized: Unlimited common shares without par value.
- b) Issued: As of April 30, 2019, 202,065,268 (October 31, 2018: 179,325,982) common shares were issued and outstanding.

On February 27, 2019, the Company completed a private placement for total gross proceeds of \$1,783,500. The private placement consists of 17,835,000 units at \$0.10 per unit. Each unit consists of one common share of the Company and one transferable share purchase warrant. Each warrant is exercisable into an additional common share of the Company for a period of three years at a price of \$0.16 per warrant. The Company assigned a relative fair value of the warrants at \$688,746 and recorded the amount in Contributed surplus. The Company issued broker's warrants fair valued at \$39,090 and paid cash of \$62,136 to the finder in connection with the private placements.

On October 15, 2018, the Company completed a private placement for total gross proceeds of \$709,510. The private placement consists of 7,095,100 units at \$0.10 per unit. Each unit consists of one common share of the Company and one transferable share purchase warrant. Each warrant is exercisable into an additional common share of the Company for a period of three years at a price of \$0.18 per warrant. The Company assigned a relative fair value of the warrants at \$186,378 and recorded the amount in Contributed surplus. The Company issued broker's warrants fair valued at \$3,085 in connection with the private placements.

On October 26, 2017, the Company completed a private placement for total gross proceeds of \$635,000. The private placement consists of 4,233,334 units at \$0.15 per unit. Each unit consists of one common share of the Company and one transferable share purchase warrant. Each warrant is exercisable into an additional common share of the Company for a period of two years at a price of \$0.25 per warrant. \$279,000 of proceeds were received subsequent to the year end. The Company assigned a relative fair value of the warrants at \$109,204 and recorded the amount in Contributed surplus.

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During the period ended April 30, 2019, 2,150,000 (2018: 50,000) shares were issued for the exercise of options. 400,000 (2018: nil) shares were issued for the exercise of warrants. The amount of \$313,500 (2018: \$5,000) proceeds from exercise of options and \$72,000 (2018: nil) proceeds from exercise of warrants has been received.

**Warrants**

A summary of warrant activities for the years are as follows:

	Number of Warrants	Weighted average exercise price	Weighted average remaining contractual life (year)
Balance at October 31, 2017	15,157,784	\$ 0.23	0.67
Warrants expired	(8,850,700)	0.20	-
Warrants granted exercisable on or before October 16, 2021	7,095,100	0.18	2.96
Broker warrants granted exercisable on or before October 16, 2021	95,320	0.18	2.96
Balance at October 31, 2018	13,497,504	\$ 0.23	1.97
Warrants exercised	(400,000)	0.18	-
Warrants granted exercisable on or before February 27, 2022	17,835,000	0.16	2.83
Broker warrants granted exercisable on or before February 27, 2022	621,360	0.16	2.83
Balance at April 30, 2019	31,553,864	\$ 0.19	2.26

At April 30, 2019, the warrants outstanding and exercisable were as follows:

Expiry Date	Exercise Price	Number of Warrants as at April 30, 2019
May 11, 2019	\$ 0.30	2,073,750
October 26, 2019	\$ 0.25	4,233,334
October 16, 2021	\$ 0.18	6,695,100
October 16, 2021	\$ 0.18	95,320
February 27, 2022	\$ 0.16	17,835,000
February 27, 2022	\$ 0.16	621,360
		31,553,864

The fair value of the warrants granted was estimated using the Black-Scholes option pricing model with the following estimated assumptions:

	<b>2019</b>
Risk-free interest rate	1.78%
Dividend yield	0%
Volatility	87%
Expected life	3 years
Share price of grant date	\$0.063

**Stock options**

At April 30, 2019, the stock options outstanding and exercisable were as follows:

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Expiry Date	Exercise Price	Number of Options as at October 31, 2018	Granted During the Period	Exercised During the Period	Expired/Cancelled During the Period	Number of Options as at April 30, 2019	Number of Options Exercisable as at April 30, 2019
November 22, 2018	\$0.15	1,100,000	-	-	(1,100,000)	-	-
April 2, 2019	\$0.10	800,000	-	(800,000)	-	-	-
April 25, 2019	\$0.11	750,000	-	-	-	750,000	750,000
August 31, 2019	\$0.15	400,000	-	-	-	400,000	400,000
February 25, 2020	\$0.15	300,000	-	-	(300,000)	-	-
March 01, 2021	\$0.17	-	600,000	(200,000)	-	400,000	400,000
June 21, 2021	\$0.20	300,000	-	-	(100,000)	200,000	200,000
November 3, 2021	\$0.15	400,000	-	-	-	400,000	400,000
January 10, 2022	\$0.18	100,000	-	-	-	100,000	100,000
March 1, 2022	\$0.12	-	200,000	(100,000)	-	100,000	100,000
September 26, 2022	\$0.15	1,300,000	-	(300,000)	-	1,000,000	1,000,000
November 20, 2022	\$0.15	500,000	-	-	-	500,000	500,000
January 10, 2023	\$0.18	100,000	-	-	-	100,000	100,000
February 25, 2024	\$0.19	-	1,300,000	-	-	1,300,000	1,300,000
February 26, 2024	\$0.10	-	400,000	-	-	400,000	400,000
June 26, 2025	\$0.16	3,300,000	-	-	-	3,300,000	3,300,000
September 21, 2026	\$0.20	900,000	-	(600,000)	-	300,000	300,000
November 20, 2027	\$0.15	1,450,000	-	(150,000)	-	1,300,000	1,300,000
February 26, 2029	\$0.12	-	300,000	-	-	300,000	300,000
April 25, 2029	\$0.19	-	600,000	-	-	600,000	600,000
		11,700,000	3,400,000	(2,150,000)	(1,500,000)	11,450,000	11,450,000

At October 31, 2018, the stock options outstanding and exercisable were as follows:



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Expiry Date	Exercise Price	Number of Options as at October 31, 2017	Granted During the Period	Exercised During the Period	Expired/Cancelled During the Period	Number of Options as at October 31, 2018	Number of Options Exercisable as at October 31, 2018
November 25, 2017	\$0.19	900,000	-	-	(900,000)	-	-
December 17, 2017	\$0.10	50,000	-	(50,000)	-	-	-
January 31, 2018	\$0.19	300,000	-	-	(300,000)	-	-
April 11, 2018	\$0.195	50,000	-	-	(50,000)	-	-
June 25, 2018	\$0.15	700,000	-	-	(700,000)	-	-
August 9, 2018	\$0.11	-	-	-	-	-	-
August 25, 2018	\$0.16	100,000	-	-	(100,000)	-	-
September 21, 2018	\$0.20	500,000	-	-	(500,000)	-	-
November 22, 2018	\$0.15	1,100,000	-	-	-	1,100,000	1,100,000 *
April 2, 2019	\$0.10	800,000	-	-	-	800,000	800,000
April 25, 2019	\$0.11	750,000	-	-	-	750,000	750,000
May 31, 2019	\$0.15	-	200,000	-	-	200,000	-
August 31, 2019	\$0.15	400,000	-	-	-	400,000	400,000
February 25, 2020	\$0.15	400,000	-	-	(100,000)	300,000	300,000
June 21, 2021	\$0.20	300,000	-	-	-	300,000	300,000
November 3, 2021	\$0.15	400,000	-	-	-	400,000	400,000
January 10, 2022	\$0.18	100,000	-	-	-	100,000	100,000
September 26, 2022	\$0.15	1,300,000	-	-	-	1,300,000	1,300,000
June 26, 2025	\$0.16	3,300,000	-	-	-	3,300,000	3,300,000
September 21, 2026	\$0.20	900,000	-	-	-	900,000	900,000
November 20, 2022	\$0.15	-	500,000	-	-	500,000	500,000
January 10, 2023	\$0.18	-	100,000	-	-	100,000	100,000
November 20, 2027	\$0.15	-	1,450,000	-	-	1,450,000	1,450,000
		12,350,000	2,250,000	(50,000)	(2,650,000)	11,900,000	11,700,000

\* Such stock options expired subsequent to year end.

The weighted average contractual life remaining of all stock options as at April 30, 2019 is 5.17 years (2018: 4.61 years). During the period ended April 30, 2019, no stock options were granted.

The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following weighted average estimated assumptions:

	<b>2019</b>	<b>2018</b>
Risk-free interest rate	1.53%-1.86%	1.46% to 1.88%
Dividend yield	0%	0%
Volatility	84.24%-97.31%	66% to 68%
Expected life	2 to 5 years	1.44 to 2.5 years
Share price of grant date	\$0.052 to \$0.129	\$0.11 to \$0.13

For the period ended April 30, 2019, share-based compensation in the amount of \$195,235 (2018 - \$78,942) was recognized in the Company's consolidated statements of loss and comprehensive loss.

The Company's stock option plan is administered by the board of directors in accordance with Exchange requirements summarized below.

- (i) maximum available for grant is up to 10% of the Company's issued shares outstanding at any one time;

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- (ii) grant price and exercise price may not be less than the discounted market price of the shares at the time of grant, as permitted by Exchange policy;
- (iii) non-transferable, vesting schedule subject to Board discretion when granted and exercisable up to 10 years from grant date;
- (iv) eligibility includes employees, directors, officers and consultants of the Company subject to a 5% limitation on options granted annually to any one individual director or officer and 2% to any one consultant;
- (v) exercisable up to 90 days following cessation of the optionee's position with the Company. If the cessation of office, directorship or consulting arrangement was due to death, the option may be exercised within a maximum period of one year after death, subject to expiry date of such option.

**17. RELATED PARTY TRANSACTIONS**

Related party transactions impacting the unaudited condensed interim consolidated financial statements primarily relate to transactions with key management personnel. Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

During the period ended April 30, 2019 and 2018, the Company incurred the following expenses to officers or directors of the Company or companies with common directors:

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Management fees/bonus (a)	227,000	72,000
Accounting fees (b)	66,000	66,000
Director fees	4,000	-
Share-based payments (f)	133,393	85,575
Total	430,393	223,575

As of April 30, 2019, \$66,000 (2018-\$nil) balance is owing to related parties.

These related party transactions are in the normal course of operations and have been valued in these unaudited condensed interim consolidated financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

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**18.COMMITMENTS**

On April 1, 2015, the Company entered into an indefinite management service agreement with Christopher Hopton, whereby Christopher Hopton will receive \$11,000 (plus GST) per month until the agreement is terminated by either party.

On April 1, 2015, the Company entered into an indefinite management service agreement with Howard Verrico, whereby Howard Verrico will receive \$12,000 (plus GST) per month until the agreement is terminated by either party.

**19.FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT**

The Company's activities expose it to a variety of financial risks. The Company's overall business strategies, tolerance of risk and general risk management philosophy are determined by the directors in accordance with prevailing economic and operating conditions.

**Financial Instruments classification and fair value**

Cash and cash equivalents are measured at fair value. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs which are supported by little or no market activity.

All of the Company's cash and cash equivalents are classified as Level 1.

The fair value of cash and cash equivalents, trade and other receivables, share subscription receivable and trade and other payable approximate their carrying values due to the short-term nature of these instruments. The fair value of convertible debentures, lease obligation, short-term loan and long-term debt are determined by discounting future payments of loan principals and interests under the loans at prevailing market interest rates at each reporting date. The difference between the fair value and carrying amount is minimal.

**Risk management**

The Company's risk management activities include the preservation of its capital by minimizing risk related to its cash and cash equivalents. The Company does not trade financial instruments for speculative purposes. The Company does not have a risk management committee or written risk management policies. The Company's financial instruments are exposed to the risks described below:

- (i) Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. This risk is managed through using a major financial institution which has high credit quality as determined by the rating agencies. Management believes that the Company is subject to minimal credit risk.

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- (ii) Since the Company's functional currency is the Canadian dollar, it has a foreign exchange risk regarding its Euro obligations since it has a subsidiary in France. A significant change in the currency exchange rates between the Euro relative to the Canadian dollar could have an effect on the Company's results of operations, financial position and cash flows. The Company has not entered into any derivative financial instruments to manage exposures to currency fluctuations. A 1% strengthening in the Canadian dollar against Euro would have a before-tax effect of \$2,118 increase in accumulated other comprehensive income, based on amounts held at the year end.
- (iii) The Company's exposure to interest rate risk relates to its ability to earn short term interest on cash balances at variable rates. The Company is exposed to interest rate risk on its cash and cash equivalents. The Company has no floating interest loan. Management does not believe that the impact of interest rate fluctuation will be significant.
- (iv) Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet its liquidity requirements. Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions. Under current market conditions both liquidity and funding risk have been assessed as relatively low. The following table summarizes the significant remaining contracted payments of the Company's financial liabilities and capital expenditures as at October 31, 2018.

	Total	Due by period				
		< 1 year	1 - 2 years	2 - 3 years	3 - 4 years	> 5 years
	\$	\$	\$	\$	\$	\$
Trade and other payables	582,363	582,363	-	-	-	-
Short-term loan	236,000	236,000				
Lease obligation	160,375	37,040	40,903	40,903	40,903	626
Convertible debentures	587,066	587,066	-			
Long-term debt	1,193,238	97,987	270,990	331,210	391,430	101,621
	2,759,042	1,540,455	311,893	372,113	432,333	102,247

### **Capital management**

Capital is comprised of the Company's shareholders' deficit and long-term debt. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the technology research. Therefore, the Company monitors the level of risk incurred in its technology research relative to its capital structure which is comprised of working capital and shareholders' equity.

The Company manages its capital in a manner consistent with the risk characteristics of the assets it holds. All sources of financing are analysed by management and approved by the board of directors. The Company's objectives when managing capital are to safeguard its ability to continue with its technology research through TFC and to continue as a going concern.

The Company is meeting these objectives primarily through its on-going cash management procedures which include monthly comparison of actual results against budget and periodic forecasting of cash flow requirements.

## **20. GEOGRAPHIC SEGMENT AND ECONOMIC DEPENDENCE**

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The Company is located and operated in Canada and France. The Company's suppliers are well diversified and no one supplier accounted for more than 10% of total sales, due to its business nature.

The Company's net loss by geographic locations for the period ended April 30, 2019 and 2018 are as follows:

<b>Net loss</b>	<b>Period ended April 30, 2019</b>	<b>Period ended April 30, 2018</b>
	<b>\$</b>	<b>\$</b>
Canada	1,358,583	140,468
France	515,249	592,006
<b>Total</b>	<b>1,873,832</b>	<b>732,474</b>

The Company's total assets by geographic locations are as follows:

<b>Total Assets</b>	<b>April 30, 2019</b>	<b>October 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Canada	722,391	293,861
France	555,522	476,650
<b>Total</b>	<b>1,277,913</b>	<b>770,511</b>