

SIRONA BIOCHEM CORP.
CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Sirona Biochem Corp.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sirona Biochem Corp., which comprise the consolidated statement of financial position as at October 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at October 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of Sirona Biochem Corp. for the year ended October 31, 2018, were audited by another auditor who expressed an unqualified opinion on those statements on March 4, 2019.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company is dependent upon its ability to generate product sales, negotiate agreements with upfront payments, raise additional funding from debt and equity financing and attain and maintain profitable operations. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in "Management's Discussion and Analysis", but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Keith Macdonald.



CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, BC, Canada

February 28, 2020

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

As at	October 31, 2019	October 31, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,734,647	\$ 339,076
Trade and other receivables (Note 6)	121,384	9,759
Tax receivables (Note 7)	333,011	293,822
Share subscription receivable	2,400	-
Prepaid expenses and deposits (Note 8)	65,453	127,853
	\$ 4,256,895	\$ 770,510
LIABILITIES		
Current Liabilities		
Trade and other payables (Note 9)	\$ 415,711	\$ 442,620
Convertible debentures (Note 10)	247,544	918,226
Current portion of long-term debt (Note 11)	220,191	223,328
Current portion of lease obligation (Note 12)	36,585	36,118
Short-term loan (Note 15)	-	236,000
	920,031	1,856,292
Long-term debt (Note 11)	942,612	956,040
Lease obligation (Note 12)	101,774	140,329
Employee benefits (Note 14)	102,941	78,815
	2,067,358	3,031,476
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 15)	28,523,089	20,396,599
Contributed surplus (Note 15)	5,037,510	4,164,638
Equity portion of convertible debenture (Note 11)	22,335	26,744
Foreign translation reserve	(33,692)	(38,817)
Accumulated deficit	(31,359,705)	(26,810,130)
	2,189,537	(2,260,966)
	\$ 4,256,895	\$ 770,510

Commitments (Note 18)
Subsequent events (Note 22)

APPROVED ON BEHALF OF THE BOARD:

<u>"Howard Verrico"</u> Director Howard Verrico	<u>"Alex Marazzi"</u> Director Alex Marazzi
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The accompanying notes are an integral part of these consolidated financial statements.

SIRONA BIOCHEM CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED OCTOBER 31,
(Expressed in Canadian dollars)

	2019	2018
Revenue (Note 13)		
Licensing payments	\$ 67,225	\$ -
Royalty payments on termination	64,500	-
Milestone payments	-	1,271,908
Other	4,018	6,787
	<u>135,743</u>	<u>1,278,695</u>
Expenses		
Research expenses (net)	1,264,404	946,919
Consulting fees	820,273	251,703
Office and administration	221,347	167,029
Accounting and audit fees (Note 16)	261,582	261,980
Compensation:		
Wages, salaries and benefits (Note 16)	126,333	189,014
Management fees (Note 16)	151,200	144,000
Director fees (Note 16)	46,000	5,000
Bonuses (Note 16)	260,000	-
Travel and entertainment	59,277	20,308
Rental expenses	29,710	11,729
Investor relations	227,778	61,479
Legal fees	37,446	38,973
Filing fees and transfer agent fees	42,660	26,757
Exchange (gain)/loss	(4,505)	(9,576)
Share-based payments (Note 16)	1,056,963	98,310
	<u>(4,464,725)</u>	<u>(934,930)</u>
Other income/(expenses)		
Other income	25,680	32,526
Revaluation of warrants	-	(23,966)
Finance expense (Notes 10, 11 and 12)	(116,738)	(226,770)
	<u>(91,058)</u>	<u>(218,210)</u>
Loss for the year before income taxes	(4,555,783)	(1,153,140)
Income taxes recovery (expense) (Note 17)	6,208	(120,106)
Net loss for the year	<u>(4,549,575)</u>	<u>(1,273,246)</u>
Other comprehensive income (loss) for the year		
Foreign currency translation	5,125	(10,473)
Comprehensive loss for the year	<u>\$ (4,544,450)</u>	<u>\$ (1,283,719)</u>
Loss per share - basic and diluted	\$ (0.02)	\$ (0.01)
Weighted average number of common shares outstanding - basic and diluted	<u>201,230,966</u>	<u>171,771,215</u>

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

SIRONA BIOCHEM CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(Expressed in Canadian dollars, except share number)

	Issued common shares		Contributed surplus	Equity portion of convertible debenture	Foreign translation reserve	Accumulated deficit	Total equity (deficiency)
	Number	Amount					
BALANCE, OCTOBER 31, 2017	170,030,882	\$ 19,669,985	\$ 3,823,935	\$ 30,726	\$ (28,344)	\$ (25,536,884)	\$ (2,040,582)
Loss for the year	-	-	-	-	-	(1,273,246)	(1,273,246)
Private placement, net of share issuance cost (Note 15)	7,095,100	510,515	189,463	-	-	-	699,978
Convertible debentures, net of issuance costs (Note 10)	-	-	14,075	(3,982)	-	-	10,093
Issuance of stock options (Notes 15 and 16)	-	-	122,798	-	-	-	122,798
Exercise of options (Note 15)	50,000	14,599	(9,599)	-	-	-	5,000
Issuance of common shares (Note 15)	2,150,000	201,500	-	-	-	-	201,500
Modification of warrants (Note 15)	-	-	23,966	-	-	-	23,966
Foreign currency translation	-	-	-	-	(10,473)	-	(10,473)
BALANCE, OCTOBER 31, 2018	179,325,982	20,396,599	4,164,638	26,744	(38,817)	(26,810,130)	(2,260,966)
BALANCE, OCTOBER 31, 2018	179,325,982	20,396,599	4,164,638	26,744	(38,817)	(26,810,130)	(2,260,966)
Loss for the year	-	-	-	-	-	(4,549,575)	(4,549,575)
Private placements, net of issuance costs (Note 15)	21,585,000	1,686,870	1,452,111	-	-	-	3,138,981
Issuance of shares for the interest of short term loan (Note 15)	400,000	36,000	-	-	-	-	36,000
Convertible debentures, net of issuance costs (Note 10)	4,861,428	701,810	-	(4,409)	-	-	697,401
Issuance of stock options (Notes 15 and 16)	-	-	1,056,963	-	-	-	1,056,963
Exercise of options (Note 15)	10,580,000	3,877,369	(1,411,369)	-	-	-	2,466,000
Exercise of warrants (Note 15)	7,277,594	1,824,441	(224,833)	-	-	-	1,599,608
Foreign currency translation	-	-	-	-	5,125	-	5,125
BALANCE, OCTOBER 31, 2019	224,030,004	\$ 28,523,089	\$ 5,037,510	\$ 22,335	\$ (33,692)	\$ (31,359,705)	\$ 2,189,537

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

SIRONA BIOCHEM CORP.
CONSOLIDATED STATEMENTS OF CASHFLOWS
FOR THE YEARS ENDED OCTOBER 31,
(Expressed in Canadian Dollars)

	2019	2018
Operating activities		
Net loss for the year	\$ (4,549,575)	\$ (1,273,246)
Items not requiring use of cash:		
Consulting fees	-	250,958
Income taxes expense (recovery)	(6,208)	3,733
Interest expense	-	36,000
Interest accretion	25,092	41,418
Revaluation of warrants	-	23,966
Share-based payments	1,056,963	98,310
Changes in operating assets and liabilities:		
Trade and other receivables and tax receivables	(145,379)	409,110
Prepaid expenses and deposits	62,400	(18,663)
Trade and other payables	59,308	(4,515)
Employee benefits	24,126	(4,024)
Deferred revenue	-	(17,171)
Interest paid	(86,217)	(139,225)
Cash used in operating activities	(3,559,490)	(593,349)
Financing activities		
Shares issued for cash, net of share issuance costs	3,138,981	876,304
Options and warrants exercised	4,065,608	5,000
Proceeds from convertible debentures	-	443,600
Repayment of convertible debentures	-	(765,360)
Repayment of long-term debt	-	(56,366)
Repayment of lease obligation	(40,601)	(41,591)
Proceeds from short-term loan	-	200,000
Repayment of short-term loan	(200,000)	-
Cash provided by financing activities	6,963,988	661,587
Increase in cash and cash equivalents	3,404,498	68,238
Effect of exchange rate fluctuations	(8,927)	(1,436)
Cash and cash equivalents, beginning of year	339,076	272,274
Cash and cash equivalents, end of year	\$ 3,734,647	\$ 339,076

See Note 21 for supplementary cash flow information.

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

SIRONA BIOCHEM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years Ended October 31, 2019 and 2018
(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 605 – 889 West Pender Street, Vancouver, BC, V6C3B2.

2. BASIS OF PRESENTATION AND GOING CONCERN

Statement of compliance

These consolidated financial statements of the Company and its subsidiary are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved and authorized for issue by the Audit Committee and Board of Directors on February 28, 2020.

Going concern

These 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 October 31, 2019, the Company has an accumulated deficit of \$31,359,705 (2018 - \$26,810,130). For the year ended October 31, 2019, the Company incurred a net loss of \$4,549,575 (2018 – \$1,273,246) and used net cash in operating activities of \$3,559,490 (2018 – \$653,801).

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.

Basis of measurement

These 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 consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

SIRONA BIOCHEM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended October 31, 2019 and 2018
(Expressed in Canadian dollars)

Functional and presentation currency

These 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 the Euro.

Use of estimates

The preparation of these 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.

See Note 4.

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 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 are 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 are translated using the exchange rate at the date of transaction.

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 (deficiency), described as foreign translation reserve.

SIRONA BIOCHEM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended October 31, 2019 and 2018
(Expressed in Canadian dollars)

Financial instruments

Classification

On initial recognition, the Company determines the financial instruments classification as per the following categories:

- instruments measured at amortized cost;
- instruments measured at fair value through other comprehensive income (FVOCI) or through net income (FVTPL).

The financial instruments' classification under IFRS 9 is based on the business model in which a financial asset is managed and on its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial instrument in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments held for trading are classified as FVTPL. For all other equity investments that are not held for trading, the Company, on initial recognition, may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

Financial liabilities are measured at amortized cost unless they must be measured at FVTPL (such as derivatives) or if the Company elects to measure them at FVTPL.

Measurement

Financial instruments at amortized cost

Financial instruments at amortized cost are initially measured at fair value, and subsequently at amortized cost, using the effective interest method, less any impairment loss. Interest income, foreign exchange gains and losses and impairment are recognized in the consolidated statements of loss and comprehensive loss.

Financial instruments at fair value

Financial instruments are initially and subsequently measured at fair value and transaction costs are accounted for in the consolidated statements of loss and comprehensive loss. When the Company elects to measure a financial liability at FVTPL, gains or losses related to the Company's own credit risk are accounted for in the consolidated statements of loss and comprehensive loss.

SIRONA BIOCHEM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended October 31, 2019 and 2018
(Expressed in Canadian dollars)

Impairment

The Company recognizes loss allowances for expected credit losses (“ECL”) on:

- financial assets measured at amortized cost;
- debt investments measured at FVOCI; and
- contract assets (as defined in IFRS 15).

The Company measures loss allowances on amounts receivable at an amount equal to lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Presentation of allowance for ECL in the consolidated statements of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

SIRONA BIOCHEM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended October 31, 2019 and 2018
(Expressed in Canadian dollars)

Derecognition

Financial assets

The Company derecognizes a financial asset when, and only when, the contractual rights to the cash flows from the financial asset have expired or when contractual rights to the cash flows have been transferred.

Financial liabilities

The Company derecognizes a financial liability when, and only when, it is extinguished, meaning when the obligation specified in the contract is discharged, canceled or expired. The difference between the carrying amount of the extinguished financial liability and the consideration paid or payable, including non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of loss and comprehensive loss.

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 October 31, 2019 and 2018.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are classified in current assets, except for the portion expected to be realized or paid beyond 12 months of the consolidated statements of financial position date, if any, which are classified as non-current. Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognized at fair value. Trade receivables are held with the objective of collecting contractual cash flows and classified as subsequently at amortized cost using the effective interest method.

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.

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.

See Note 5.

SIRONA BIOCHEM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended October 31, 2019 and 2018
(Expressed in Canadian dollars)

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 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

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.

The Company will only recognize revenue 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, the Company will evaluate the performance obligations within the

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agreement. Performance obligations will be analysed to determine whether they are distinct or whether they must be accounted for as a single unit of multiple related distinct goods and services. The Company will then perform an analysis to determine the total transaction price that it expects to receive from satisfying the performance obligations in the agreement.

If 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. The Company estimates variable consideration at the most likely amount to which it expects to be entitled. Estimated amounts are included 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. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of anticipated performance and all information (historical, current and forecasted) that is reasonably available. Based on this information and related analysis, any quarterly adjustments to revenue are recognized as necessary in the period they become known.

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 the Company 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 asset

The Company's right to consideration in exchange for goods or services that have been transferred to a customer when that right is conditioned on something other than the passage of time (for example, the Company's future performance).

Contract liability

The Company's obligation to transfer goods or services to a customer for which consideration has been received (or the amount is due) from the customer.

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.

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Employee benefits

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 employees up to the reporting date. As of October 31, 2019, and 2018, the employee benefit amount represents 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 third-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.

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Government assistance is recorded at fair value when there is 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.

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.

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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 outstandingly stock-based compensation arrangements would be anti-dilutive, diluted loss per share is not calculated. As at October 31, 2019 and 2018, stock options and warrants were not included in the computation of loss per share as they are out of the money and such inclusion would be anti-dilutive.

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 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 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 management to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency, 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

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that as at October 31, 2019, 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:

Impairment of trade and other receivables

The assessment of the ultimate collectability of amounts receivable and the determination of the expected credit losses requires significant estimates and assumptions.

See Note 3.

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 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 and deferred revenue

The assessment of the timing of revenue recognition and the determination of deferred revenue requires significant estimates and assumptions.

See Note 3.

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Research and development expenses

The amount of research and development expenses recognized related to research arrangements with third parties is based on estimates of work performed using the accrual basis of accounting. These estimates are based on the services provided; contractual terms and experience with similar contracts.

5. NEW ACCOUNTING STANDARDS ADOPTED AND STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 15 Revenue from contracts with customers

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) was issued to replace IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations such as IFRIC 13 Customer Loyalty Programs. IFRS 15 introduces a single contract-based five-step model that applies to contracts with customers and two approaches for the recognition of revenue: at a point in time or over time. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price, and recognize revenue when the performance obligation is satisfied. Revenue is recognized when a customer obtains control of a good or service and has the ability to direct the use and obtain the benefits from the good or service.

The Company has adopted IFRS 15 on the required effective date of November 1, 2018, using the modified retrospective approach. The Company has evaluated the impact of applying IFRS 15 by performing a comprehensive review of existing sale contracts, control processes and revenue recognition methodology. Adoption of the new standard did not result in any adjustment in the amounts previously recognized in the consolidated statements of financial position. As well, the timing in the recognition of revenue was not impacted by the new standard. Consequently, neither the consolidated statement of loss and comprehensive loss, consolidated statement of changes in equity (deficit) nor consolidated statement of cash flows were adjusted.

IFRS 9 Financial instruments

IFRS 9, Financial Instruments (“IFRS 9”) sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”).

Financial Assets

At initial recognition, IFRS 9 requires financial assets to be measured at fair value and classified into three measurement categories: those subsequently measured at fair value through profit and loss (“FVTPL”), those subsequently measured at fair value through other comprehensive income and those subsequently measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option for each equity instrument to present fair value changes in other comprehensive income. Measurement and classification of financial assets is dependent on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

IFRS 9 provides a three-stage expected credit loss model for calculating impairment for financial assets. Expected credit losses are required to be recognized when financial instruments are initially recognized and the amount of expected credit losses recognized are required to be updated at each reporting date to reflect changes in the credit risk of the financial instruments.

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Financial Liabilities

At initial recognition, IFRS 9 requires financial liabilities to be measured at fair value and classified as subsequently measured at amortized cost except for when one of the specified exceptions applies. In cases where the fair value option is taken for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the statement of loss, unless this creates an accounting mismatch.

For financial assets and financial liabilities not at FVTPL, fair value is adjusted for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The following table presents the initial IAS 39 classification and the new IFRS 9 classification for all financial instruments held by the Company as at the effective date of November 1, 2018. Adoption of the new standard did not result in any adjustment in the amounts previously recognized in the consolidated statements of financial position.

Financial assets and liabilities	IAS 39 classification	IFRS 9 classification
Cash and cash equivalents	FVTPL	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Lease obligation	Other financial liabilities	Amortized cost

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 November 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

	October 31, 2019	October 31, 2018
Trade receivables	\$ 67,225	\$ -
Other receivables	54,159	9,759
	\$ 121,384	\$ 9,759

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As of October 31, 2019, there was no allowance for doubtful accounts provision. In determining the recoverability of a trade or other receivable, the Company performs a risk analysis considering the type and age of the outstanding receivable, as well as the Company's exposure to credit and currency risks.

See Note 19.

7. TAX RECEIVABLES

	October 31, 2019	October 31, 2018
R&D tax credit	\$ 305,563	\$ 278,752
VAT and other tax receivables	-	8,607
GST/HST receivables	27,448	6,463
	<u>\$ 333,011</u>	<u>\$ 293,822</u>

Tax receivables are mainly related to the R&D tax credit and value added taxes ("VAT"). The Company expects full recovery of the 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.

8. PREPAID EXPENSES AND DEPOSITS

	October 31, 2019	October 31, 2018
Prepaid expenses and deposits	\$ 64,719	\$ 127,109
Other	734	744
	<u>\$ 65,453</u>	<u>\$ 127,853</u>

9. TRADE AND OTHER PAYABLES

	October 31, 2019	October 31, 2018
Trade payables	\$ 313,598	\$ 291,916
Other payables	102,113	150,704
	<u>\$ 415,711</u>	<u>\$ 442,620</u>

10. CONVERTIBLE DEBENTURES

On November 30, 2018, the Company issued 3,478,571 convertible notes ("Notes D") with a principal amount of \$487,000 in exchange for an equivalent amount of Notes B. Each Note is 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 is 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 (\$4,098) was assigned to the equity

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conversion component and included in 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 year ended October 31, 2019, \$52,178 (2018: \$nil) in finance expense was recorded in the consolidated statement of loss and comprehensive loss. During the year ended October 31, 2019, \$237,000 of Notes D were converted into the Company's common shares and a total of 1,692,857 common shares were issued upon conversion. The equity component of the Notes D of \$7,384 with the fully accreted debt component was reclassified into share capital of the Company upon the conversion.

On August 31, 2018, the Company issued 3,168,571 convertible notes ("Notes C") for total gross proceeds of \$443,600. Each Note is 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 is 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.

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 (\$3,733) was assigned to the equity conversion component and included in 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 year ended October 31, 2019, \$45,253 (2018: \$10,093) in finance expense was recorded in the consolidated statement of loss and comprehensive loss. During the year ended October 31, 2019, \$443,600 of Notes D were converted into the Company's common shares and a total of 3,168,571 common shares were issued upon conversion. The equity component of the Notes D of \$13,826 with the fully accreted debt component were reclassified into share capital of the Company upon the conversion.

During May 2017, the Company issued 3,261,111 convertible notes ("Notes B") for a total gross proceeds of \$587,000. Each Note is 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 is 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 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, 2019, \$13,861 (2018: \$98,611) in finance expense was recorded in the consolidated statement of loss and comprehensive loss. During the year ended October 31, 2018, \$100,000 of principal amount of Notes B was repaid. On November 30, 2018, \$487,000 of principal amount of Notes B was exchanged for an equivalent amount of Notes D.

During February 2017, the Company issued convertible notes ("Notes A") for total gross proceeds of \$665,360. Each Note is 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 months term of the Notes A. The Notes A 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 A, 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 \$646,340 related to the fair value of the debt component of the Notes A using a market interest rate for comparable companies of 15.4% for an equivalent, non-convertible, loan at the date of issue. The residual amount of \$14,075, net of taxes (\$4,945) was assigned to the equity conversion component and included in shareholders' equity. The Company amortizes the debt component of the Notes A using an effective interest rate of 14.18% over the term of the Notes A. For the year ended October 31, 2019, \$nil (2018: \$71,939) in finance expense was recorded in the consolidated statement of loss and comprehensive loss. During the year ended October 31, 2018, the Notes A were repaid. During the year ended October 31, 2018, the Notes A were repaid.

At October 31, 2019 and 2018, the carrying amounts of the convertible debentures were as follows:

	Notes				Total
	A	B	C	D	
Balance at October 31, 2016	\$ -	\$ -	\$ -	\$ -	\$ -
Debentures issued	665,360	587,000	-	-	1,252,360
Equity conversion component	(19,020)	(22,502)	-	-	(41,522)
Accretion	9,422	5,908	-	-	15,330
Balance at October 31, 2017	655,762	570,406	-	-	1,226,168
Debentures issued	-	-	443,600	-	443,600
Equity conversion component	-	-	(13,826)	-	(13,826)
Accretion	9,598	29,651	2,169	-	41,418
Adjustment on conversion	-	(13,774)	-	-	(13,774)
Debentures repaid	(665,360)	(100,000)	-	-	(765,360)
Balance at October 31, 2018	-	486,283	431,943	-	918,226
Exchange of Notes B for Notes D	-	(487,000)	-	487,000	-
Equity conversion component	-	-	-	(15,174)	(15,174)
Accretion	-	717	11,657	12,718	25,092
Conversion to common shares	-	-	(443,600)	(237,000)	(680,600)
Balance at October 31, 2019	\$ -	\$ -	\$ -	\$ 247,544	\$ 247,544

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During the years ended October 31, 2019 and 2018, the following amounts were included in finance expense:

	Notes				
	A	B	C	D	Total
2019					
Interest paid	\$ -	\$ 13,144	\$ 33,596	\$ 39,460	\$ 86,200
Accretion	-	717	11,657	12,718	25,092
	<u>\$ -</u>	<u>\$ 13,861</u>	<u>\$ 45,253</u>	<u>\$ 52,178</u>	<u>\$ 111,292</u>
2018					
Interest paid	\$ 62,341	\$ 68,960	\$ 7,924	\$ -	\$ 139,225
Accretion	9,598	29,651	2,169	-	41,418
	<u>\$ 71,939</u>	<u>\$ 98,611</u>	<u>\$ 10,093</u>	<u>\$ -</u>	<u>\$ 180,643</u>

11. 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. During the year ended October 31, 2015, the Company received the first draw of the loan totalling \$757,562 (€504,000). During the year ended October 31, 2017, the Company received the second draw of the loan totalling \$505,042 (€336,000). During the year ended October 31, 2018, a minimum payment of €37,500 (\$56,366) was made.

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.
- 23.42% of profit, excluding taxes, generated by the marketing and the sale to a third party or the Company’s own use.
- Minimum repayments per year have been postponed and commence in December 2019.

Minimum payments under the long-term debt at October 31, 2019, are as follows:

2020	\$	220,191	€	160,000
2021		293,420		200,000
2022		352,104		240,000
2023		297,088		202,500
	<u>\$</u>	<u>1,162,803</u>	<u>€</u>	<u>802,500</u>

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12. LEASE OBLIGATION

In June 2016, TFC entered into a lease agreement with an NATIXIS Lease to lease a scientific instrument. The lease agreement bears interest of 2.7% annually, and expires in seven years on May 6, 2023, with monthly lease payments of \$3,323 (€2,265) or an annual lease payment of \$39,876 (€27,180). Management has assessed that the lease is a finance lease. The lease is guaranteed by BPI. Minimum payments under the finance lease at October 31, 2019, are as follows:

2020	\$	39,876
2021		39,876
2022		39,876
2023		25,825
		145,453
Less: amount representing interest		(7,094)
Principal		138,359
Current portion		(36,585)
Long-term portion	\$	101,774

13. 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 fiscal 2014 and recorded as revenue);
- ii. US\$300,000 upon successful completion of the first line test (paid in fiscal 2016 and recorded as revenue);
- iii. US\$500,000 (\$623,381) upon successful filing of IND application under CFDA (paid in fiscal 2018 and recorded as revenue);
- iv. US\$500,000 (\$648,527) upon receipt of CTA by CFDA for a Phase I study in the territory (paid in fiscal 2018 and recorded as revenue);
- 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.

License Agreement with Obagi Medical Products (“Obagi”)

On January 14, 2014, the Company entered into a licensing agreement, pursuant to which the Company grants an exclusive, worldwide license to Obagi for the commercialization of skin lightening compound TFC-849 in the skin condition field. In exchange for the license grant, Obagi agrees to make following two royalty pre-payments and royalties of 4.5% based on net sales of products:

- i. Upfront royalty pre-payment: US\$50,000 within 10 days of execution of this agreement; which has been paid (actual receipt of \$54,500 was recorded as deferred revenue as of October 31, 2016 and 2015).
- ii. Success criteria milestones: US\$50,000 upon the earlier of 1) first achievement by a Development Product of Obagi’s success criteria which includes i) suitable incorporation of Compound into a

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reasonably cosmetically elegant formulation upon application of reasonable efforts by Obagi or its contractors; ii) successful completion of compatibility and/or stability testing of such licensed product; and iii) successful efficacy testing of such Licensed Product, or 2) the first commercial sale of licensed product.

During the year ended October 31, 2018, TFC-849 proved difficult to manufacture in a commercially viable process. Obagi has terminated the Obagi license evidence agreement. As a result, pre-paid royalties of US\$50,000 (\$64,500) have been recognized as revenue in fiscal 2019.

Obagi Compound Supply Agreement

On September 9, 2014, the Company entered into a compound supply agreement with Obagi. The Company acted as an agent for Obagi, contracting a third party to produce a compound as well as a related report. All payments received by Obagi were paid to the third party. When the License agreement with Obagi was terminated, the Compound Supply Agreement was also terminated. The Company terminated the agreement with the third party and there was no further obligation from either party.

Manufacturing and Supply Agreement with Rodan & Fields, LLC (“R&F”)

On September 13, 2019, the Company entered into a manufacturing and supply agreement, pursuant to which the Company shall manufacture, test, label, package, store and supply R&F a minimum of 10 kilograms per year of skin lightening compound TFC-1067 for use in the United States, Canada, Australia and Japan for US\$8,000 per kilogram beginning in 2020. In consideration for these services, R&F shall also make the following license fee and milestone payments to the Company:

- i. US\$50,000 (\$67,225) license fee on signing of the agreement (recorded as revenue in fiscal 2019 and receivable at October 31, 2019);
- ii. US\$50,000 milestone payment on the launch of the first finished skincare product which includes TFC-1067; and
- iii. a US\$50,000 milestone payment for each additional finished skincare product launched containing TFC-1067.

After receipt of an invoice, R&F will pay the Company within net 15 days -2% or 60 days.

This agreement runs for a five-year term, with R&F having the option to extend the term for an additional three years, and is cancellable upon R&F providing the Company 30 days’ written notice. On termination of the agreement, R&F will reimburse the Company for any materials unique to R&F and which remain in the Company’s possession.

14. EMPLOYEE BENEFITS

As of October 31, 2019 and 2018, 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: 0.56% (2018: 1.53%)
- Increase in salaries: 1.5% (2018: 1.5%)
- Turnover: 5.1% (2018: 5.1%) for under 55 years old and 0% (2018: 0%) over 55 years old
- Payroll tax rate: 39.5% (2018: 39.5%)

The assumptions used are in accordance with French legislation and practice.

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15. SHARE CAPITAL

Share capital

- a) Authorized: Unlimited common shares without par value.
- b) Issued: As of October 31, 2019, 224,030,004 (2018: 179,325,982) common shares were issued and outstanding.

On July 10, 2019, the Company completed a private placement for total gross proceeds of \$1,500,000. The private placement consists of 3,750,000 units at \$0.40 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 \$0.60 per warrant. The Company estimated the fair value of the warrants at \$659,612 and recorded the amount in contributed surplus. The Company issued 205,960 broker's warrants fair valued at \$64,662 and paid cash of \$10,284 to the finder in connection with the private placement.

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 estimated the fair value of the warrants at \$688,747 and recorded the amount in Contributed surplus. The Company issued 621,630 broker's warrants fair valued at \$39,090 and paid cash of \$62,136 to the finder in connection with the private placement.

During the year ended October 31, 2019, 10,580,000 (2018: 50,000) shares were issued for the exercise of options and 7,277,594 (2018: nil) shares were issued for the exercise of warrants. The total cash proceeds of \$ 3,874,303 (2018: \$5,000) has been received for options exercised and \$1,597,208 (2018: \$Nil) for warrants exercised. The \$224,833 value of warrants exercised originally recorded to contributed surplus at issuance was reclassified to share capital upon exercise.

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 estimated the fair value of the warrants at \$186,378 and recorded the amount in Contributed surplus. The Company issued 95,320 broker's warrants fair valued at \$3,085 in connection with the private placements.

During the year ended October 31, 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 matured 90 days from the date of issuance and 400,000 shares of the Company were issued to the lender in payment of \$36,000 interest accrued during the year ended October 31, 2018. The principal was repaid during the year ended October 31, 2019.

During the year ended October 31, 2018, the Company issued 2,150,000 common shares as payment for consulting services valued at \$201,500.

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Warrants

A summary of warrant activities for the years is 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	(7,277,594)	0.22	-
Warrants expired	(1,823,750)	0.30	-
Warrants granted exercisable on or before February 27, 2022	17,835,000	0.16	2.58
Broker warrants granted exercisable on or before February 27, 2022	621,360	0.16	2.58
Warrants granted exercisable on or before July 16, 2022	3,750,000	0.60	2.96
Broker warrants granted exercisable on or before July 16, 2022	205,960	0.60	2.96
Balance at October 31, 2019	26,808,480	\$ 0.23	2.55

At October 31, 2019, the warrants outstanding and exercisable were as follows:

Expiry Date	Exercise Price	Number of Warrants as at October 31, 2019
October 16, 2021	\$ 0.18	6,195,100
October 16, 2021 - broker	\$ 0.18	35,660
February 27, 2022	\$ 0.16	16,142,000
February 27, 2022 - broker	\$ 0.16	479,760
July 16, 2022	\$ 0.60	3,750,000
July 16, 2022 - broker	\$ 0.60	205,960
		26,808,480

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

	2019	2018
Risk-free interest rate	1.54% to 1.78%	2.31%
Dividend yield	0%	0%
Volatility	87% to 99.39%	139%
Expected life	3 years	3 years
Share price of grant date	\$0.125 to \$0.48	\$0.09

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Stock options

At October 31, 2019, the stock options outstanding and exercisable were as follows:

Expiry Date	Exercise Price	Number of Options as at October 31, 2018	Granted During the Year	Exercised During the Year	Expired/Cancelled During the Year	Number of Options as at October 31, 2019	Number of Options Exercisable as at October 31, 2019
November 22, 2018	\$0.15	1,100,000	-	-	(1,100,000)	-	-
January 1, 2019	\$0.10	-	100,000	(100,000)	-	-	-
April 2, 2019	\$0.10	800,000	-	(800,000)	-	-	-
April 25, 2019	\$0.11	750,000	-	(750,000)	-	-	-
May 31, 2019	\$0.15	200,000	-	-	(200,000)	-	-
October 21, 2019	\$0.15	-	-	-	-	-	-
August 31, 2019	\$0.15	400,000	-	-	(400,000)	-	-
September 1, 2019	\$0.50	-	500,000	(100,000)	(400,000)	-	-
November 1, 2019	\$0.45	-	500,000	(500,000)	-	-	-
February 25, 2020	\$0.15	300,000	-	-	(300,000)	-	-
April 1, 2020	\$0.19	-	200,000	(200,000)	-	-	-
June 1, 2020	\$0.50	-	1,000,000	(1,000,000)	-	-	-
June 1, 2020	\$0.50	-	1,000,000	(700,000)	-	300,000	300,000
March 1, 2021	\$0.17	-	600,000	(600,000)	-	-	-
June 21, 2021	\$0.20	300,000	-	(100,000)	(100,000)	100,000	100,000
November 3, 2021	\$0.15	400,000	-	(330,000)	-	70,000	70,000
January 10, 2022	\$0.18	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	-	(1,300,000)	-	-	-
November 20, 2022	\$0.15	500,000	-	(500,000)	-	-	-
January 10, 2023	\$0.18	100,000	-	(100,000)	-	-	-
February 26, 2024	\$0.10	-	400,000	(400,000)	-	-	-
April 25, 2024	\$0.19	-	1,300,000	(1,300,000)	-	-	-
June 7, 2024	\$0.52	-	300,000	-	-	300,000	300,000
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	-	(200,000)	-	1,250,000	1,250,000
February 26, 2029	\$0.12	-	500,000	-	-	500,000	500,000
April 25, 2029	\$0.19	-	600,000	(600,000)	-	-	-
June 14, 2029	\$0.45	-	200,000	(200,000)	-	-	-
		11,900,000	7,400,000	(10,580,000)	(2,500,000)	6,220,000	6,220,000

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

Expiry Date	Exercise Price	Number of Options as at October 31, 2017	Granted During the Year	Exercised During the Year	Expired/Cancelled During the Year	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

The weighted average contractual life remaining of all stock options as at October 31, 2019 is 5.93 years (2018: 3.95 years). During the year ended October 31, 2019, 7,200,000 stock options were granted with a weighted average exercise price of \$0.32.

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

	2019	2018
Risk-free interest rate	1.40% to 1.85%	1.46% to 1.88%
Dividend yield	0%	0%
Volatility	84.24% to 152.63%	66% to 68%
Expected life	0.17 to 5 years	1.44 to 2.5 years
Share price of grant date	\$0.085 to \$0.52	\$0.11 to \$0.13

For the year ended October 31, 2019, share-based compensation in the amount of \$1,056,963 (2018 - \$98,310) was recognized in the Company's consolidated statements of loss and comprehensive loss.

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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;
- (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; and
- (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.

16. RELATED PARTY TRANSACTIONS

Related party transactions impacting the 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 years ended October 31, 2019 and 2018, the Company incurred the following expenses to officers or directors of the Company or companies with common directors:

	2019	2018
	\$	\$
Management fees (a)	151,200	144,000
Director fees (b)	46,000	5,000
Consulting fees (c)	-	213,394
Accounting fees (d)	138,600	132,000
Salaries (e)	107,100	163,000
Bonuses (a), (c), (d) and (e)	260,000	-
Share-based payments (f)	281,424	95,195
Total	984,324	752,589

- (a) For the year ended October 31, 2019, \$151,200 (2018: \$144,000) in management fees and bonuses totalling \$94,000 (2018: \$Nil) were paid/incurred to a company controlled by Howard Verrico, for acting as CEO, secretary and director.
- (b) For the year ended October 31, 2019, \$46,000 (2018: \$5,000) in director fees were paid/incurred to two companies controlled by directors and one individual.
- (c) For the year ended October 31, 2019, \$Nil (2018: \$213,394) in advisory fees and a bonus of \$39,000 (2018: \$Nil) were paid/incurred to Geraldine Deliencourt-Godefroy, the Company's Chief Scientific Officer.

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- (d) For the year ended October 31, 2019, \$138,600 (2018: \$132,000) in accounting fees and bonuses totalling \$74,000 (2018: \$Nil) were paid/incurred to Christopher Hopton for acting as CFO.
- (e) For the year ended October 31, 2019, \$Nil in salary (2018: \$61,000) was paid/incurred to a former director and \$107,100 (2018: \$102,000) in salary and bonuses totalling \$53,000 (2018: \$Nil) were paid to the VP, Operations.
- (f) For the year ended October 31, 2019, 1,800,000 (2018: 1,950,000) stock options were granted to management and directors and \$281,424 (2018: \$95,195) of share-based payments expense was recorded.

During the year ended October 31, 2019, the directors of the Company approved bonuses totalling \$110,000 in March 2019 and major transaction bonuses totalling \$150,000 in June 2019. No bonuses were approved during the year ended October 31, 2018.

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

17. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	2019	2018
Net income (loss) for the year	\$ (4,549,575)	\$ (1,153,140)
Expected income tax expense (recovery)	(1,235,460)	(308,465)
Net adjustment for non-deductible amounts	256,613	(1,040)
Other non-deductible amounts	-	15,681
Change in tax assets not recognized	972,639	413,930
Total income tax recovery (expense)	\$ (6,208)	\$ 120,106

There are no deferred tax assets presented in the statement of financial position.

Subject to confirmation with regulatory authorities, deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

	2019	2018
Deferred income tax assets (liabilities):		
Non-capital loss carryforwards	\$ 25,914,000	\$ 23,936,000
Net capital loss	600,000	600,000
Property, equipment and intangibles	874,000	376,000
Share issue costs	109,000	20,000
Employee benefits	103,000	79,000
Rental costs	6,000	5,000
	\$ 27,606,000	\$ 25,016,000

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The Company has Canadian non-capital losses of approximately \$22,932,000 (2018 - \$21,636,000) which will be available to reduce future taxable income in Canada. These non-capital losses will begin to expire in 2026 until 2039

The Canadian non-capital losses, if not utilized, will expire in the years presented below:

2026	\$	12,000
2027		121,000
2028		788,000
2029		439,000
2030		1,071,000
2031		1,850,000
2032		2,259,000
2033		1,980,000
2034		2,181,000
2035		1,613,000
2036		5,628,000
2037		1,771,000
2038		444,000
<u>2039</u>		<u>2,775,000</u>
		<u>\$ 22,932,000</u>

18. COMMITMENTS

On April 1, 2015, the Company entered into an indefinite management service agreement with Christopher Hopton, whereby Christopher Hopton will receive \$12,320 (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 \$13,440 (plus GST) per month until the agreement is terminated by either party.

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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.

The Company has the following financial instruments as of October 31, 2019 and October 31, 2018:

Categories	October 31, 2019	October 31, 2018
	\$	\$
Financial assets		
Cash and cash equivalents	Amortized cost 3,734,647	339,076
Trade and other receivables	Amortized cost 121,384	9,759
Share subscription receivable	Amortized cost 2,400	-
Financial liabilities		
Trade and other payables	Amortized cost 415,711	442,620
Convertible debentures	Amortized cost 247,544	918,226
Long-term debt	Amortized cost 1,162,803	1,179,368
Lease obligation	Amortized cost 138,359	176,447
Short-term loan	Amortized cost -	236,000

Fair value of financial instruments

The Company classifies its fair value measurements in accordance with the three level fair value hierarchies as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of cash and cash equivalents, trade and other receivables, share subscription receivable and trade and other payables 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.

Financial risk management objectives and policies

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

- (i) Credit risk is the risk that one party to a financial instrument will fail to discharge its contractual obligations and cause the other party to incur a financial loss and arises principally from the Company's cash and cash equivalents and trade and other receivables. This risk is managed by

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placing its cash and cash equivalents with major financial institutions which have high credit quality as determined by the rating agencies. To mitigate credit risk with respect to trade receivables, the Company subjects all major customers to its credit evaluation process. At October 31, 2019, the Company had \$121,384 (2018: \$9,759) in trade and other receivables which were subject to credit risk.

See Note 6.

- (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% fluctuation in the Canadian dollar against the Euro would have a before-tax effect of approximately an \$11,000 increase or decrease in accumulated other comprehensive income, based on amounts held at year end.

At October 31, 2019, the Company's monetary assets and liabilities denominated in the Euro were approximately as follows:

Monetary assets	€	347,000
Monetary liabilities		1,099,000
Net monetary liabilities	€	752,000
Gain/loss on a 1% increase/decrease on the revaluation of monetary assets and liabilities denominated in the Euro	€	7,500
	\$	11,000

- (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 rate loans. 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. Given the cash and cash equivalents balance of \$3,734,647 at October 31, 2019 and under current market conditions, both liquidity and funding risk have been assessed as relatively low.

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The following table summarizes the significant remaining contracted payments of the Company's financial liabilities and capital expenditures as at October 31, 2019:

	Total	Due by period				
		< 1 year	1 - 2 years	2 - 3 years	3 - 4 years	> 5 years
	\$	\$	\$	\$	\$	\$
Trade and other payables	415,711	415,711	-	-	-	-
Convertible debentures	247,544	247,544	-	-	-	-
Long-term debt	1,162,803	220,191	293,420	352,104	297,088	-
Lease obligation	145,453	39,876	39,876	39,876	25,825	-
	1,971,511	923,322	333,296	391,980	322,913	-

Capital management

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 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

The Company is located and operated in Canada and France.

The Company's net loss by geographic locations for the years ended October 31, 2019 and 2018 are as follows:

Net loss	Year ended	Year ended
	October 31, 2019	October 31, 2018
	\$	\$
Canada	3,842,079	131,287
France	707,496	1,141,959
Total	4,549,575	1,273,246

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

Total assets	October 31, 2019	October 31, 2018
	\$	\$
Canada	3,743,572	293,860
France	513,323	476,650
Total	4,256,895	770,510

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21. SUPPLEMENTARY CASH FLOW INFORMATION

The net changes in the Company's financing liabilities were as follows:

	Convertible Debentures	Long-term Debt	Lease Obligation
Balance at October 31, 2018	\$ 918,226	\$ 1,179,368	\$ 176,447
Cash repayment	-	-	(40,601)
Equity conversion component	(15,174)	-	-
Accretion	25,092	-	-
Conversion to common shares	(680,600)	-	-
Foreign exchange movement	-	(16,565)	2,513
Balance at October 31, 2019	\$ 247,544	\$ 1,162,803	\$ 138,359

22. SUBSEQUENT EVENTS

Subsequent to the year ended October 31, 2019, the following events occurred:

- (i) The Company issued 348,600 common shares pursuant to the exercise of 123,000 share purchase warrants for proceeds of \$3,776 and the exercise of 225,000 share purchase options for proceeds of \$101,250.
- (ii) On January 21, 2020, the Company granted 6,800,000 common share purchase options exercisable at \$0.45 per share to directors, officers, employees and consultants of the Company, including:
 - a. 700,000 options expiring five years after grant to directors;
 - b. 3,625,000 options expiring ten years after grant to officers and employees; and
 - c. 2,475,000 options expiring in one to ten years after grant to consultants.
- (iii) \$250,000 of Notes D were converted into 1,785,716 of the Company's common shares.