

Financial Statements  
(Expressed in Canadian Dollars)

# **KANE BIOTECH INC.**

Years ended December 31, 2018 and 2017

## MANAGEMENT REPORT

The accompanying financial statements have been prepared by management and approved by the board of directors of Kane Biotech Inc. (the "Company"). Management is responsible for the information and representations contained in these financial statements.

These financial statements have been prepared in accordance with International Financial Reporting Standards. The significant accounting policies, which management believes are appropriate for the Company, are described in note 3 to these financial statements. The Company maintains a system of internal control and appropriate processes to provide reasonable assurance that assets are safeguarded and to ensure that relevant and reliable financial information is produced.

The board of directors is responsible for reviewing and approving these financial statements and overseeing management's performance of its financial reporting responsibilities. An audit committee of three directors is appointed by the board. The audit committee reviews the financial statements, audit process and financial reporting with management and with the external auditors and reports to the board of directors prior to the approval of the audited financial statements for publication.

MNP LLP, the Company's external auditors, who are appointed by the shareholders, audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on these financial statements. Their report follows.

*/s/ Marc Edwards*

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**Mr. Marc Edwards**  
President & Chief Executive Officer

*/s/ Ray Dupuis*

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**Mr. Ray Dupuis**  
Chief Financial Officer

March 25, 2019

## Independent Auditor's Report

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To the Shareholders of Kane Biotech Inc.:

### Opinion

We have audited the financial statements of Kane Biotech Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017, and the statements of comprehensive loss, changes in equity (deficit) and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audits 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 Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other 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.

### Material Uncertainty Related to Going Concern

We draw attention to Note 2(c) in the financial statements, which indicates that the Company incurred a net loss of \$3,260,999 during the year ended December 31, 2018 and, as of that date, the Company's current liabilities exceeded its total current assets by \$1,503,524. As stated in Note 2(c), these events or conditions, along with other matters as set forth in Note 2(c), 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 Management's Discussion and Analysis.

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

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this information, 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 Financial Statements

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

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits 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 Jeff Eckstein.

Winnipeg, Manitoba

March 25, 2019

*MNP* **LLP**  
Chartered Professional Accountants

**KANE BIOTECH INC.**  
Statement of Financial Position

	Note	December 31, 2018	December 31, 2017 (Restated, Note 3(a))
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 75,425	\$ 1,975,723
Trade and other receivables	5	116,314	118,399
Inventory	6	324,458	135,158
Other current assets		40,370	20,942
<b>Total current assets</b>		<b>556,567</b>	<b>2,250,222</b>
Non-current assets:			
Property and equipment	7	54,005	60,279
Intangible assets	8	945,364	1,086,586
<b>Total non-current assets</b>		<b>999,369</b>	<b>1,146,865</b>
<b>Total assets</b>		<b>\$ 1,555,936</b>	<b>\$ 3,397,087</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	9	\$ 893,018	\$ 659,035
Deferred license revenue - current	4	67,073	67,073
Due to related party	10	600,000	-
Loan payable	11	500,000	-
<b>Total current liabilities</b>		<b>2,060,091</b>	<b>726,108</b>
Non-current liabilities:			
Deferred license revenue	4	480,685	547,758
<b>Total non-current liabilities</b>		<b>480,685</b>	<b>547,758</b>
<b>Shareholders' Equity (Deficit)</b>			
Share capital	13(b)	17,683,418	17,683,418
Contributed surplus		3,866,103	3,734,904
Warrants	13(d)	1,394,490	1,372,751
Deficit		(23,928,851)	(20,667,852)
<b>Total</b>		<b>(984,840)</b>	<b>2,123,221</b>
<b>Total liabilities and equity (deficit)</b>		<b>\$ 1,555,936</b>	<b>\$ 3,397,087</b>

The notes on pages 5 to 27 are an integral part of these financial statements

**KANE BIOTECH INC.**  
Statement of Comprehensive Loss

	Note	Year ended December 31, 2018	Year ended December 31, 2017 (Restated, Note 3(a))
<b>Revenue</b>			
License		\$ 67,073	\$ 55,894
Royalty		44,260	17,506
Sales of goods and services		394,940	347,071
<b>Total Revenue</b>		<b>506,273</b>	<b>420,471</b>
<b>Cost of sales-sales of goods and services</b>	22	<b>390,802</b>	<b>483,750</b>
<b>Gross Profit</b>		<b>115,471</b>	<b>(63,279)</b>
<b>Expenses</b>			
General and administration	22	2,371,777	2,395,933
Research		922,526	850,578
		<b>3,294,303</b>	<b>3,246,511</b>
Loss from operations		<b>(3,178,832)</b>	<b>(3,309,790)</b>
<b>Finance costs (income):</b>			
Finance income		(9,620)	(15,888)
Finance costs		89,777	90,758
Foreign exchange loss		2,010	16,346
Net finance costs		<b>82,167</b>	<b>91,216</b>
<b>Loss and comprehensive loss for the period</b>		<b>\$ (3,260,999)</b>	<b>\$ (3,401,006)</b>
<b>Basic and diluted loss per share for the period</b>	13(e)	<b>\$ (0.04)</b>	<b>\$ (0.06)</b>

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# KANE BIOTECH INC.

## Statement of Changes in Equity (Deficit)

	Note	Share Capital	Contributed Surplus	Warrants	Convertible Note Option	Deficit	Total
Balance January 1, 2017		\$ 15,031,823	\$ 3,504,384	\$ 48,165	\$ 29,970	\$ (17,266,846)	\$ 1,347,496
Loss and comprehensive loss for the period (restated, note 3(a))						(3,401,006)	(3,401,006)
Transactions with owners, recorded directly in equity							
Issue of common shares	13(b)	2,651,595	-	-	-	-	2,651,595
Expiration of convertible note		-	29,970	-	(29,970)	-	-
Share based payments	13(c)	-	151,895	-	-	-	151,895
Warrants granted	13(d)	-	-	1,373,241	-	-	1,373,241
Warrants expired	13(d)	-	48,655	(48,655)	-	-	-
Total transactions with owners		2,651,595	230,520	1,324,586	(29,970)	-	4,176,731
Balance December 31, 2017 (restated, note 3(a))		\$ 17,683,418	\$ 3,734,904	\$ 1,372,751	\$ -	\$ (20,667,852)	\$ 2,123,221
Loss and comprehensive loss for the period						(3,260,999)	(3,260,999)
Transactions with owners, recorded directly in equity							
Share based payments	13(c)	-	102,707	-	-	-	102,707
Warrants granted	13(d)	-	-	50,231	-	-	50,231
Warrants expired	13(d)	-	28,492	(28,492)	-	-	-
Total transactions with owners		-	131,199	21,739	-	-	152,938
Balance December 31, 2018		\$ 17,683,418	\$ 3,866,103	\$ 1,394,490	\$ -	\$ (23,928,851)	\$ (984,840)

The notes on pages 5 to 27 are an integral part of these financial statements.

**KANE BIOTECH INC.**  
Statement of Cash Flows

	Note	Year ended December 31, 2018	Year ended December 31, 2017 (Restated, Note 3(a))
<b>Cash provided by (used in):</b>			
<b>Operating activities:</b>			
Loss and comprehensive loss for the period		\$ (3,260,999)	\$ (3,401,006)
Adjustments for:			
Inventory allowance	6	7,472	-
Depreciation of property and equipment	7	14,359	16,080
Amortization of intangible assets	8	57,422	53,305
Derecognition of intangible assets	8	222,017	59,250
Warrants issued on promissory note	13(d)	50,231	28,492
Accretion on convertible note		-	34,802
Share based compensation	13(c)	102,707	151,895
Change in the following:			
Inventory	6	(196,772)	78,556
Trade and other receivables	5	2,085	(46,526)
Other current assets		(19,429)	39,250
Accounts payable and accrued liabilities	9	233,983	355,315
Deferred license revenue	4	(67,073)	614,831
Cash used in operating activities		<b>(2,853,997)</b>	(2,015,756)
<b>Financing activities:</b>			
Cash received from related party	10	600,000	-
Issuance of common shares and warrants, net of share issuance costs		-	3,996,345
Issuance of short-term note	11	500,000	400,000
Repayment of short-term note		-	(400,000)
Repayment of convertible note and loan		-	(514,798)
Cash provided by financing activities		<b>1,100,000</b>	3,481,547
<b>Investing activities:</b>			
Purchase of property and equipment	7	(8,085)	(13,269)
Additions to intangible assets	8	(138,216)	(216,367)
Cash used in investing activities		<b>(146,301)</b>	(229,636)
<b>Increase (decrease) in cash</b>		<b>(1,900,298)</b>	1,236,155
<b>Cash, beginning of period</b>		<b>1,975,723</b>	739,568
<b>Cash, end of period</b>		<b>\$ 75,425</b>	<b>\$ 1,975,723</b>

Supplemental cash flow information for non-cash financing activities:

Shares issued in lieu of cash for interest payment	\$	-	\$	12,439
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The notes on pages 5 to 27 are an integral part of these financial statements.



**KANE BIOTECH INC.**  
**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

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**1. Reporting entity:**

Kane Biotech Inc. (the "Company") is a biotechnology company engaged in the research, development and commercialization of technologies and products that prevent and remove microbial biofilms. The Company is domiciled and incorporated in Canada. Its registered office is 162-196 Innovation Drive, Winnipeg, Manitoba, Canada.

**2. Basis of preparation of financial statements:**

**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

The financial statements were authorized for issue by the Board of Directors on March 25, 2019.

**(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for the following items:

- financial instruments at fair value at the issue date
- equity settled share-based payment awards are measured at fair value at the grant date

**(c) Going concern**

These financial statements have been prepared using IFRSs that are applicable to a going concern, which contemplates that Kane Biotech Inc. will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is substantial doubt about the appropriateness of the use of the going concern assumption because the Company has experienced operating losses and cash outflows from operations since inception and has not yet achieved profitability from the commercialization of its products.

The Company's future operations are completely dependent upon its ability to negotiate collaboration or licence agreements with upfront and milestone payments as well as royalties, generate product and services revenue, obtain grant funding and/or secure additional funds. While the Company is striving to achieve the above plans, there is no assurance that such sources of funds will be available or obtained on favourable terms. If the Company cannot negotiate collaboration or licence agreements, generate product and services revenue, obtain grant funding, or if it cannot secure additional financing on terms that would be acceptable to it, the Company will have to consider additional strategic alternatives which may include, among other strategies, exploring the monetization of certain tangible and intangible assets as well as seeking to license assets, potential asset divestitures, winding up, dissolution or liquidation of the Company.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the successful completion of the actions taken or planned, some of which are described above, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption used in preparing these financial statements. There is no certainty that these and other strategies will be sufficient to permit the Company to continue as a going concern.

These financial statements do not reflect adjustments in 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.

**(d) Functional and presentation currency**

The financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented has been rounded to the nearest dollar except where indicated otherwise.

**KANE BIOTECH INC.**  
**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

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**2. Basis of preparation of financial statements (continued):**

**(e) Use of estimates and judgments**

The preparation of these financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial years are included in the following notes:

- Note 3(a) Revenue recognition
- Note 3(f)(i) Research and development costs
- Note 3(f)(ii) Patents and trademarks
- Note 3(g)(ii) Impairment of non-financial assets
- Note 3(h)(ii) and Note 13 Share-based payment transactions

**3. Significant accounting policies:**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and to the 2017 annual audited financial statements unless otherwise indicated.

**(a) Revenue recognition**

Effective January 1, 2018 (hereafter referred to as the "initial date of application"), the Company has adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") as issued by the IASB in May 2014, with clarifying amendments issued in April 2016. The standard specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programs*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers*, and SIC 31 *Revenue – barter transactions involving advertising services*.

The Company applied the changes in accounting policies resulting from the adoption of IFRS 15 retrospectively to each prior reporting period presented. In addition, the following practical expedients were applied:

- The Company did not restate completed contracts that began and ended during the same annual reporting period or were completed at the beginning of the earliest period presented.
- For all reporting periods presented before the date of initial application, the Company does not disclose the amount of consideration allocated to the remaining performance obligations nor an explanation of when the Company expects to recognize that amount as revenue.

The following tables show the impact of the initial application of IFRS 15 on the Company's financial statements for each individual line item affected. Line items that were not affected by the change have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. As permitted under the transitional rules, the impact on the current period is not disclosed.

**KANE BIOTECH INC.**  
Notes to the Financial Statements  
Years ended December 31, 2018 and 2017

3. Significant accounting policies (continued):

	December 31, 2017 (previously stated)	Adjustment (note 4)	December 31, 2017 (restated)
<b>Statement of Financial Position</b>			
Current liabilities:			
Deferred license revenue - current	\$ -	\$ 67,073	\$ 67,073
Total current liabilities	659,035	67,073	726,108
Non-current liabilities:			
Deferred license revenue	-	547,758	547,758
Deficit	(20,053,021)	(614,831)	(20,667,852)
<b>Total liabilities and equity (deficit)</b>	<b>\$ 3,397,087</b>	<b>\$ -</b>	<b>\$ 3,397,087</b>

	December 31, 2017 (previously stated)	Adjustment (note 4)	December 31, 2017 (restated)
<b>Statement of Comprehensive Loss</b>			
Revenue			
License	\$ 670,725	\$ (614,831)	\$ 55,894
<b>Loss and comprehensive loss for the period</b>	<b>\$ (2,786,174)</b>	<b>\$ (614,831)</b>	<b>\$ (3,401,006)</b>
<b>Basic and diluted loss per share for the period</b>	<b>\$ (0.05)</b>	<b>\$ (0.01)</b>	<b>\$ (0.06)</b>

	December 31, 2017 (previously stated)	Adjustment (note 4)	December 31, 2017 (restated)
<b>Statement of Changes in Equity (Deficit)</b>			
<b>Deficit Balance December 31, 2017</b>	<b>\$ (20,053,021)</b>	<b>\$ (614,831)</b>	<b>\$ (20,667,852)</b>

	December 31, 2017 (previously stated)	Adjustment (note 4)	December 31, 2017 (restated)
<b>Statement of Cash Flows</b>			
Cash provided by (used in):			
Operating activities:			
Loss and comprehensive loss for the period	\$ (2,786,174)	\$ (614,831)	\$ (3,401,006)
Deferred license revenue	-	\$ 614,831	\$ 614,831
Cash used in operating activities	2,015,756	-	2,015,756
<b>Cash, end of period</b>	<b>\$ 1,975,723</b>	<b>\$ -</b>	<b>\$ 1,975,723</b>

**KANE BIOTECH INC.**  
**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

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**3. Significant accounting policies (continued):**

The Company has consistently applied accounting policies in accordance with IFRS 15 to all periods presented in these financial statements. These policies are as follows:

**(i) License fees**

Non-refundable payments received at the time of executing a license agreement are recognized when the Company satisfies a performance obligation by transferring control of a promised good or service to a customer. The Company concluded that license fees that are paid up front represent a material right to use over the duration of the contract term and as such the Company recognises upfront consideration received as a contract liability (i.e. deferred license revenue) in its statement of financial position. License revenue related to these non-refundable payments is recognized on a straight-line basis over the life of the license agreement.

**(ii) Milestone revenue**

Revenue associated with license agreement milestones is recognized when it is highly probable that the milestone event criteria has been met and the risk of reversal of revenue recognition is remote.

**(iii) Royalties**

Royalty income earned from a license agreement is recognized when contractually earned.

**(iv) Goods and services revenue**

Revenue from the sales of goods and services is recognized when control of those goods has been transferred to the customer or the services have been performed.

**(b) Foreign currency transactions**

Transactions in foreign currencies are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated at the exchange rate at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**(c) Financial instruments**

Effective January 1, 2018, the Company has adopted IFRS 9 *Financial Instruments* ("IFRS 9") which replaces the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* ("IFRS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting.

IFRS 9 contains three principle classification categories for financial instruments: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial instruments on the contractual cash flow characteristics and the company's business model for managing the financial asset.

The adoption of IFRS 9 on January 1, 2018 resulted in changes to accounting policies which have been applied retrospectively, however this did not result in any financial statement adjustments. Upon adoption of IFRS 9 effective January 1, 2018, the Company's updated new financial instrument classifications are as follows:

**KANE BIOTECH INC.**  
**Notes to the Financial Statements**  
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**3. Significant accounting policies (continued):**

Financial Instrument	IAS 39	IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Interest and non-interest bearing debt	Other liabilities	Amortized cost

**(d) Inventory**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour and other direct costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Obsolete, redundant and slow-moving inventories are identified and written down to net realizable values.

**(e) Property and equipment**

**(i) Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The costs of the day-to-day servicing of property and equipment are recognized in the statement of comprehensive loss in the period in which they are incurred.

**(ii) Depreciation**

Depreciation is recognized in profit or loss over the estimated useful lives of each part of an item of property and equipment in a manner which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives and depreciation method for the current and comparative periods are as follows:

Asset	Basis	Rate
Computer and office equipment	Diminishing balance	20-30%
Scientific and manufacturing equipment	Diminishing balance	20%

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

**(f) Intangible assets**

**(i) Research and development**

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge

**3. Significant accounting policies (continued):**

and understanding, are recognized in profit or loss as incurred.

Development activities involve a plan or design to produce 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 costs have been capitalized to date.

**(ii) Patents and trademarks**

Costs incurred in obtaining a patent are capitalized and are amortized on a straight-line basis over the legal life of the respective patent once the patent has been issued. Trademarks have an indefinite life and are not amortized. Costs incurred in successfully obtaining a patent or trademark are measured at cost less accumulated amortization and accumulated impairment losses. The cost of servicing the Company's patents and trademarks is expensed as incurred.

**(iii) Subsequent expenditures**

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

**(g) Impairment**

**(i) Financial assets**

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

If such evidence exists, the Company recognizes an impairment loss for financial assets. The carrying amount of the asset is reduced by this amount either directly or indirectly using an allowance account.

**(ii) Non-financial assets**

The carrying amount of long-lived non-financial assets, including intangible assets and property and equipment, is 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. Intangible assets with indefinite lives and intangible assets not yet put into use are evaluated for impairment at least annually.

An impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. The fair value less costs to sell calculation is based on available data from observable market prices less incremental costs. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market size and market growth trends, strength of customer demand and degree of variability in cash flows, as well as other factors, are considered when making assumptions about future cash flows and the appropriate discount rate. A change in any of the significant assumptions of estimates used to evaluate the underlying assets could result in a material change to the results of operations.

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, to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment had been recognized. Write-downs because of impairment are recognized in research expense in the statement of comprehensive loss.

**3. Significant accounting policies (continued):**

**(h) Employee benefits**

**(i) Short-term employee benefits**

Short-term employee benefit obligations are expensed as the related service is provided.

**(ii) Share-based payment transactions**

The grant date fair value of share-based payment awards granted to employees is recognized as a personnel expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions. In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

**(l) Government grants**

Grants are recognized in profit or loss as deductions from the related expenditures when the grants become receivable. Grants that compensate the Company for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

**(j) Finance income and finance costs**

Finance income comprises interest income on funds invested which is recognized as it accrues in profit or loss using the effective interest method. Finance costs are comprised of accretion expense on long-term borrowings, which are recognized in profit or loss using the effective interest method, as well as other costs incurred to secure loan financing. Foreign currency gains and losses are reported on a net basis.

**(k) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 in respect of 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 for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. 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 current tax liabilities and assets, 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 for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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. No deferred tax assets have been recognized to date.

**KANE BIOTECH INC.**  
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**3. Significant accounting policies (continued):**

Refundable scientific research and development tax credits, which are earned as a result of incurring qualifying research and development expenditures, are recorded as a reduction of the related expense when there is reasonable assurance that they will be realized. Non-refundable scientific research and development tax credits, which are also earned on qualifying research and development expenditures, are not recorded in the financial statements.

**(l) Earnings (loss) per share**

The Company presents basic earnings per share (EPS) data for its common voting shares. Basic EPS is calculated by dividing the profit or loss attributable to common voting shareholders of the Company by the weighted average number of common voting shares outstanding during the period, adjusted for own shares held. Common voting share equivalents have been excluded from the calculation of diluted loss per share as their effect is anti-dilutive.

**(m) New standards and interpretations, adopted and not yet adopted**

The Company adopted new standards and amendments to standards for its interim and annual financial statements commencing January 1, 2018. Except IFRS 15 *Revenue from Contracts with Customers*, as discussed in Note 3(a), these changes have not had and are not expected to have a material impact on its financial results. These standards and amendments to standards IFRS 2 *Share-based Payment* and IFRS 9 *Financial Instruments*.

Certain new standards, interpretations and amendments to existing standards issued by the IASB or the International Financial Reporting Interpretations Committee (IFRIC) that are not yet effective up to the date of issuance of the Company's financial statements are listed below.

**IFRS 16 Leases**

IFRS 16 *Leases* replaces IAS 17 *Leases* and requires lessees to account for leases on the statement of financial position by recognizing a right of use asset and a lease liability. Lessor accounting, however, remains largely unchanged and the distinction between operation and financing leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. Currently, the Company does not expect the implementation of IFRS 16 to have a significant impact on its financial statements.

**4. License and distribution agreement**

During 2017, the Company signed an exclusive license and distribution agreement with Dechra Veterinary Products LLC ("Dechra") that provides for an initial payment of \$500,000 USD along with a series of potential payments linked to various commercial milestones to a combined maximum of \$2.0 million USD. In addition, Kane Biotech receives ongoing royalty payments on net sales of products by Dechra in North America, subject to certain minimum annual royalty payments from Dechra to the Company.

The adoption of IFRS 15 required the Company to use a new five-step model to determine when the recognition of revenue with respect to payments received from Dechra was to be recorded. Under the five-step approach, the Company exercised judgement in determining revenue recognition, specifically tied to the initial payment received during 2017. The Dechra agreement includes many rights and obligations, the most significant being Dechra's exclusive "right to use" as it relates to the selling and distribution of the Company's StrixNB™ and DispersinB® antibiofilm technologies in the North American veterinary market. The entity concluded that the license fees that were paid up front of \$500,000 USD (CDN 670,725) represent a material right to use over the duration of the term as such the entity recognised the consideration received as deferred license revenue in its statement of financial position.



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**4. License and distribution agreement (continued):**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Deferred license revenue	547,758	614,831
Less current portion	(67,073)	(67,073)
Deferred license revenue - non-current	480,685	547,758

The non-current deferred license revenue will be recognised over the remaining life of the agreement which was 8.2 years as at December 31, 2018 (2017 9.2 years).

The agreement also provides for subsequent lump-sum payments from Dechra to the Company related to the completion of specific milestones. The completion of these milestones is related to specific performance obligations and the Company will be recognizing revenue in full as those performance obligations are fulfilled and there is certainty that the related payments will be received.

**5. Trade and other receivables:**

	<b>December 31, 2018</b>		December 31, 2017	
Trade receivables	<b>\$</b>	<b>73,916</b>	<b>\$</b>	88,911
Other receivables		<b>42,398</b>		29,488
	<b>\$</b>	<b>116,314</b>	<b>\$</b>	118,399

**6. Inventory:**

	<b>December 31, 2018</b>		December 31, 2017	
Raw materials	<b>\$</b>	<b>131,933</b>	<b>\$</b>	97,886
Work-in-progress		<b>6,152</b>		775
Finished goods		<b>193,845</b>		36,497
Allowance for inventory obsolescence		<b>(7,472)</b>		-
	<b>\$</b>	<b>324,458</b>	<b>\$</b>	135,158

The cost of inventories recognized as an expense and included in cost of sales for 2018 was \$88,506 (2017-\$78,952).

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**7. Property and equipment:**

The following is a summary of property and equipment as at December 31, 2018:

<b>Cost</b>	Computer and Office Equipment	Scientific and Manufacturing Equipment	Total
Balance January 1, 2017	\$ 38,175	\$ 169,621	\$ 207,796
Additions - 2017	-	13,269	13,269
Balance December 31, 2017	\$ 38,175	\$ 182,890	\$ 221,065
Additions - 2018	-	8,085	8,085
Balance December 31, 2018	\$ 38,175	\$ 190,975	\$ 229,150

<b>Depreciation</b>	Computer and Office Equipment	Scientific and Manufacturing Equipment	Total
Balance January 1, 2017	\$ 16,445	\$ 128,261	\$ 144,706
Additions - 2017	6,481	9,599	16,080
Balance December 31, 2017	\$ 22,926	\$ 137,860	\$ 160,786
Additions - 2018	14,359	-	14,359
Balance December 31, 2018	\$ 37,285	\$ 137,860	\$ 175,145

<b>Carrying amounts</b>	Computer and Office Equipment	Scientific and Manufacturing Equipment	Total
Balance December 31, 2017	15,249	45,030	60,279
Balance December 31, 2018	890	53,115	54,005

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**8. Intangible assets:**

The following is a summary of intangible assets as at December 31, 2018:

<b>Cost</b>	Patents	Trademarks	Total
Balance January 1, 2017	\$ 1,038,510	\$ 68,692	\$ 1,107,202
Additions - 2017	197,715	18,552	216,267
Change due to derecognition 2017	(10,563)	(18,136)	(28,699)
Balance December 31, 2017	\$ 1,225,662	\$ 69,108	\$ 1,294,770
Additions - 2018	132,501	5,715	138,216
Change due to derecognition 2018	(286,585)	(10,298)	(296,883)
Balance December 31, 2018	\$ 1,071,578	\$ 64,525	\$ 1,136,103

<b>Accumulated amortization and derecognition</b>	Patents	Trademarks	Total
Balance January 1, 2017	\$ 154,878	\$ -	\$ 154,878
Amortization - 2017	53,305	-	53,305
Balance December 31, 2017	\$ 208,183	\$ -	\$ 208,183
Amortization - 2018	57,422	-	57,422
Change due to derecognition 2018	(74,866)	-	(74,866)
Balance December 31, 2018	\$ 190,739	\$ -	\$ 190,739

<b>Carrying amounts</b>	Patents	Trademarks	Total
Balance December 31, 2017	1,017,479	69,108	1,086,587
Balance December 31, 2018	880,839	64,525	945,364

The Company has considered indicators of impairment as of December 31, 2018 and has written-down patents and trademarks accordingly in the amount of \$222,017 (2017 - \$59,250). To December 31, 2018, the Company has recorded aggregate impairment losses of \$1,162,757 (2017 - \$940,740), primarily resulting from patent applications not pursued.

Amortization and derecognition expenses are recognized in research expense.

**9. Accounts payable and accrued liabilities:**

	<b>December 31, 2018</b>	December 31, 2017
Trade payables	\$ 415,199	\$ 224,216
Non-trade payables and accrued expenses	477,819	434,819
	\$ 893,018	\$ 659,035

**KANE BIOTECH INC.**  
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**10. Due to related party:**

During the year ended December 31, 2018 the Company received \$600,000 from a related party. The advance payable bears no interest, has no fixed terms of repayment and has been classified as current on the statement of financial position.

**11. Loan payable:**

During the year ended December 31, 2018 the Company received a loan in the amount of \$500,000 from an arm's length third party lender. The Loan bears interest at 12% per annum and is repayable after six months. Additional consideration for the loan guarantee was the issuance of 3,500,000 share purchase warrants at a price of \$0.08 per common share for a period of one year from the date of issuance of the warrants.

**12. Income tax**

**(a) Income tax provision**

The reconciliation of the income tax provision using statutory income tax rates prevailing in Canada with the income tax expense reported in the financial statements is as follows:

	2018	2017
	(Restated, Note 3(a))	
Canadian federal and provincial income tax rates at 27% (2017 - 27%)	\$ (880,470)	\$ (918,272)
Change in unrecognized deductible temporary differences and unused tax losses	846,131	870,336
Permanent differences and other	34,339	47,936
	\$ -	\$ -

The Company recognized no income taxes in the statement of comprehensive loss as it has been incurring losses since inception.

**(b) Unrecognized deferred tax assets:**

Deferred tax asset based on temporary differences not recognized were as follows:

	2018	2017
	(Restated, Note 3(a))	
Tax losses	\$ 4,781,324	\$ 4,086,251
Scientific research and experimental development costs	783,650	719,630
Financing costs	54,827	61,596
Accounts payable and accrued liabilities	72,179	-
Deferred revenue	147,895	166,004
	\$ 5,839,875	\$ 5,033,481

Given the Company's past losses, management does not believe that it is more probable than not that the Company can utilize its deferred tax assets and therefore it has not recognized any amount in the statement of financial position.

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**12. Income tax (continued):**

**(c) Deferred tax liabilities:**

Deferred tax liabilities were as follows:

	<b>2018</b>	<b>2017</b>
Intangible assets	\$ 102,245	\$ 141,146
Property and equipment	5,504	6,340
Other	48,479	48,479
	<b>\$ 156,228</b>	<b>\$ 195,965</b>

The deferred tax liability for temporary differences of \$578,622 (2017 - \$725,796) have been offset by sufficient deductible temporary differences (SR&ED costs) from (b) above which are available to reverse in the same period as the taxable temporary differences.

**(d) The Company has the following available for application in future years:**

	<b>2018</b>	<b>2017</b>
Unutilized scientific research and development expenditures without time limitation	\$ 2,902,408	\$ 2,665,296
Unutilized non-capital loss carried forward balances		
2026	\$ 767,228	\$ 767,228
2027	846,139	846,139
2028	851,022	851,022
2029	843,989	843,989
2030	810,574	810,574
2031	975,188	975,188
2032	1,222,411	1,222,411
2033	1,062,842	1,062,842
2034	1,295,259	1,295,259
2035	1,573,354	1,573,354
2036	2,384,174	2,384,174
2037	2,518,425	2,502,085
2038	2,558,004	-
	<b>\$ 17,708,609</b>	<b>\$ 15,134,265</b>

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**12. Income tax (continued):**

	2018	2017
Unutilized scientific research and development tax credits		
2020	5,567	5,567
2021	339	339
2022	958	958
2023	4,105	4,105
2024	47,104	47,104
2025	71,115	71,115
2026	154,908	154,908
2027	91,412	91,412
2028	180,498	180,498
2029	116,161	116,161
2030	134,256	134,256
2031	105,143	105,143
2032	118,519	118,519
2033	115,359	115,359
2034	48,373	48,373
2035	33,789	33,789
2036	49,400	49,400
2037	70,292	70,292
2038	77,915	-
	<b>\$ 1,425,213</b>	<b>\$ 1,347,298</b>

**13. Share capital:**

**(a) Authorized**

The Company has authorized share capital of an unlimited number of common voting shares.

**(b) Shares issued and outstanding**

Shares issued and outstanding are as follows:

	Number of Common Voting Shares	Amount
Balance January 1, 2017	227,641,422	\$ 15,031,823
Share Consolidation - 5 to 1	(182,113,134)	-
Issued in lieu of cash for interest, net of costs of \$562	80,251	11,877
Issued in Private Placement Offerings, net of issue costs and warrants of \$1,553,118	34,504,997	2,639,718
Balance December 31, 2017 and December 31, 2018	80,113,536	\$ 17,683,418

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**13. Share capital (continued):**

During the year ended December 31, 2017, the Company completed the consolidation of its issued and outstanding common shares based on one post-consolidation common share for every five pre-consolidation common shares (the "Consolidation") resulting in a total of 45,528,288 common shares issued and outstanding following the Consolidation.

Also, during the year ended December 31, 2017 the Company elected to issue, in lieu of cash, 80,251 common shares in payment of \$12,439 in interest owing on the Company's convertible note. Issue costs related with the transaction were \$562.

Also, during the year ended December 31, 2017, the Company closed an aggregate private placement offering of units at a price of \$0.12. At the closing, 34,504,997 units were issued for aggregate gross proceeds of \$4,140,600. Issue costs associated with the transaction were \$156,624 of which \$103,777 was related to the issuance of common shares and \$52,847 related to the share purchase warrants. Each Unit is comprised of one Common Share of the Company and one share purchase Warrant. Each Warrant will expire 18 months from the date the Warrant is issued and will entitle the holder to purchase one Common Share at a price of \$0.18 up to the expiry date. The Shares and Warrants will be restricted from transfer for a period of four months from the issue date in accordance with applicable securities laws and the policies of the TSX Venture Exchange.

During the year ended December 31, 2018, the Company had no changes in shares issued and outstanding.

**(c) Stock option plan**

The Company has an equity-settled Stock Option Plan ("Plan") in place for employees, directors, officers and consultants of the Company which is administered by the Board of Directors. The number of common shares reserved for issuance of stock options is limited to a maximum of 10% of the issued and outstanding shares of the Company at any one time. At December 31, 2018, an aggregate maximum of 8,011,354 (December 31, 2017 – 8,011,354) common share options are reserved for issuance under the Plan with 1,814,021 (December 31, 2017 – 3,925,354) of those common share options remaining available.

Share options issued to employees, directors and officers of the Company under the Plan expire five years from the grant date. The attributed exercise price of the grant per the Plan cannot be less than the closing price per common share on the date of the grant.

Effective on all stock options issued after October 1, 2015;

- i) The exercise price shall, at a minimum, be equal to the fair market value of the Company's common stock on the grant date (TSXV share price);
- ii) Each stock option shall vest in 3 equal annual installments, beginning on the grant date;
- iii) The options shall expire 5 years from the date of issue;
- iv) Grants to Executive officers shall be made by the Compensation Committee. Grants to staff shall be made by Authorized Officers (the CEO and CFO). The Authorized Officers may not approve any stock option awards exceeding 500,000 shares to any staff member;
- v) All exceptions must be approved by the Compensation Committee;

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**13. Share capital (continued):**

Changes in the number of options outstanding during the year ended December 31, 2018 and 2017 are as follows:

	December 31, 2018		December 31, 2017	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of period	3,808,000	\$ 0.34	3,255,500	\$ 0.40
Granted	3,100,000	\$ 0.14	1,615,000	\$ 0.30
Exercised	-	\$ -	-	\$ -
Forfeited, cancelled or expired	(710,667)	\$ 0.45	(1,062,500)	\$ 0.42
Balance, end of period	6,197,333	\$ 0.24	3,808,000	\$ 0.34
Options exercisable, end of period	3,930,667	\$ 0.28	2,482,337	\$ 0.36
Weighted average fair value				
per unit of option granted during the period		\$ 0.04		\$ 0.07

Options outstanding at December 31, 2018 consist of the following:

Range of exercise prices	Outstanding number	Weighted average remaining contractual life	Weighted average exercise price	Exercisable number
\$0.20-\$0.50	6,197,333	3.51	\$ 0.24	3,930,667

For the year ended December 31, 2018, the Company recorded share option compensation expense of \$ 102,707 (December 31, 2017 – \$151,895) with a corresponding credit to contributed surplus. Share option compensation expense was based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

	2018	2017
Expected option life	5 years	5 years
Risk free interest rate	2.23%	1.56%
Expected volatility	85.55%	86.92%
Grant-date share price	\$0.07	\$0.13
Option exercise price	\$0.15	\$0.30

For awards that vest at the end of a vesting period, compensation cost is recognized on a straight-line basis over the period of service. For awards subject to graded vesting, each instalment is treated as a separate award with separate fair value and a separate vesting period.



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**13. Share capital (continued):**

**(d) Warrants**

During the year ended December 31, 2018, the Company received a loan in the amount of \$500,000 from an arm's length third-party lender. Additional consideration for the loan guarantee was the issuance of 3,500,000 share purchase warrants at a price of \$0.18 per common share for a period one year from the date of issuance of the warrants.

During the year ended December 31, 2017, the Company received a loan in the amount of \$400,000 from an arm's length third-party lender. The Loan bears interest at 12% per annum and was repaid on July 21, 2017. Additional consideration for the loan guarantee was the issuance of 800,000 share purchase warrants at a price of \$0.18 per common share for a period one year from the date of issuance of the warrants. These warrants expired during the year ended December 31, 2018.

During the year ended December 31, 2017, the Company closed an aggregate private placement offering of units at a price of \$0.12. At the closing, 34,504,997 units were issued. Each Unit is comprised of one Common Share of the Company and one share purchase Warrant. Each Warrant was to expire 18 months from the date the Warrant was issued and entitle the holder to purchase one Common Share at a price of \$0.18 up to the expiry date. In 2018, the warrants were extended for an additional 18 months.

Also, during the year ended December 31, 2017, 250,000 warrants issued in March 29, 2016 and 800,000 warrants issued June 18, 2017 expired.

Changes in the number of warrants outstanding during the year ended December 31, 2018 and 2017 are as follows:

	December 31, 2018			December 31, 2017		
	Warrants	Amount	Weighted average exercise price	Warrants	Amount	Weighted average exercise price
Balance, beginning of year	35,304,997	\$ 1,372,751	\$ 0.18	1,050,000	\$ 48,165	\$ 0.40
Issued, pursuant to promissory note	3,500,000	\$ 50,231	\$ 0.08	800,000	\$ 28,492	\$ 0.18
Issued, pursuant to private placement				34,504,997	\$ 1,344,749	\$ 0.18
Expired	(800,000)	(28,492)	0.18	(1,050,000)	(48,655)	\$ 0.42
Balance, end of period	38,004,997	\$ 1,394,490	\$ 0.18	35,304,997	\$ 1,372,751	\$ 0.18
Weighted average remaining contractual life			0.32 years			1.04 years

The relative fair value of warrants was determined at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

	2018	2017
Expected option life	1 years	1.5 years
Risk free interest rate	1.91%	1.18%
Expected volatility	84.05%	105.32%
Grant-date share price	\$0.08	\$0.11
Option exercise price	\$0.06	\$0.18

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**13. Share capital (continued):**

**(e) Per share amounts**

The weighted average number of common voting shares outstanding for the year ended December 31, 2018 and 2017 was 80,113,536 and 61,283,204 respectively.

The dilution created by options and warrants has not been reflected in the per share amounts as the effect would be anti-dilutive.

**14. Commitments and contingencies:**

**(a) Commitments**

As at December 31, 2018 and in the normal course of business, the Company has obligations to make future payments, representing contracts and other commitments that are known and committed.

Contractual obligation payments due by fiscal year ending December 31:

	USD	CND
2019	\$ 10,000	\$ 106,509
2020	\$ 10,000	\$ 35,605
2021	\$ 10,000	-
2022	\$ 10,000	-
2023	\$ 10,000	-
	<u>\$ 50,000</u>	<u>\$ 142,114</u>

The Company has no planned capital commitments for the coming year.

The Company holds a worldwide exclusive right to Competence Stimulating Peptide (CSP) technology from the University of Toronto Innovations Foundation (UTIF). In consideration for the right, the Company will pay UTIF a royalty of a stipulated percentage of the net sales, if any, of the licensed products. If the Company sublicenses any rights to a third party, the Company will pay UTIF a percentage of a sublicense fee or sublicense royalty fees. The Company does not expect to make royalty payments under this agreement in fiscal 2019 and cannot predict when such royalties will become payable, if at all.

Also, the Company holds a worldwide exclusive license to DispersinB® enzyme from the University of Medicine and Dentistry of New Jersey (UMDNJ), now part of Rutgers University (Rutgers). In consideration for the right, the Company will pay a royalty to Rutgers of a stipulated percentage of the net sales, if any, of the licensed products. If the Company sublicenses any rights to a third party, the Company will pay Rutgers a percentage of a sublicense fee and/or sublicense royalty fees. A minimum royalty fee of \$10,000 USD per annum is payable for the life of the license, with additional milestone payments possible throughout the term of the agreement.

The Company also has commitments related to its research facility lease and a manufacturing and supply agreement for the outsourcing of its product manufacturing. At December 31, 2018, the total amount of these commitments was \$142,114.

**(b) Guarantee**

The Company periodically enters into research and licence agreements with third parties that include indemnification provisions customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred because of claims arising from research and development activities undertaken on behalf of the Company. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions could be unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying financial statements with respect to these indemnification obligations.

**KANE BIOTECH INC.**  
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**15. Government and other assistance:**

During the year ended December 31, 2018, the Company recorded \$145,098 (December 31, 2017 - \$235,430) in government and other assistance for the purpose of research and product market development. Government and other assistance have been recorded as a reduction to research and general and administrative expenses.

No grants repayable have been recorded to date.

**16. Related parties:**

**(a) Key management personnel compensation**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Board of Directors, President & CEO and CFO are key management personnel.

In addition to their salaries, the Company also provides non-cash benefits and participation in the Stock Option Plan (Note 13(c)). The following table details the compensation recorded for key management personnel:

	December 31, 2018	December 31, 2017
Salaries, fees and short-term		
employee benefits	\$ 736,844	\$ 319,754
Share-based payments	39,865	82,273
	<b>\$ 776,709</b>	<b>\$ 402,027</b>

**(b) Key management personnel and director transactions**

In the year ended December 31, 2018, the company recorded \$337,500 in separation costs relating to the departure of the Company's former President and CEO.

Directors and key management personnel control 33.9% of the voting shares of the Company.

During the year ended December 31, 2018 the Company received \$600,000 from one of the Directors of the Company (Note10).

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**17. Expenses by nature:**

Expenses incurred for the year ended December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Personnel expenses		
Wages and salaries	\$ 1,589,247	\$ 1,328,916
Short-term benefits and insurance premiums	37,257	37,880
Share-based payments	101,600	145,601
	<b>1,728,104</b>	1,512,397
Depreciation, amortization and writedowns	293,798	128,635
Science consumables and contract research	237,301	508,407
Occupancy	103,663	106,762
License fees	12,851	30,016
Investor relations	210,927	99,358
Consulting	11,095	43,305
Marketing	223,769	566,743
Other	617,893	486,318
Less: Government assistance	(145,098)	(235,430)
	<b>\$ 3,294,303</b>	\$ 3,246,511

**18. Determination of fair values:**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values that have been determined for measurement and/or disclosure purposes based on certain models are indicated below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**Share-based payment transactions**

The fair value of the employee share options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments, expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

**19. Financial risk management:**

**(a) Financial assets and liabilities:**

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. The carrying values of current monetary assets and liabilities approximate their fair values due to their relatively short periods to maturity.

**(b) Risks arising from financial instruments and risk management:**

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange and interest rate risks), credit risk and liquidity risk. Risk management is the responsibility of the Company, which identifies, evaluates and, where appropriate, mitigates financial risks.

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**20. Financial risk management (continued):**

**(i) Market risk:**

**(a) Foreign exchange risk:**

The Company operates in Canada and has relationships with entities in other countries. Foreign exchange risk arises because the cost of transactions denominated in foreign currencies may vary due to changes in exchange rates.

Balances in foreign currencies at December 31, 2018 were approximately:

	U.S. Dollars
Cash and cash equivalents	\$ 17,551
Trade and other receivables	32,373
Accounts payables and accrued liabilities	(84,618)
	<u>\$ (34,694)</u>

Fluctuations in the U.S. dollar exchange rates may potentially have a significant impact on the Company's results of operations.

**(b) Interest rate risk:**

The Company is exposed to interest rate risk to the extent that short-term deposits are at a floating short-term rate of interest and their market value will vary with the change in short-term market interest rates. The Company's maximum exposure to interest rate risk is based on the effective interest rate and the current carrying value of these assets.

There is a risk that future cash flows from invested cash, cash equivalents and short-term deposits will vary as the market interest rates fluctuate because these investments earn interest at market rates. Based on the December 31, 2018 balance of approximately \$75,425 (2017 - \$1,975,723), a variation of 100 basis points in the market interest rate would not affect the financial statements of comprehensive loss by a material amount. For the year ended December 31, 2018, the Company recorded interest income of \$9,620 (2017 - \$15,888) in relation to these assets.

**(ii) Credit risk:**

The Company limits its exposure to credit risk by investing only in banks that have a strong credit rating. Trade and other receivables are subject to normal credit risk. The maximum exposure to credit risk is equal to the carrying value of the receivables. The Company regularly assesses the trade and other receivables and takes action to collect the amounts or provide adequate reserves against doubtful accounts. The Company currently has no reserve for doubtful accounts as there have been no bad debts to date.

**(iii) Liquidity risk:**

Liquidity risk is the risk that the current financial obligations exceed the cash available to satisfy those obligations at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available cash in order to meet its liquidity requirements. The Company achieves this by primarily relying on private placement offerings of common shares and warrants.

The following table summarizes the Company's financial liabilities with corresponding maturity.

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**20. Financial risk management (continued):**

	Less than 1 Year	1-3 years	3-5 years	Total
Due to related party	\$ 600,000	\$ -	\$ -	\$ 600,000
Short-Term Loan	500,000	-	-	500,000
Accounts payables and accrued liabilities	893,018	-	-	893,018
	<u>\$ 1,993,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,993,018</u>

**(c) Capital management:**

The Company's primary objective when managing capital, defined as shares and warrants, is to ensure that it has sufficient cash resources to fund its development and commercialization activities and to maintain its ongoing operations.

The capital at December 31, 2018 was \$19,077,908 (2017 \$19,056,169).

To fund its activities, the Company relies primarily on private placements of its common shares. To secure the additional capital the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital management strategy during the year ended December 31, 2018.

**21. Changes in liabilities from financing activities**

Changes in liabilities from financing activities during the year ended December 31, 2017 and 2018 are as follows:

	January 1, 2017	Cash Flows	Non-cash Changes			December 31, 2017
			Acquisition	Movement	Accretion	
Long-term Borrowings	\$ 479,996	\$ (500,000)			\$ 20,004	\$ -
Short-term Borrowings	-		-	-	-	-
<b>Total Liabilities from Financing Activities</b>	<b>\$ 479,996</b>	<b>\$ (500,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,004</b>	<b>\$ -</b>
	January 1, 2018	Cash Flows	Acquisition	Movement	Accretion	December 31, 2018
Long-term Borrowings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Short-term Borrowings	-	1,100,000	-	-	-	1,100,000
<b>Total Liabilities from Financing Activities</b>	<b>\$ -</b>	<b>\$ 1,100,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,100,000</b>

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**22. Reclassification of general and administration expenses**

The Company has re-evaluated certain expenses previously recorded as general and administrative expenses and has now classified those expenses as cost of sales – sales of goods and services. The comparative figures have also been reclassified to conform with the current year's presentation.

**23. Subsequent events:**

**(a) Due to related party:**

Subsequent to December 31, 2018, the Company received additional funds of \$450,000 from a related party.

**(a) Nestle lawsuit:**

On February 26, 2018, the Company filed a lawsuit against Nestec, Ltd. and Nestle Purina Petcare Global Resources, Inc. ("Nestle") for breach of agreements between the parties, and misappropriation of Kane Biotech's trade secrets and intellectual property.

On January 31, 2019, the company was advised that the U.S. District Court of Eastern Missouri has ruled against Nestle's motion to dismiss on all six counts of the sealed complaint, paving the way for the ultimate trial of the case on the merits.