

Financial Statements
(Expressed in Canadian Dollars)

KANE BIOTECH INC.

Three and Six Months Ended June 30, 2020 and 2019
(Unaudited)

In accordance with National Instruments 51-102 released by the Canadian Securities Administrators, the Company discloses its auditors have not reviewed the unaudited financial statements for the three and six months ended June 30, 2020.

KANE BIOTECH INC.
Statement of Financial Position

	Note	June 30, 2020	December 31, 2019
Assets			
Current assets:			
Cash and cash equivalents	\$	238,985	\$ 834,128
Trade and other receivables	5	836,862	431,514
Inventory	6	521,637	587,039
Other current assets		111,475	56,744
Total current assets		1,708,959	1,909,425
Non-current assets:			
Property and equipment	7	175,995	79,779
Intangible assets	8	780,792	766,488
Total non-current assets		956,787	846,267
Total assets	\$	2,665,746	\$ 2,755,692
Liabilities and Shareholders' Equity (Deficit)			
Current liabilities:			
Accounts payable and accrued liabilities	9 \$	1,508,487	\$ 1,226,544
Deferred license revenue - current	4	67,073	67,073
Due to related party	10	21,841	41,841
Lease liability - current	12	45,757	6,195
Total current liabilities		1,643,158	1,341,653
Non-current liabilities:			
Deferred license revenue	4	380,075	413,612
Long-term government loan	11	438,224	152,964
Lease liability	12	53,411	10,656
Total non-current liabilities		871,710	577,232
Shareholders' Equity (Deficit)			
Share capital	13(b)	20,858,419	20,162,950
Contributed surplus		4,205,962	3,948,002
Warrants	13(d)	1,844,759	1,614,884
Deficit		(26,758,262)	(24,889,029)
Total		150,878	836,807
Going Concern	2(c)		
Commitments and contingencies	14		
Total liabilities and shareholders' equity (deficit)	\$	2,665,746	\$ 2,755,692

The notes on pages 5 to 22 are an integral part of these financial statements

KANE BIOTECH INC.

Interim Condensed Statements of Comprehensive Income (Loss)

	Note	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Revenue					
License	4	\$ 16,768	\$ 16,768	\$ 33,537	\$ 33,537
Royalty		19,037	28,109	66,949	62,102
Sales of goods and services		231,688	176,413	623,147	746,908
Total Revenue		267,493	221,290	723,633	842,547
Cost of sales-sales of goods and services		151,923	138,782	428,646	549,190
Gross Profit		115,570	82,508	294,987	293,357
Expenses					
General and administration		630,815	675,778	1,649,560	1,271,462
Research		80,633	360,205	686,040	594,643
		711,448	1,035,983	2,335,600	1,866,105
Loss from operations		(595,878)	(953,475)	(2,040,613)	(1,572,748)
Finance costs (income):					
Finance income		(473)	(11)	(1,126)	(35)
Finance costs		6,432	46,758	13,043	87,456
Fair value adjustment - government loan		(91,891)	-	(184,515)	-
Foreign exchange loss (gain)		(4,549)	(7,084)	1,218	(9,640)
Net finance costs (income)		(90,481)	39,663	(171,380)	77,781
Total loss from operations and finance costs		(505,397)	(993,138)	(1,869,233)	(1,650,529)
Other (income):					
Settlement from lawsuit		-	(2,668,600)	-	(2,668,600)
Loss and comprehensive income (loss) for the period		\$ (505,397)	\$ 1,675,462	\$ (1,869,233)	\$ 1,018,071
Basic and diluted income (loss) per share for the period 13(e)		\$ (0.00)	\$ 0.02	\$ (0.02)	\$ 0.01

The notes on pages 5 to 22 are an integral part of these financial statements

KANE BIOTECH INC.
Statement of Changes in Equity (Deficit)

	Note	Share Capital	Contributed Surplus	Warrants	Deficit	Total
Balance January 1, 2019		\$ 17,683,418	\$ 3,866,103	\$ 1,394,490	\$ (23,928,851)	\$ (984,840)
Loss and comprehensive loss for the period					(960,178)	(960,178)
Transactions with owners, recorded directly in equity						
Issue of common shares	13(b)	2,199,532	-	-	-	2,199,532
Share based payments	13(c)	-	31,667	-	-	31,667
Warrants granted	13(d)	-	-	270,626	-	270,626
Warrants exercised	13(d)	280,000	50,232	(50,232)	-	280,000
Total transactions with owners		2,479,532	81,899	220,394	-	2,781,825
Balance December 31, 2019		\$ 20,162,950	\$ 3,948,002	\$ 1,614,884	\$ (24,889,029)	\$ 836,807
Loss and comprehensive loss for the period					(1,869,233)	(1,869,233)
Transactions with owners, recorded directly in equity						
Issue of common shares	13(b)	695,469	-	-	-	695,469
Share based payments	13(c)	-	257,960	-	-	257,960
Warrants granted	13(d)	-	-	229,875	-	229,875
Total transactions with owners		695,469	257,960	229,875	-	1,183,304
Balance June 30, 2020		\$ 20,858,419	\$ 4,205,962	\$ 1,844,759	\$ (26,758,262)	\$ 150,878

The notes on pages 5 to 22 are an integral part of these financial statements.

KANE BIOTECH INC.

Statement of Cash Flows

	Note	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash provided by (used in):					
Operating activities:					
Loss and comprehensive loss for the period		\$ (505,397)	\$ 1,675,464	\$ (1,869,233)	\$ 1,018,071
Adjustments for:					
Inventory allowance	6	-	3,325	10,000	8,000
Depreciation of property and equipment	7	5,705	9,159	11,472	6,287
Amortization of intangible assets	8	11,325	56,934	22,018	18,940
Derecognition of intangible assets	8	-	-	32,469	84,195
Accretion Expense	11	5,428	-	9,833	-
Fair value adjustment - government loan	11	(91,891)	-	(184,515)	-
Share based compensation	13(c)	66,088	50	257,960	12,003
Interest expense	10	-	24,559	-	42,115
Change in the following:		-	-	-	-
Trade and other receivables	5	(247,430)	81,725	(405,348)	(9,631)
Inventory	6	27,498	(128,691)	55,402	(120,482)
Other current assets		383	(17,806)	(54,731)	(7,596)
Accounts payable and accrued liabilities	9	354,204	(264,783)	281,942	13,522
Deferred license revenue	4	(16,768)	(16,768)	(33,537)	(33,537)
Cash provided by (used in) operating activities		(390,855)	1,423,168	(1,866,268)	1,031,887
Financing activities:					
Issuance of common shares	13(b)	-	-	695,469	-
Warrants granted	13(d)	-	-	229,875	-
Cash received from related party	10	-	400,000	-	850,000
Repayment of cash to related party	10	-	(600,000)	(20,000)	(600,000)
Long-term loan government repayable	11	233,145	-	459,942	-
Repayment of lease liability	12	(1,410)	-	(2,803)	-
Cash provided by (used in) financing activities		231,735	(200,000)	1,362,483	250,000
Investing activities:					
Purchase of property and equipment	7	-	(10,146)	(22,567)	(10,146)
Additions to intangible assets	8	(28,229)	(6,540)	(68,791)	(17,897)
Cash used in investing activities		(28,229)	(16,686)	(91,358)	(28,043)
Increase (decrease) in cash		(187,349)	1,206,482	(595,143)	1,253,845
Cash, beginning of period		426,334	122,788	834,128	75,425
Cash, end of period		\$ 238,985	\$ 1,329,270	\$ 238,985	\$ 1,329,270

The notes on pages 5 to 22 are an integral part of these financial statements.

KANE BIOTECH INC.

Notes to the Financial Statements
Three and Six Months Ended June 30, 2020 and 2019

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 August 26, 2020.

(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 material uncertainty 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 which casts significant doubt on the Company's ability to continue as a going concern.

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 acceptable terms, the Company will have to consider additional strategic alternatives. These 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
Three and Six Months Ended June 30, 2020 and 2019

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(c) Fair value of long-term government loan
- 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
- Note 3(j) Fair value of long-term government loan

(f) COVID-19 Pandemic

The outbreak of COVID-19, the disease caused by the novel SARS-CoV-2 strain of coronavirus was declared a global pandemic by the World Health Organization on March 11, 2020 and has resulted in a widespread health crisis that has affected economies and financial markets around the world, resulting in an economic downturn. The effects of this pandemic on the Company may include decreased customer demand, interruptions to supply chains, manufacturing activities and research and development programs and increased government regulations or interventions.

During the second quarter, the Company experienced both decreased demand for its products in the pet specialty and veterinary channels and interruptions to its manufacturing supply chain due to reduced workforces and shortages of raw materials.

The duration and full impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments nor the impact of these developments on the financial results and condition of the Company in future periods. The Company has reviewed the estimates, judgments and assumptions used in the preparation of its financial statements to determine whether indicators of impairment exist for tangible and intangible assets and the credit risk of its counterparties.

Although the Company has determined that no significant revisions to such estimates, judgments or assumptions were required for the three months and six months ended June 30, 2020, revisions may be required in future periods. Any such revision could have a material impact on the Company's results of operations and financial condition.

While the Company believes the current conditions related to the COVID-19 pandemic to be short-term, the situation is dynamic and the duration of the COVID-19 pandemic and the resulting impact on the Company's ongoing results of operations and financial condition cannot be reasonably estimated at this time. The Company continues to evaluate the situation and monitor any impacts or potential impacts on its business.

KANE BIOTECH INC.

Notes to the Financial Statements
Three and Six Months Ended June 30, 2020 and 2019

3. Significant accounting policies:

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

(a) Revenue recognition

The Company has consistently applied accounting policies in accordance with IFRS 15 *Revenue from Contracts with Customers* ("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 performance obligation is 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) Sales of goods and services

Revenue from the sales of goods and services, net of discounts, is recognized when control of those goods has been transferred to the customer or the performance obligation on services is met.

(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

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"). 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.

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and interest and non-interest-bearing debt are all classified as amortized cost under this standard, except the long-term government loan is classified at fair value through profit or loss.

The long-term government loan is measured at fair value based on management's best estimate of the effective interest rate at initial recognition. The fair value is also based on the Company's estimate that the amount will be repayable over 5 years starting April 2023.

(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.

KANE BIOTECH INC.

Notes to the Financial Statements
Three and Six Months Ended June 30, 2020 and 2019

3. Significant accounting policies (continued):

(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%
Right-of-use asset	Straight-line	Over the term of the lease

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 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.

KANE BIOTECH INC.

Notes to the Financial Statements
Three and Six Months Ended June 30, 2020 and 2019

3. Significant accounting policies (continued):

(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.

(h) Leases

The Company assesses whether a contract is, or contains, a lease by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right-of-use asset and lease liability are recognized at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimated restoration costs, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight - line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the implicit interest rate in the lease. If the rate cannot be readily determined, the Company's incremental rate of borrowing is used.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate or the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(i) Employee benefits

(i) Short-term employee benefits

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

KANE BIOTECH INC.

Notes to the Financial Statements
Three and Six Months Ended June 30, 2020 and 2019

3. Significant accounting policies (continued):

(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.

(j) 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.

(k) 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.

(l) 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.

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.

KANE BIOTECH INC.

Notes to the Financial Statements
Three and Six Months Ended June 30, 2020 and 2019

3. Significant accounting policies (continued):

(m) 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.

(n) New standards and interpretations adopted

IFRS 3 Business Combinations has been amended for annual reporting periods beginning on or after January 1, 2020 with earlier adoption permitted. The update to this standard clarifies the definition of a business by providing a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. To date, the implementation of this standard has not had any impact on the Company's financial statements.

IFRS 8 Accounting Policies, Changes in Accounting Estimates and Errors has been amended for annual reporting periods beginning on or after January 1, 2020 with earlier adoption permitted. The update to this standard clarifies the definition of materiality and how it should be applied. To date, the implementation of this standard has not had any impact on the Company's 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.

IFRS 15 requires the Company to use a five-step model to determine when the recognition of revenue with respect to payments received from Dechra will 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.

	June 30, 2020	December 31, 2019
Deferred license revenue - current portion	\$ 67,073	\$ 67,073
Deferred license revenue - non-current	380,075	413,612
	\$ 447,148	\$ 480,685

The non-current deferred license revenue will be recognised over the remaining life of the agreement which was 6.7 years as at June 30, 2020 (December 31, 2019 - 7.2 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.

KANE BIOTECH INC.

Notes to the Financial Statements
Three and Six Months Ended June 30, 2020 and 2019

5. Trade and other receivables:

	June 30, 2020		December 31, 2019
Trade receivables	\$	361,671	\$ 332,202
Other receivables		475,191	99,312
	\$	836,862	\$ 431,514

6. Inventory:

	June 30, 2020		December 31, 2019
Raw materials	\$	231,253	\$ 241,569
Work-in-progress		234	3,495
Finished goods		290,150	341,975
Allowance for inventory obsolescence		(10,000)	-
	\$	521,637	\$ 587,039

KANE BIOTECH INC.

Notes to the Financial Statements
Three and Six Months Ended June 30, 2020 and 2019

7. Property and equipment:

The following is a summary of property and equipment as at June 30, 2020:

Cost	Computer and Office Equipment	Scientific and Manufacturing Equipment	Right-of-use Asset	Total
Balance January 1, 2019	\$ 38,175	\$ 190,975	\$ -	\$ 229,150
Additions - 2019	17,066	6,842	17,311	41,219
Balance December 31, 2019	\$ 55,241	\$ 197,817	\$ 17,311	\$ 270,369
Additions - 2020	-	22,567	85,121	107,688
Balance June 30, 2020	\$ 55,241	\$ 220,384	\$ 102,432	\$ 378,057

Depreciation	Computer and Office Equipment	Scientific and Manufacturing Equipment	Right-of-use Asset	Total
Balance January 1, 2019	\$ 37,285	\$ 137,860	\$ -	\$ 175,145
Additions - 2019	5,668	9,344	433	15,445
Balance December 31, 2019	\$ 42,953	\$ 147,204	\$ 433	\$ 190,590
Additions - 2020	5,900	2,604	2,968	11,472
Balance June 30, 2020	\$ 48,853	\$ 149,808	\$ 3,401	\$ 202,062

Carrying amounts	Computer and Office Equipment	Scientific and Manufacturing Equipment	Right-of-use Asset	Total
Balance December 31, 2019	12,288	50,613	16,878	79,779
Balance June 30, 2020	6,388	70,576	99,031	175,995

KANE BIOTECH INC.

Notes to the Financial Statements
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8. Intangible assets:

The following is a summary of intangible assets as at June 30, 2020:

Cost	Patents	Trademarks	Total
Balance January 1, 2019	\$ 1,071,578	\$ 64,525	\$ 1,136,103
Additions - 2019	62,377	11,091	73,468
Change due to derecognition 2019	(213,993)	-	(213,993)
Balance December 31, 2019	\$ 919,962	\$ 75,616	\$ 995,578
Additions - 2020	59,329	9,462	68,791
Change due to derecognition 2020	(60,872)	-	(60,872)
Balance June 30, 2020	\$ 918,419	\$ 85,078	\$ 1,003,497
Accumulated amortization and derecognition	Patents	Trademarks	Total
Balance January 1, 2019	\$ 190,739	\$ -	\$ 190,739
Additions - 2019	\$ 38,979	\$ -	38,979
Change due to derecognition 2019	(628)	-	(628)
Balance December 31, 2019	\$ 229,090	\$ -	\$ 229,090
Additions - 2020	22,018	-	22,018
Change due to derecognition 2020	(28,403)	-	(28,403)
Balance June 30, 2020	\$ 222,705	\$ -	\$ 222,705
Carrying amounts	Patents	Trademarks	Total
Balance December 31, 2019	690,872	75,616	766,488
Balance June 30, 2020	695,714	85,078	780,792

The Company has considered indicators of impairment as of June 30, 2020 and has determined that it wasn't feasible to pursue certain patents and accordingly has written-down patents in the amount of \$32,469 (June 30, 2019 - \$84,195). To June 30, 2020, the Company has recorded aggregate impairment losses of \$1,408,591 (June 30, 2019 - \$1,246,953), primarily resulting from patent applications not pursued.

Amortization and derecognition expenses are recognized in research expense.

9. Accounts payable and accrued liabilities:

	June 30, 2020	December 31, 2019
Trade payables	\$ 786,212	\$ 509,239
Non-trade payables and accrued expenses	722,275	717,305
	\$ 1,508,487	\$ 1,226,544

KANE BIOTECH INC.

Notes to the Financial Statements Three and Six Months Ended June 30, 2020 and 2019

10. Due to related party:

During the three and six months ended June 30, 2019, the Company received \$400,000 and \$850,000 respectively in cash advances from a related party. During the three months ended June 30, 2019, the Company paid back \$600,000 of these advances. The balance due to related party at June 30, 2020 is \$21,841 (December 31, 2020 - \$41,841) representing interest payable on cash advances received from a related party in prior periods which bore interest at 8% per annum as of January 1, 2019 and are repayable upon demand by the lender.

11. Long-term government loan:

During the year ended December 31, 2019, the Company signed a funding agreement with Western Economic Diversification Canada ("WD"). The Company is entitled to receive up to \$3.793 million from WD in the form of interest-free repayable contributions which are being provided to the Company over three years on an expense-incurred basis effective April 1, 2019. Repayment of these contributions will take place over five years starting in April 2023. Repayable contributions advanced to the Company up to June 30, 2020 were \$717,140 (December 31, 2019 - \$257,198).

For the three months ended June 30, 2020, the company recorded a recorded a fair value adjustment of \$91,891 (June 30, 2019 – Nil) on a repayable contribution of \$233,145 (June 30, 2019 – Nil) received during the period. This amount has been offset with an accretion expense of \$5,428 (June 30, 2019 – Nil) that was recorded as a finance cost during the period.

For the six months ended June 30, 2020, the company recorded a recorded a fair value adjustment of \$184,515 (June 30, 2019 – Nil) on a repayable contribution of \$459,942 (June 30, 2019 – Nil) received during the period. This amount has been offset with an accretion expense of \$9,833 (June 30, 2019 – Nil) that was recorded as a finance cost during the period.

Accretion expense is based on the repayment of the long-term government loan starting April 2023 over five years. The total liability at June 30, 2020 recorded on the statement of financial position was \$438,224 (December 31, 2019 - \$152,964).

12. Lease liabilities:

The carrying amount of the lease liabilities as at June 30, 2020 was \$99,168 (December 31, 2019 - \$16,850) and the breakdown of contractual undiscounted cash flows for lease liabilities as at June 30, 2020 is presented below:

	June 30, 2020	December 31, 2019
Less than one year	\$ 45,757	\$ 6,195
One to five years	53,411	10,656
	\$ 99,168	\$ 16,850

For the three months ended June 30, 2020, the Company has recognized lease payments associated with short-term leases as an expense of \$51,468 (June 30, 2019 - \$24,828) on a straight-line basis over the lease term. For the three months ended June 30, 2020, interest expense on lease liabilities was \$187 (June 30, 2020 – Nil) and lease amortization expenses was \$1916 (June 30, 2019 – Nil).

For the six months ended June 30, 2020, the Company has recognized lease payments associated with short-term leases as an expense of \$98,646 (June 30, 2019 - \$78,897) on a straight-line basis over the lease term. For the six months ended June 31, 2020, interest expense on lease liabilities was \$391 (June 30, 2020 – Nil) and lease amortization expenses was \$3,462 (June 30, 2019 – Nil).

KANE BIOTECH INC.

Notes to the Financial Statements
Three and Six Months Ended June 30, 2020 and 2019

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 December 31, 2019	101,531,673	\$ 20,162,950
Issued in Private Placement Offerings, net of issue costs of \$ 66,117	7,081,862	695,469
Balance June 30, 2020	108,613,535	\$ 20,858,419

During the year ended December 31, 2019, the Company closed its first tranche of an aggregate private placement offering. At the closing, 17,918,137 units at a price of \$0.14 per unit were issued for aggregate gross proceeds of \$2,508,540. Issue costs associated with the common shares was \$38,382. Each unit is comprised of one common share of the Company and one-half a share purchase warrant. Each warrant will expire two years from the date the warrant was issued and will entitle the holder to purchase one common share at a price of \$0.18 up to the expiry date. Each warrant issued under the offering has a call right allowing the Company to call the warrants from the holders upon 30 days notice following the price of shares closing at \$0.25 for five consecutive trading days. The shares and warrants were 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 six months ended June 30, 2020, the Company closed its second and final tranche of an aggregate private placement offering. At the closing, 7,081,862 shares at \$0.14 per share were issued for gross proceeds of \$991,461. Issue costs associated with the common shares was \$66,117. Each unit is comprised of one common share of the Company and one-half a share purchase warrant. Each warrant will expire two years from the date the warrant was issued and will entitle the holder to purchase one common share at a price of \$0.18 up to the expiry date. Each warrant issued under the offering has a call right allowing the Company to call the warrants from the holders upon 30 days notice following the price of shares closing at \$0.25 for five consecutive trading days. The shares and warrants were 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.

(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 June 30, 2020, an aggregate maximum of 10,861,354 (December 31, 2019 – 10,153,167) common share options are reserved for issuance under the Plan with 3,542,354 (December 31, 2019 – 6,204,167) 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;

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Notes to the Financial Statements
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13. Share capital (continued):

- 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;

During the six months ended June 30, 2020, the Company issued 3,650,000 stock options to certain directors, officers, employees and consultants of the Company. Each option is exercisable into one common share of the Company at a price of \$0.18 per share for a period of five years from the date of grant. The options will vest over 24 months with one third vesting immediately, one third vesting 12 months from the date of grant and one third vesting 24 months from the date of grant.

Changes in the number of options outstanding during the six months ended June 30, 2020 and 2019 are as follows:

	June 30, 2020		June 30, 2019	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of period	3,949,000	\$ 0.21	6,197,333	\$ 0.24
Granted	3,650,000	\$ 0.18	-	\$ -
Forfeited, cancelled or expired	(280,000)	\$ 0.35	(1,452,000)	\$ 0.29
Balance, end of period	7,319,000	\$ 0.19	3,949,000	\$ 0.21
Options exercisable, end of period	3,179,000	\$ 0.23	3,179,000	\$ 0.23
Weighted average fair value per unit of option granted during the period		\$ 0.18		\$ 0.04

Options outstanding at June 30, 2020 consist of the following:

Range of exercise prices	Outstanding number	Weighted average remaining contractual life	Weighted average exercise price	Exercisable number
\$0.10	1,535,000	3.56	\$0.10	1,023,333
\$0.18	3,650,000	4.92	\$0.18	1,216,667
\$0.20	775,000	3.17	\$0.20	516,667
\$0.30	1,259,000	1.81	\$0.30	1,259,000
\$0.40	100,000	0.77	\$0.40	100,000
	7,319,000	3.39	\$0.19	4,115,667

For the three months ended June 30, 2020, the Company recorded share option compensation expense of \$66,088 (June 30, 2019 – \$50) with a corresponding credit to contributed surplus.

KANE BIOTECH INC.

Notes to the Financial Statements
Three and Six Months Ended June 30, 2020 and 2019

13. Share capital (continued):

For the six months ended June 30, 2020, the Company recorded share option compensation expense of \$257,960 (June 30, 2019 – \$12,003) with a corresponding credit to contributed surplus.

Share option compensation expense related to the stock options issued in the six months ended June 30, 2020 and 2019 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:

	June 30, 2020	June 30, 2019
Expected option life	5 years	-
Risk free interest rate	1.07%	-
Expected volatility	105.58%	-
Grant-date share price	\$0.18	-
Option exercise price	\$0.18	-

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 a separate fair value and a separate vesting period.

(d) Warrants

During the year ended December 31, 2019, 3,500,000 share purchase warrants at a price of \$0.08 were exercised.

During the year ended December 31, 2019, the Company issued 8,994,816 warrants as part of the first tranche of its aggregate private placement offering. Each warrant expires two years from the date the warrant was issued and entitles the holder to purchase one common share at a price of \$0.18 up to the expiry date. Each warrant issued under the offering has a call right allowing the Company to call the warrants from the holders upon 30 days notice following the price of shares closing at \$0.25 for five consecutive trading days.

During the six months ended June 30, 2020, the Company issued 3,674,576 warrants as part of the second and final tranche of its aggregate private placement offering. Each warrant expires two years from the date the warrant was issued and entitles the holder to purchase one common share at a price of \$0.18 up to the expiry date. Each warrant issued under the offering has a call right allowing the Company to call the warrants from the holders upon 30 days notice following the price of shares closing at \$0.25 for five consecutive trading days.

Changes in the number of warrants outstanding during the six months ended June 30, 2020 and 2019 are as follows:

	June 30, 2020			June 30, 2019		
	Warrants	Amount	Weighted average exercise price	Warrants	Amount	Weighted average exercise price
Balance, beginning of year	43,499,813	\$ 1,614,884	\$ 0.18	38,804,997	\$ 1,372,751	\$ 0.17
Granted	3,674,576	\$ 229,875	\$ 0.18	-	\$ -	\$ -
Balance, end of period	47,174,389	\$ 1,844,759	\$ 0.18	38,804,997	\$ 1,372,751	\$ 0.17
Weighted average remaining contractual life			1.75 years			1.02 years

KANE BIOTECH INC.

Notes to the Financial Statements
Three and Six Months Ended June 30, 2020 and 2019

13. Share capital (continued):

The relative fair value of warrants and warrant expense related to warrants issued in the six months ended June 30, 2019 and 2020 was determined at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30, 2020	June 30, 2019
Expected option life	2 years	-
Risk free interest rate	1.32%	-
Expected volatility	76.18%	-
Grant-date share price	\$0.23	-
Option exercise price	\$0.18	-

(e) Per share amounts

Basic income per share is calculated using the weighted average number of shares outstanding. Diluted income per share reflects the dilutive effect of outstanding warrants and stock options. The following table reconciles the number of shares for the basic and diluted income (loss) per share computations:

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Net income (loss) available to common shareholders	\$ (505,397)	\$ 1,675,462	\$ (1,869,233)	\$ 1,018,071
Weighted-average number of common shares outstanding	108,613,535	80,113,536	106,473,412	80,113,536
Net effect of dilutive warrants	-	624,846	-	527,130
Weighted-average number of diluted common shares	108,613,535	80,738,382	106,473,412	80,640,666
Net income (loss) per share				
Basic	\$ (0.00)	\$ 0.02	\$ (0.02)	\$ 0.01
Diluted	\$ (0.00)	\$ 0.02	\$ (0.02)	\$ 0.01

Stock options were not included in the calculations of diluted EPS due to their anti-dilutive impact.

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Notes to the Financial Statements
Three and Six Months Ended June 30, 2020 and 2019

14. Commitments and contingencies:

(a) Commitments

As at June 30, 2020 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
2020	\$ -	\$ 20,952
2021	\$ 10,000	\$ 49,008
2022	\$ 10,000	\$ 33,737
2023	\$ 10,000	\$ -
2024	\$ 10,000	\$ -
	\$ 40,000	\$ 103,697

In 2019, the Company signed a binding Letter of Intent to lease office and laboratory space for a 10-year term commencing in 2020. The approximately dollar value of this commitment is \$1.3 million.

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 2020 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.

(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.

15. Government and other assistance:

For the three months ended June 30, 2020, the Company recorded \$372,413 (June 30, 2019 – \$7,054) in government assistance related to research, supply chain, quality assurance and quality control expenditures.

For the six months ended June 30, 2020, the Company recorded \$452,362 (June 30, 2019 – \$14,860) in government assistance related to research, supply chain, quality assurance and quality control expenditures.

This Government assistance was recorded as a reduction in research and general and administrative expenditures.

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Notes to the Financial Statements
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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:

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Salaries, fees and short-term employee benefits	\$ 108,596	\$ 100,754	\$ 213,938	\$ 201,508
Share-based payments	33,113	7,867	128,219	15,647
	\$ 141,709	\$ 108,621	\$ 342,157	\$ 217,155

(b) Key management personnel and director transactions

Directors and key management personnel control 27.6% of the voting shares of the Company.

During the three and six months ended June 30, 2019, the Company received \$400,000 and \$850,000 respectively from one of the Directors of the Company (Note 10) which was repaid in 2019. The balance due to the related party at June 30, 2020 of \$21,841 is outstanding interest on prior period related party cash advances. Related party advances bear interest at 8% per annum as of January 1, 2019 and are repayable upon demand by the lender.

Key management personnel acquired shares in the Company valued at \$375,000 as part of the first tranche of the aggregate private placement offering which closed during the year ended December 31, 2019.

During the three months ended June 30, 2020, the Company provided cash advances totalling \$10,000 (June 30, 2019 – Nil) and during the six months ended June 30, 2020, the Company provided cash advances totalling \$30,000 (June 30, 2020 – Nil), which are recorded in trade and other receivables on the statement of financial position, to a company which is wholly owned by the President & CEO of Kane Biotech as part of a demand loan of up to \$150,000 approved by the Board of Directors in 2019. These cash advances are recorded in trade and other receivables on the statement of financial position, bear interest at 8% per annum and are secured by all of the assets of the borrower. At June 30, 2020, the balance of this loan is \$100,000 (December 31, 2019 - \$70,000).

Accrued liabilities owing to key management personnel was \$15,623 as of June 30, 2020 (June 30, 2019 – \$20,789).

17. Segmented information:

The Company has one operating segment and one reportable segment.

In terms of geographic segmentation, a substantial proportion of its revenues come from non-Canadian sources. The breakdown of Canadian to non-Canadian revenues is as follows:

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Domestic	\$ 150,305	\$ 82,054	\$ 345,650	\$ 258,138
International	117,189	139,236	377,983	584,409
	\$ 267,494	\$ 221,290	\$ 723,633	\$ 842,547

Three of the Company's largest customers accounted for 71% of the Company's total sales for the three months ended June 30, 2020 (June 30, 2019 – 66%).

Three of the Company's largest customers accounted for 75% of the Company's total sales for the six months ended June 30, 2020 (June 30, 2019 – 82%).

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Notes to the Financial Statements
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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.

(a) 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.

(b) 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 except for the long-term government loan which has a carrying value of \$717,140 as of June 30, 2020 (December 31, 2019 - \$257,198) and a fair value of \$438,224 as of June 30, 2020 (December 31, 2019 - \$152,964).

Financial assets and liabilities that are recognised on the statement of financial position at fair value follow in a hierarchy that is based on the significance of the inputs used in making the measurements. The long-term government loan represents a level 2 input that represents inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

19. Subsequent Events:

(a) Withdrawal of legal action

On July 16, 2020, the Company withdrew all allegations of just cause for termination relating to the departure of the Company's President and CEO which took place on September 10, 2018.

(b) Stock options

On August 19, 2020, the Company issued 2,310,555 stock options to certain directors, officers, employees and consultants of the Company. Each Option is exercisable into one common share of the Company at a price of \$0.16 per Share for a period of five years from the date of grant. The options will vest over 24 months, with one third vesting immediately, one third vesting 12 months from the date of the grant and one third vesting 24 months from the date of the grant.