

Financial Statements
(Expressed in Canadian Dollars)

KANE BIOTECH INC.

Nine months ended September 30, 2019 and 2018
(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 Nine months ended September 30, 2019.

KANE BIOTECH INC.

Interim Condensed Statement of Financial Position (unaudited)

	Note	September 30, 2019	December 31, 2018
Assets			
Current assets:			
Cash and cash equivalents		\$ 341,330	\$ 75,425
Trade and other receivables	5	263,982	116,314
Inventory	6	535,914	324,458
Other current assets		36,270	40,370
Total current assets		1,177,496	556,567
Non-current assets:			
Property and equipment	7	62,311	54,005
Intangible assets	8	869,281	945,364
Total non-current assets		931,592	999,369
Total assets		\$ 2,109,088	\$ 1,555,936
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	9	\$ 1,017,392	\$ 893,018
Deferred license revenue - current	4	67,073	67,073
Due to related party	10	432,899	600,000
Loan payable	11(a)	502,137	500,000
Total current liabilities		2,019,501	2,060,091
Non-current liabilities:			
Deferred license revenue	4	430,380	480,685
Loan payable	11(b)	145,241	-
Total non-current liabilities		575,621	480,685
Shareholders' Equity (Deficit)			
Share capital	12(b)	17,963,418	17,683,418
Contributed surplus		3,938,625	3,866,103
Warrants	12(d)	1,344,258	1,394,490
Deficit		(23,732,335)	(23,928,851)
Total		(486,034)	(984,840)
Total liabilities and equity (deficit)		\$ 2,109,088	\$ 1,555,936

The notes on pages 5 to 20 are an integral part of these financial statements

KANE BIOTECH INC.

Interim Condensed Statements of Comprehensive Income (Loss) (unaudited)

	Note	Three months ended September 30, 2019	Three months ended September 30, 2018 (Restated, Note 3(a))	Nine months ended September 30, 2019	Nine months ended September 30, 2018 (Restated, Note 3(a))
Revenue					
License		\$ 16,768	\$ 16,768	\$ 50,305	\$ 33,537
Royalty		34,709	9,590	96,811	31,904
Sales of goods and services		235,361	100,201	982,269	266,590
Total Revenue		286,838	126,559	1,129,385	332,031
Cost of sales-sales of goods and services	18	170,516	95,579	719,707	304,094
Gross Profit		116,322	30,980	409,678	27,937
Expenses					
General and administration	18	672,239	755,473	1,943,701	1,967,833
Research		239,819	185,969	834,462	542,921
		912,058	941,442	2,778,163	2,510,753
Loss from operations		(795,736)	(910,462)	(2,368,485)	(2,482,817)
Finance costs (income):					
Finance income		(10)	(138)	(44)	(277)
Finance costs		24,429	68,063	111,885	68,991
Foreign exchange (gain) loss		1,399	1,533	(8,242)	3,130
Net finance costs		25,818	69,458	103,599	71,844
Other (income):					
Settlement from lawsuit	14	-	-	2,668,600	-
Income (loss) and comprehensive income (loss) for the period		\$ (821,554)	\$ (979,920)	\$ 196,516	\$ (2,554,661)
Basic and diluted income (loss) for the period	12(e)	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.03)

The notes on pages 5 to 20 are an integral part of these financial statements

KANE BIOTECH INC.
Interim Condensed Statement of Changes in Equity
(unaudited)

	Note	Share Capital	Contributed Surplus	Warrants	Deficit	Total
Balance January 1, 2018		\$ 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	12(c)	-	102,707	-	-	102,707
Warrants granted	12(d)	-	-	50,231	-	50,231
Warrants expired	12(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)
Income and comprehensive income for the period					196,516	196,516
Transactions with owners, recorded directly in equity						
Share based payments	12(c)	-	22,290	-	-	22,290
Warrants exercised	12(d)	280,000	50,232	(50,232)	-	280,000
Total transactions with owners		280,000	72,522	(50,232)	-	302,290
Balance September 30, 2019		\$ 17,963,418	\$ 3,938,625	\$ 1,344,258	\$ (23,732,335)	\$ (486,034)

The notes on pages 5 to 20 are an integral part of these financial statements.

KANE BIOTECH INC.
Interim Condensed Statement of Cash Flows
(unaudited)

	Three months ended	Three months ended	Nine months ended	Nine months ended
Note	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
		(Restated, Note 3(a))		(Restated, Note 3(a))
Cash provided by (used in):				
Operating activities:				
Income (loss) and comprehensive income (loss) for the period	\$ (821,555)	\$ (979,920)	\$ 196,516	\$ (2,554,661)
Adjustments for:	-			
Inventory allowance	6 -	-	8,000	-
Depreciation of property and equipment	7 3,961	3,520	10,248	10,428
Amortization of intangible assets	8 9,392	16,229	28,332	43,245
Derecognition of intangible assets	8 628	-	84,823	-
Warrants issued on promissory note	12(d) -	50,232	-	50,232
Share based compensation	12(c) 10,287	13,358	22,290	65,999
Interest due to related party	10 (9,216)	-	32,899	-
Interest due on promissory note	2,137		2,137	-
Change in the following:				
Inventory	6 (98,974)	(9,129)	(219,455)	4,757
Trade and other receivables	5 (138,038)	(7,764)	(147,669)	29,463
Other current assets	11,696	3,417	4,101	(7,050)
Accounts payable and accrued liabilities	9 110,852	260,000	124,374	140,972
Deferred license revenue	4 (16,768)	(16,768)	(50,305)	(33,537)
Cash provided by (used in) operating activities	(935,598)	(666,825)	96,291	(2,250,152)
Financing activities:				
Warrants exercised	12(d) 280,000		280,000	
Cash received from related party	10 -	-	850,000	-
Repayment of cash to related party	10 (450,000)	-	(1,050,000)	-
Repayable contributions received	11(b) 145,241	-	145,241	-
Issuance of short-term note	11(a) -	500,000	-	500,000
Cash provided by (used in) financing activities	(24,759)	500,000	225,241	500,000
Investing activities:				
Purchase of property and equipment	7 (8,408)	-	(18,554)	(3,978)
Additions to intangible assets	8 (19,175)	(53,802)	(37,072)	(100,064)
Cash used in investing activities	(27,583)	(53,802)	(55,626)	(104,042)
Increase (decrease) in cash	(987,940)	(220,627)	265,906	(1,854,194)
Cash, beginning of period	1,329,270	342,156	75,425	1,975,723
Cash, end of period	\$ 341,330	\$ 121,529	\$ 341,330	\$ 121,529

The notes on pages 5 to 20 are an integral part of these financial statements.

KANE BIOTECH INC.

Notes to the Financial Statements
Nine months ended September 30, 2019 and 2018

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 November 14, 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
 Nine months ended September 30, 2019 and 2018

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 12 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 2018 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 Nine months ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

	Three months ended September 30, 2018 (previously stated)	Adjustment (note 4)	Three months ended September 30, 2018 (restated)	Nine months ended September 30, 2018 (previously stated)	Adjustment (note 4)	Nine months ended September 30, 2018 (restated)
Statement of Comprehensive Loss						
Revenue						
License	\$ -	\$ 16,768	\$ 16,768	\$ -	\$ 33,537	\$ 33,537
Loss and comprehensive loss for the period	\$ (996,688)	\$ 16,768	\$ (979,920)	\$ (2,588,198)	\$ 33,537	\$ (2,554,661)
Basic and diluted loss per share for the period	\$ (0.01)	\$ -	\$ (0.01)	\$ (0.03)	\$ -	\$ (0.03)

	Three months ended September 30, 2018 (previously stated)	Adjustment (note 4)	Three months ended September 30, 2018 (restated)	Nine months ended September 30, 2018 (previously stated)	Adjustment (note 4)	Nine months ended September 30, 2018 (restated)
Statement of Cash Flows						
Cash provided by (used in):						
Operating activities:						
Loss and comprehensive loss for the period	\$ (996,688)		\$ (979,920)	\$ (2,588,198)		\$ (2,554,661)
Deferred license revenue	-	(16,768)	(16,768)	-	(33,537)	(33,537)
Cash used in operating activities	(666,825)	-	(666,825)	(2,250,152)	-	(2,250,152)
Cash, end of period	\$ 342,156		\$ 121,529	\$ 121,529		\$ 121,529

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.

KANE BIOTECH INC.

Notes to the Financial Statements
 Nine months ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

(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:

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:

KANE BIOTECH INC.

Notes to the Financial Statements
 Nine months ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

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 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.

KANE BIOTECH INC.

Notes to the Financial Statements
 Nine months ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

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) 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.

KANE BIOTECH INC.

Notes to the Financial Statements
 Nine months ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

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.

(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

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. 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.

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 DispersionB® 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 as follows:

KANE BIOTECH INC.

Notes to the Financial Statements
 Nine months ended September 30, 2019 and 2018

4. License and distribution agreement (continued):

	September 30, 2019	December 31, 2018
Deferred license revenue	497,453	547,758
Less current portion	(67,073)	(67,073)
Deferred license revenue - non-current	430,380	480,685

The non-current deferred license revenue will be recognised over the remaining life of the agreement which was 7.4 years as at September 30, 2019 (December 31, 2018 - 8.2 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:

	September 30, 2019		December 31, 2018
Trade receivables	\$ 168,479	\$	73,916
Other receivables	95,504		42,398
	\$ 263,983	\$	116,314

6. Inventory:

	September 30, 2019		December 31, 2018
Raw materials	\$ 295,583	\$	131,933
Work-in-progress	1,032		6,152
Finished goods	247,299		193,845
Allowance for inventory obsolescence	(8,000)		(7,472)
	\$ 535,914	\$	324,458

KANE BIOTECH INC.

Notes to the Financial Statements
 Nine months ended September 30, 2019 and 2018

7. Property and equipment:

The following is a summary of property and equipment as at September 30, 2019:

Cost	Computer and Office Equipment	Scientific and Manufacturing Equipment	Total
Balance January 1, 2018	\$ 38,175	\$ 182,890	\$ 221,065
Additions - 2018	-	8,085	8,085
Balance December 31, 2018	\$ 38,175	\$ 190,975	\$ 229,150
Additions - 2019	11,712	6,842	18,554
Balance September 30, 2019	\$ 49,887	\$ 197,817	\$ 247,704

Depreciation	Computer and Office Equipment	Scientific and Manufacturing Equipment	Total
Balance January 1, 2018	\$ 22,926	\$ 137,860	\$ 160,786
Additions - 2018	4,544	9,815	14,359
Balance December 31, 2018	\$ 27,470	\$ 147,675	\$ 175,145
Additions - 2019	3,294	6,954	10,248
Balance September 30, 2019	\$ 30,764	\$ 154,629	\$ 185,393

Carrying amounts	Computer and Office Equipment	Scientific and Manufacturing Equipment	Total
Balance December 31, 2018	10,705	43,300	54,005
Balance September 30, 2019	19,123	43,188	62,311

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8. Intangible assets:

The following is a summary of intangible assets as at September 30, 2019:

Cost	Patents	Trademarks	Total
Balance January 1, 2018	\$ 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
Additions - 2019	31,392	5,680	37,072
Change due to derecognition 2019	(84,823)	-	(84,823)
Balance September 30, 2019	\$ 1,018,147	\$ 70,205	\$ 1,088,352
Accumulated amortization and derecognition	Patents	Trademarks	Total
Balance January 1, 2018	\$ 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
Amortization - 2019	28,960	-	28,960
Change due to derecognition 2019	(628)	-	(628)
Balance September 30, 2019	\$ 219,071	\$ -	\$ 219,071
Carrying amounts	Patents	Trademarks	Total
Balance December 31, 2018	880,839	64,525	945,364
Balance September 30, 2019	799,076	70,205	869,281

The Company has considered indicators of impairment as of September 30, 2019 and has written-down patents and trademarks accordingly in the amount of \$84,823 (September 30, 2018 - \$0). To September 30, 2019, the Company has recorded aggregate impairment losses of \$1,247,581 (September 30, 2018 - \$940,740), primarily resulting from patent applications not pursued.

Amortization and derecognition expenses are recognized in research expense.

9. Accounts payable and accrued liabilities:

	September 30, 2019	December 31, 2018
Trade payables	\$ 353,453	\$ 415,199
Non-trade payables and accrued expenses	663,939	477,819
	\$ 1,017,392	\$ 893,018

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Notes to the Financial Statements
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10. Due to related party:

During the nine months ended September 30, 2019 the Company received \$850,000 in cash advances from a related party and their associates. During this period, the Company repaid \$1,050,000 of related party advances. The balance due to related party at September 30, 2019 is \$432,899 including accumulated interest of \$32,899. These advances bear interest at 8% per annum as of January 1, 2019 and are repayable upon demand by the lender.

11. Loans payable:

(a) Short-term Loan

During the nine months ended September 30, 2019 the Company extended the loan expiry date of the \$500,000 loan from an arm's length third party lender by 1 year. The Loan bears interest at 12% per annum.

(b) Long-term Government Loan

During the nine months ended September 30, 2019, the Company signed a funding agreement with Western Economic Diversification Canada ("WD"). The Company will be entitled to receive up to \$3.793 million from WD in the form of interest-free repayable contributions which will be provided to the Company over three years on an expense-incurred basis retroactive to April 1, 2019. Repayment of these contributions will take place over five years starting in April 2023. Repayable contributions advanced to the Company during the current period were \$145,241.

12. 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, 2018	80,113,536	\$ 17,683,418
Balance December 31, 2018	80,113,536	\$ 17,683,418
Warrants Exercised	3,500,000	280,000
Balance September 30, 2019	83,613,536	\$ 17,963,418

During the year ended December 31, 2018, the Company had no changes in shares issued and outstanding. During the nine months ended September 30, 2019, 3,500,000 warrants were exercised.

(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 September 30, 2019, an aggregate maximum of 8,361,354 (September 30, 2018 – 8,011,354) common share options are reserved for issuance under the Plan with 4,262,354 (December 31, 2018 – 1,814,021) 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.

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

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;

Changes in the number of options outstanding During the nine months ended September 30, 2019 and 2018 are as follows:

	September 30, 2019		September 30, 2018	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of period	6,197,333	\$ 0.24	3,808,000	\$ 0.34
Granted	-	\$ -	1,325,000	\$ 0.20
Exercised	-	\$ -	-	\$ -
Forfeited, cancelled or expired	(2,098,333)	\$ 0.28	(492,333)	\$ 0.45
Balance, end of period	4,099,000	\$ 0.21	4,640,667	\$ 0.29
Options exercisable, end of period	2,684,000	\$ 0.24	3,184,556	\$ 0.31
Weighted average fair value per unit of option granted during the period		\$ -		\$ -

Options outstanding at September 30, 2019 consist of the following:

Range of exercise prices	Outstanding number	Weighted average remaining contractual life	Weighted average exercise price	Exercisable number
\$0.10-\$0.40	4,099,000	3.04	\$ 0.21	2,684,000

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

For the three months ended September 30, 2019, the Company recorded share option compensation expense of \$10,287 (September 30, 2018 – \$50,066) 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.

For the nine months ended September 30, 2019, the Company recorded share option compensation expense of \$22,290 (September 30, 2018 – \$64,999) 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.

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

Changes in the number of warrants outstanding during the nine months ended September 30, 2019 and 2018 are as follows:

	September 30, 2019			September 30, 2018		
	Warrants	Amount	Weighted average exercise price	Warrants	Amount	Weighted average exercise price
Balance, beginning of year	38,004,997	\$ 1,394,490	\$ 0.18	35,304,997	\$ 1,372,751	\$ 0.18
Issued, pursuant to promissory note				3,500,000	\$ 50,232	\$ 0.08
Exercised	(3,500,000)	\$ (50,232)	\$ 0.08	-	-	-
Expired	-	\$ -	-	(800,000)	\$ (28,492)	-
Balance, end of period	34,504,997	\$ 1,344,258	\$ 0.18	38,004,997	\$ 1,394,491	\$ 0.18
Weighted average remaining contractual life	0.80 years			0.32 years		

The relative fair value of warrants was determined at the date of measurement using the Black-Scholes option pricing model.

(e) Basic and diluted net income (loss) per share

Basic net income (loss) per share is calculated using the weighted average number of shares outstanding. Diluted net 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 net income (loss) per share computations:

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12. Share capital (continued):

	Three months ended September 30, 2019	Three months ended September 30, 2018	Three months ended September 30, 2019	Three months ended September 30, 2018
Net income (loss) available to common shareholders	\$ (821,554)	\$ (979,920)	\$ 196,516	\$ (2,554,661)
Weighted-average number of common shares outstanding	82,966,797	80,113,536	81,075,075	80,113,536
Net effect of stock options	-	-	120,254	-
Weighted-average number of diluted common shares	82,966,797	80,113,536	81,195,329	80,113,536

Net income (loss) per share

Basic	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.03)
Diluted	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.03)

Only stock options and warrants that have a dilutive effect on basic net income per share are included in the calculations of diluted net income per share.

13. Commitments and contingencies:

(a) Commitments

As at September 30, 2019 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 year ending December 31:

	USD	CND
2019	\$ -	\$ 26,704
2020	\$ 10,000	\$ 35,605
2021	\$ 10,000	\$ -
2022	\$ 10,000	\$ -
2023	\$ 10,000	\$ -
	\$ 40,000	\$ 62,309

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 September 30, 2019, the total amount of these commitments was \$62,309.

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13. Commitments and contingencies (continued):

(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.

14. Lawsuit Settlement:

During the nine months ended September 30, 2019, the Company received proceeds from the settlement of the lawsuit filed in 2018.

15. Government and other assistance:

During the three months ended September 30, 2019, the Company recorded \$7,002 (September 30, 2018 - \$7,000) 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.

During the nine months ended September 30, 2019, the Company recorded \$21,862 (September 30, 2018 - \$138,101) 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.

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 12(c)). The following table details the compensation recorded for key management personnel:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Salaries, fees and short-term employee benefits	\$ 135,677	\$ 101,755	\$ 337,185	\$ 200,061
Share-based payments	7,479	4,537	23,126	27,373
	\$ 143,157	\$ 106,292	\$ 360,312	\$ 227,434

(b) Key management personnel and director transactions

Directors and key management personnel control 32.6% of the voting shares of the Company.

During the three months ended September 30, 2019 the Company repaid \$450,000 of funds previously received from one of the Directors of the Company and their associates (Note 10).

During the Nine months ended September 30, 2019 the Company received \$850,000 from one of the Directors of the Company and their associates (Note 10). The amount of \$1,050,000 was repaid during this period.

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17. 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.

18. 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.

19. Subsequent events

- (a) On October 8, 2019, the Company was awarded a non-repayable contribution of up to \$340,680 from the National Research Council of Canada Industrial Research Assistance program (NRC IRAP). The contribution covers the period from October 7, 2019 to May 31, 2021.
- (b) On October 16, 2019, the Company extended its exclusive license and distribution agreement with Dechra (Note 4) to include South America.
- (c) On November 5, 2019, the Company received \$200,000 in related party advances.