

## **StageZero Life Sciences Ltd.**

Nine-month periods ended September 30, 2021 and 2020

Unaudited, condensed consolidated interim financial statements and associated notes

*[Expressed in US dollars, unless otherwise noted]*

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

[Expressed in US dollars]

|                                                       | Notes | September 30, 2021 | December 31, 2020  |
|-------------------------------------------------------|-------|--------------------|--------------------|
|                                                       |       | \$                 | \$                 |
| <b>ASSETS</b>                                         |       |                    |                    |
| <b>Current</b>                                        |       |                    |                    |
| Cash                                                  |       | 1,591,743          | 6,597,187          |
| Other receivables, net                                |       | 198,962            | 73,955             |
| Inventory                                             | 5     | 721,320            | 354,995            |
| Short-term portion of prepaid expenses and deposits   |       | 165,067            | 100,112            |
| Short-term portion rent receivable                    |       | -                  | 96,113             |
| <b>Total current assets</b>                           |       | <b>2,677,092</b>   | <b>7,222,362</b>   |
| <b>Non-current assets</b>                             |       |                    |                    |
| Property, plant and equipment, net                    |       | 737,181            | 716,322            |
| Goodwill                                              |       | 6,559,666          | -                  |
| Right of Use Property, net                            |       | 395,286            | 544,018            |
| Long-term portion of prepaid expenses and deposits    |       | 25,000             | 25,000             |
| <b>Total non-current assets</b>                       |       | <b>7,717,133</b>   | <b>1,285,340</b>   |
| <b>Total assets</b>                                   |       | <b>10,394,225</b>  | <b>8,507,702</b>   |
| <b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>       |       |                    |                    |
| <b>Current</b>                                        |       |                    |                    |
| Trade and other payables                              | 6     | 2,367,819          | 2,522,141          |
| Deferred Revenues                                     | 17    | 169,898            | 224,847            |
| Short-term loan                                       | 7[d]  | 44,544             | 28,543             |
| Short-term portion of right of use liability          |       | 211,907            | 184,854            |
| Fair value of convertible debenture                   | 7[c]  | -                  | 2,041,720          |
| Contingent Consideration Liability                    |       | 1,416,461          | -                  |
| Short-term portion of Warrant Liability               | 8     | 155,484            | 234,514            |
| Short-term portion of notes payable                   | 7     | 355,889            | 348,390            |
| <b>Total current liabilities</b>                      |       | <b>4,722,002</b>   | <b>5,585,009</b>   |
| <b>Non-current liabilities</b>                        |       |                    |                    |
| Long-term portion of warrant liability                | 8     | 1,237,737          | 3,121,970          |
| Long-term portion of right of use liability           |       | 253,004            | 415,370            |
| Long-term portion of notes payable                    | 7     | 541,510            | 551,489            |
| Long-term liabilities                                 |       | 67,340             | 67,340             |
| <b>Total non-current liabilities</b>                  |       | <b>2,099,592</b>   | <b>4,156,169</b>   |
| <b>Total liabilities</b>                              |       | <b>6,821,594</b>   | <b>9,741,178</b>   |
| <b>Shareholders' deficiency</b>                       |       |                    |                    |
| Share capital                                         | 9[b]  | 99,038,096         | 89,332,865         |
| Contributed surplus                                   | 9[d]  | 12,558,144         | 12,268,731         |
| Accumulated other comprehensive income                |       | 1,304,968          | 1,304,968          |
| Deficit                                               |       | (109,328,577)      | (104,140,040)      |
| <b>Total shareholders' deficiency</b>                 |       | <b>3,572,631</b>   | <b>(1,233,476)</b> |
| <b>Total liabilities and shareholders' deficiency</b> |       | <b>10,394,225</b>  | <b>8,507,702</b>   |
| Commitments and contingencies                         | 12    | -                  | -                  |
| Basis of presentation and going concern uncertainties | 2     |                    |                    |

See accompanying notes to the consolidated financial statements.

Approved by the Company's board of directors and authorized for issue on November 15, 2021:

(signed) James R. Howard-Tripp, Director

(signed) Garth MacRae, Director

# **CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

*[Expressed in US dollars]*

|                                                                           | <i>Notes</i> | <b>Three-month period ended</b> |             | <b>Nine-month period ended</b> |             |
|---------------------------------------------------------------------------|--------------|---------------------------------|-------------|--------------------------------|-------------|
|                                                                           |              | <b>September 30</b>             |             | <b>September 30</b>            |             |
|                                                                           |              | <b>2021</b>                     | <b>2020</b> | <b>2021</b>                    | <b>2020</b> |
|                                                                           |              |                                 |             | \$                             | \$          |
| <b>REVENUES</b>                                                           | <i>17</i>    | <b>684,324</b>                  | 1,464,155   | <b>3,565,872</b>               | 1,558,974   |
| Cost of goods                                                             | <i>10</i>    | <b>210,643</b>                  | 204,617     | <b>748,611</b>                 | 245,046     |
| <b>Gross margin</b>                                                       |              | <b>473,681</b>                  | 1,259,538   | <b>2,817,261</b>               | 1,313,928   |
| Laboratory costs                                                          | <i>10</i>    | <b>596,704</b>                  | 768,885     | <b>1,601,731</b>               | 1,166,705   |
| <b>Gross profit</b>                                                       |              | <b>(123,023)</b>                | 490,653     | <b>1,215,530</b>               | 147,223     |
| <b>EXPENSES</b>                                                           |              |                                 |             |                                |             |
| Research and Development                                                  | <i>10</i>    | <b>227,755</b>                  | -           | <b>299,237</b>                 | -           |
| Sales and Marketing                                                       | <i>10</i>    | <b>228,262</b>                  | -           | <b>1,050,320</b>               | -           |
| General and administrative                                                | <i>10</i>    | <b>1,656,761</b>                | 1,181,580   | <b>4,664,690</b>               | 2,386,349   |
| <b>Total Expenses</b>                                                     |              | <b>2,112,778</b>                | 1,181,580   | <b>6,014,247</b>               | 2,386,349   |
| <b>Loss before the undernoted</b>                                         |              | <b>(2,235,801)</b>              | (690,926)   | <b>(4,798,717)</b>             | (2,239,126) |
| Loss/(Gain) from revaluation of warrants                                  |              | <b>(791,799)</b>                | 229,641     | <b>(1,923,421)</b>             | 574,268     |
| Loss/(Gain) from revaluation of Contingent Consideration                  |              | <b>(157,091)</b>                | -           | <b>(157,091)</b>               | -           |
| Change in fair value of convertible debenture                             |              | <b>(34,283)</b>                 | 1,325,574   | <b>1,118,074</b>               | 1,624,857   |
| Finance costs                                                             | <i>16</i>    | <b>969,052</b>                  | 103,468     | <b>1,352,226</b>               | 903,803     |
|                                                                           |              | <b>(14,121)</b>                 | 1,658,683   | <b>389,788</b>                 | 3,102,928   |
| <b>Total income (loss) and comprehensive income (loss) for the period</b> |              | <b>(2,221,680)</b>              | (2,349,609) | <b>(5,188,505)</b>             | (5,342,054) |
| <b>Basic and diluted loss per common share</b>                            | <i>9[c]</i>  | <b>(0.02)</b>                   | (0.05)      | <b>(0.06)</b>                  | (0.08)      |

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**

*[Expressed in US dollars]*

|                                                 | Share capital      |                   | Contributed surplus | Accumulated other comprehensive income | Deficit              | Total            |
|-------------------------------------------------|--------------------|-------------------|---------------------|----------------------------------------|----------------------|------------------|
|                                                 | Shares             | Amount            |                     |                                        |                      |                  |
|                                                 | #                  | \$                | \$                  | \$                                     | \$                   | \$               |
|                                                 | <i>[note 9[b]]</i> |                   | <i>[note 9]</i>     |                                        |                      |                  |
| Balance at January 1, 2021                      | 60,716,595         | 89,332,865        | 12,268,731          | 1,304,968                              | (104,140,040)        | (1,233,476)      |
| Net loss for the period                         | -                  | -                 | -                   | -                                      | (5,188,505)          | (5,188,505)      |
| Share-based compensation                        | -                  | -                 | 335,990             | -                                      | -                    | 335,990          |
| Issuance of common shares with warrant exercise | 2,181,617          | 2,337,918         | -                   | -                                      | -                    | 2,337,918        |
| Issuance of common shares with option exercise  | 258,332            | 243,052           | (46,610)            |                                        |                      | 196,442          |
| Issuance of common shares with acquisition      | 12,500,000         | 4,992,751         |                     |                                        |                      | 4,992,751        |
| Conversion of convertible note payable          | 3,201,737          | 2,131,510         |                     |                                        |                      | 2,131,510        |
| <b>Balance at September 30, 2021</b>            | <b>78,858,281</b>  | <b>99,038,096</b> | <b>12,558,111</b>   | <b>1,304,968</b>                       | <b>(109,328,545)</b> | <b>3,572,631</b> |

|                                                                 | Share capital      |                   | Contributed surplus | Accumulated other comprehensive income | Deficit              | Total              |
|-----------------------------------------------------------------|--------------------|-------------------|---------------------|----------------------------------------|----------------------|--------------------|
|                                                                 | Shares             | Amount            |                     |                                        |                      |                    |
|                                                                 | #                  | \$                | \$                  | \$                                     | \$                   | \$                 |
|                                                                 | <i>[note 9[b]]</i> |                   | <i>[note 9]</i>     |                                        |                      |                    |
| Balance at January 1, 2020                                      | 33,986,373         | 80,283,079        | 11,196,763          | 1,304,968                              | (97,276,097)         | (4,491,287)        |
| Net loss for the period                                         | -                  | -                 | -                   | -                                      | (5,342,054)          | (5,342,054)        |
| Share-based compensation                                        | -                  | -                 | 760,482             | -                                      | -                    | 760,482            |
| Issuance of common shares with Unit financing                   | 3,058,649          | 509,933           | -                   | -                                      | -                    | 509,933            |
| Issuance of common shares with warrant exercise                 | 2,133,239          | 792,430           | -                   | -                                      |                      | 792,430            |
| Issuance of common shares with option exercise                  | 18,750             | 3,334             |                     |                                        |                      | 3,334              |
| Issuance of common shares with public offering                  | 8,272,012          | 1,311,024         | -                   | -                                      |                      | 1,311,024          |
| Conversion of structured note payable and convertible liability | 2,744,283          | 607,567           | -                   | -                                      | -                    | 607,567            |
| Share issuance costs                                            | -                  | (235,684)         | -                   | -                                      |                      | (235,684)          |
| <b>Balance at September 30, 2020</b>                            | <b>50,213,306</b>  | <b>83,271,683</b> | <b>11,957,245</b>   | <b>1,304,968</b>                       | <b>(102,618,151)</b> | <b>(6,084,256)</b> |

See accompanying notes to the consolidated financial statements.

**StageZero Life Sciences Ltd.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF  
CASH FLOWS**
*[Expressed in US dollars]*

|                                                                    | Notes | Three-month period ended |                    | Nine-month period ended |                    |
|--------------------------------------------------------------------|-------|--------------------------|--------------------|-------------------------|--------------------|
|                                                                    |       | September 30, 2021       | September 30, 2020 | September 30, 2021      | September 30, 2020 |
| OPERATING ACTIVITIES                                               |       |                          |                    |                         |                    |
| Net profit (loss) for the period                                   |       | (2,221,679)              | (2,349,608)        | (5,188,505)             | (5,342,054)        |
| Non-cash adjustments                                               |       | -                        | -                  | -                       | -                  |
| Share-based compensation                                           | 9[d]  | 216,507                  | 502,343            | 289,413                 | 760,482            |
| Warrants                                                           |       | -                        | -                  | -                       | 192,547            |
| Depreciation                                                       | 10    | 213,325                  | 72,537             | 325,791                 | 228,282            |
| Change in right of use property                                    |       | 57,230                   | -                  | 148,732                 | -                  |
| Change in fair value of convertible debenture                      |       | (34,283)                 | 1,325,574          | 1,118,074               | 1,624,857          |
| Change in fair value of Contingent Consideration Liability         |       | (157,091)                | -                  | (157,091)               | -                  |
| Non-cash interest expense                                          |       | 27,162                   | 13,366             | 96,724                  | 132,089            |
| Non-cash change in interest on lease liability                     |       | 17,889                   | 24,047             | 58,535                  | 76,170             |
| Foreign exchange                                                   |       | (212,593)                | 71,957             | (204,819)               | (249,216)          |
| (Gain)/loss on revaluation of warrants                             |       | (791,799)                | 229,641            | (1,923,421)             | 574,268            |
|                                                                    |       | (2,885,332)              | (110,145)          | (5,436,567)             | (2,002,575)        |
| Changes in non-cash working capital balances related to operations |       |                          |                    |                         |                    |
| Trade and other receivables                                        |       | (12,117)                 | (21,928)           | (118,370)               | (55,578)           |
| Deferred revenue                                                   |       | 169,898                  | -                  | -                       | -                  |
| Prepaid expenses and deposits                                      |       | 75,412                   | (152,866)          | (64,955)                | (106,566)          |
| Inventory                                                          |       | (188,987)                | (400,408)          | (366,325)               | (532,887)          |
| Trade and other payables                                           |       | 287,305                  | (637,960)          | (154,321)               | (435,289)          |
| Rent receivable                                                    |       | -                        | 37,924             | 96,113                  | 108,818            |
| Cash used in operating activities                                  |       | (2,553,821)              | (1,285,383)        | (6,099,374)             | (3,024,077)        |
| FINANCING ACTIVITIES                                               |       |                          |                    |                         |                    |
| Short-term loan proceeds                                           |       | -                        | -                  | 16,001                  | 28,543             |
| Payment of principal to Health Diagnostic Laboratories Inc.        | 7[a]  | (30,000)                 | (20,000)           | (90,000)                | (80,000)           |
| Repayment of lease liability                                       |       | (65,683)                 | (63,766)           | (193,853)               | (194,927)          |
| Proceeds from issuance of structured/convertible notes payable     | 7[c]  | -                        | -                  | -                       | 888,065            |
| Proceeds from issuance of units                                    |       | -                        | -                  | -                       | 516,949            |
| Proceeds from stock option exercise                                |       | -                        | 3,334              | 196,442                 | 3,334              |
| Proceeds from warrant exercise                                     |       | -                        | 174,655            | 1,289,271               | 492,342            |
| Proceeds from public offering                                      |       | -                        | -                  | -                       | 3,097,365          |
| Proceeds from convertible debenture                                |       | -                        | -                  | -                       | -                  |
| Payment of note payable and interest                               |       | (2,477)                  | -                  | (23,373)                | -                  |
| Cash provided by financing activities                              |       | (98,160)                 | 94,223             | 1,194,488               | 4,751,671          |
| INVESTING ACTIVITIES                                               |       |                          |                    |                         |                    |
| Leasehold improvements and lab Equipment                           |       | -                        | -                  | (142,633)               | (5,747)            |
| Proceed from disposal of property, plant and equipment             |       | -                        | -                  | 42,076                  | -                  |
| Cash used in investing activities                                  |       | -                        | -                  | (100,557)               | (5,747)            |
| Net decrease in cash during the period                             |       | (2,651,981)              | (1,191,160)        | (5,005,443)             | 1,721,847          |
| Cash, beginning of period                                          |       | 4,243,725                | 2,984,131          | 6,597,187               | 71,124             |
| Cash, end of period                                                |       | 1,591,743                | 1,792,971          | 1,591,743               | 1,792,971          |

*See accompanying notes to the consolidated financial statements.*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*[Expressed in US dollars unless otherwise noted]*

*September 30, 2021 and 2020*

**1. NATURE OF OPERATIONS AND GOING CONCERN**

StageZero Life Sciences Ltd. (“StageZero Life Sciences” or the “Company”) is a vertically integrated healthcare company devoted to improving the early detection and management of cancer and other chronic diseases through leading-edge molecular diagnostics and clinical interventions.

StageZero Life Sciences, Inc. is focused on developing and commercializing proprietary molecular diagnostic tests for early detection of diseases and personalized health management, with a primary focus on cancer-related indications. The Company has developed a proprietary platform technology, the Sentinel Principle®, to identify novel biomarkers from whole blood. This platform is the underlying basis for ColonSentry® and the Company’s lead product, Aristotle®, the first mRNA-based multi-cancer detection panel using a single sample of blood. In addition, the Company offered various COVID-19 tests, including polymerase chain reaction (“PCR”) tests and antibody tests. PCR tests can detect COVID-19 nucleic acid from patient nasopharyngeal swab specimens or saliva and are used to diagnose an active COVID-19 infection. Antibody tests detect whether the patient has developed COVID-19 antibodies, indicating that have had the virus in the past.

The Company is incorporated under the laws of the Province of Ontario and is domiciled in Ontario, Canada. Its shares are publicly traded under the stock symbol SZLS on the Toronto Stock Exchange. On September 23, 2021 the Company commenced trading on the OTCQB under the symbol SZLSF. The Company’s registered office is located at Unit 30, 70 East Beaver Creek Road, Richmond Hill, Ontario, L4B 3B2.

StageZero Life Sciences Ltd. has wholly owned subsidiary companies, StageZero Holdings Inc., which owns 100% of StageZero Life Sciences Inc. (“Inc.”), Care Oncology, Inc, and SZ Physician Holdings, Inc, all in the United States. StageZero Life Sciences, Ltd. also wholly owns Clinics Operations, Ltd. (also referred to as CareOncology UK) in the United Kingdom.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the future operations will allow for the realization of assets and the discharge of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments to the carrying value and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments could be material. The Company reported a consolidated net loss of \$2.2 million for the three months ended September 30, 2021 [September 30, 2020 – loss of 2.3 million], a loss of \$5.2 million for the nine-month period ended September 30, 2021 [2020 – loss of \$5.3 million]. As at September 30, 2021, the Company had working capital deficit of \$2.0 million [December 31, 2020 – working capital 1.6 million] and a deficit of \$109 million [December 31, 2020 – \$104 million].

These circumstances create material uncertainties that cast significant doubt as to the ability of the Company to continue as a going concern and, hence, the appropriateness of the use of accounting principles applicable to a going concern. The Company is actively pursuing additional financing to further develop certain of the Company’s scientific initiatives, but there is no assurance these initiatives will be successful, timely or sufficient. As of September 30, 2021 and 2020 the financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

**2. BASIS OF PRESENTATION**

These consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments. The Company’s principal accounting policies outlined below have been applied consistently to all years presented in these consolidated financial statements.

**Statement of compliance**

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) in effect on September 30, 2021.

### **Functional and Presentation Currency**

These financial statements are presented in United States dollars (U.S.), which is the functional and presentation currency of the Company and its subsidiaries.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Revenue recognition**

Under IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for transferring goods or services to a customer.

The principles in IFRS 15 are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

As detailed below, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made.

#### **Cancer Testing**

The Company performs diagnostic blood-based biomarker tests to screen for early cancer detection and risk assessment. Upon completion of the diagnostic tests, the results of the tests are made available to the caregiver or patient. The amount of revenue from billings is adjusted with certain third-party payers, considering contractually defined terms of payment and excluding taxes or duty and ultimate settlements which cannot be reliably estimated until the cash is collected.

#### **COVID Testing**

As the COVID-19 pandemic transpired during early fiscal 2020, the Company pivoted to providing COVID-19 assessments using Polymerase Chain Reaction ("PCR") testing and antigen testing, which have been approved on an Emergency Use Authorization (EUA) by the FDA. The Company also entered into some agreements under which they would provide mobile testing facilities for customers.

#### **Care Oncology Clinics**

Care Oncology offers telemedicine-based clinical services in the USA and the UK through two specific programs.

- TREAT, based on the METRICS Study (NCT02201381), is a clinically researched and personalized therapeutic regimen administered by experienced oncologists and intended for patients diagnosed with cancer of any type or at any stage, as an adjuvant therapy along with conventional cancer treatment. TREAT employs the patented COC Protocol that intends to interrogate the interconnected intracellular pathways involved in cancer cell growth, proliferation, apoptosis, and angiogenesis, by focusing on metabolic pathways.
- AVRT is a patient-centric, personalized care plan that specializes in identifying and treating the early warning signs of cancer and other chronic diseases. Created by the physicians and scientists who developed the COC Protocol, AVRT uses similar approaches to detect and target the inflammatory and metabolic pathways that have been demonstrated to increase the risk of developing cancer and other chronic diseases.

Specifically, as it pertains to Cancer and COVID testing, in assessing the performance obligations, the Company has determined that there are two separate performance obligations in these services, providing a test result from performing the PCR or antigen testing and providing mobile testing facilities. The Company recognizes the revenues from these services when the performance obligation has been fulfilled and collection is reasonably assured.

Care Oncology Clinics earn revenue, paid in advance by patients, related to the provision of supplemental care beyond that of the patient's primary Oncologist. In the United States, the provision of these services also includes the provision of three months of nurse support services, which is not offered in the UK. The Company has identified two performance obligations in the U.S. related to the consultation with the Oncologist and the ongoing Nurse Support. Revenue related to the Oncologist appointment is recognized at a point in time, at the conclusion of the appointment, whereas revenue related to the ongoing Nurse Support is deferred and recognized over the three-month committed term. In the UK, there is only one performance obligation, the provision of the Oncologist consultation, accordingly, the related revenue is recognized at the conclusion of the appointment.

## **COVID 19**

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations. During 2020, the Company did experience an increase in revenues related to expanded service offerings related to COVID-19 and has no guarantee of future financial performance.

## **Accounting standards, amendments, and interpretations not yet adopted or effective**

As discussed in the notes to the Company's audited financial statements for the year ended December 31, 2020, certain new standards, amendments, and interpretations have been issued which are not yet effective for the Company's consolidated financial statements for the periods presented. The Company has not early adopted any standards, amendments, or interpretations, which are issued but not yet effective.

## **4. ACQUISITION OF CARE ONCOLOGY BUSINESS**

On September 2, 2021, the Company acquired 100% of the shares of Clinics Operations Limited ("COL"), a company incorporated in the United Kingdom ("UK") and, through the Company's newly incorporated subsidiaries Care Oncology Inc. ("COI") and Care Oncology Physicians ("COP"), the operating assets of Health Clinics USA Corp., both from Health Clinics Limited ("HCL"), the ultimate parent of both entities, for consideration with a fair value of \$6,5665,302.

The consideration is comprised of three elements: 12,500,000 shares issued on the date of closing, September 2, 2021; 2,500,000 shares that are issuable upon the successful acquisition of a Care Quality Commission ("CQC") license by COL (the "CQC Consideration"); and contingent consideration consisting of 8,000,000 common shares, pending approval by the Company's shareholders, or in the event that that approval is not obtained, then up to Cdn \$16 million cash, to be issued or paid as a royalty (9.5% of consolidated revenues). The contingent shares/royalty is only earned if the revenues from TREAT and AVRT reach \$4M in any consecutive 12-month period up until December 31, 2022 (the "Earn Out Consideration"). If the revenue target of \$4M is not attained in a continuous 12-month period between Sept 2021 and December 31, 2022 then neither the royalty nor the shares are earned.

The 12,500,000 shares were valued based on the share price at issuance, September 2, 2021, being Cdn\$ 0.42, or \$4,160,625. These shares are subject to a Lock Up Agreement that restricts the Holders' ability to sell those shares, releasing one third on four months from the closing date, one third on eight months and the final third on the anniversary.

Management estimated that the likelihood of attaining the CQC license and issuing the 2,500,000 CQC Consideration shares related thereto was reasonably certain on September 2, 2021, and accordingly, the related shares were valued using the same closing price, at \$832,125.

The fair value of the Earn Out Consideration was measured using a Monte Carlo simulation due to the uncertain nature of the potential future revenue scenarios, using the following inputs: Equity volatility of 102.2%; asset volatility of 96.5%; risk-free rates of 0.3% and 0.11%, for Canada and the U.S., respectively; a correlation factor of 46.5% between revenue and share price; and, an overall discount rate of 25%. The result of the valuation model was to value the Earn Out Consideration at \$1,573,552. As the Earn Out Consideration is potentially settled in cash, it has been treated as a liability, which will be remeasured at fair value through profit and loss each period.

On September 30, 2021, the Earn Out Consideration was remeasured using a Monte Carlo simulation due to the uncertain nature of the potential future revenue scenarios, using the following inputs: Equity volatility of 102.2%; asset volatility of 96.5%; risk-free rates of 0.3% and 0.11%, for Canada and the U.S., respectively; a correlation factor of 46.5% between revenue and share price; and, an overall discount rate of 25%. The result of the valuation model was to value the Earn Out Consideration at \$1,573,552. As a result of the remeasurement a gain \$157,091 of \$ was recorded in the consolidated statements of loss and comprehensive loss.



The transaction has been accounted for as a business combination under IFRS 3 — Business Combinations.

The following table summarizes the preliminary purchase price allocation:

| <b>Assets Acquired</b>                                   |                  |
|----------------------------------------------------------|------------------|
| Cash and cash equivalents                                | 20,724           |
| Deposit                                                  | 4,751            |
|                                                          | <b>25,475</b>    |
| <b>Liabilities Assumed</b>                               |                  |
| Accounts payable and accrued liabilities                 | 18,838           |
| <b>Net assets at fair value, as at September 2, 2021</b> | <b>6,637</b>     |
| <b>Consideration</b>                                     |                  |
| Share consideration                                      | 4,160,625        |
| CQC Consideration                                        | 832,125          |
| Earn Out Consideration                                   | 1,573,552        |
| <b>Total Consideration</b>                               | <b>6,566,302</b> |
| <b>Goodwill</b>                                          | <b>6,559,665</b> |

Management identified that there were patents, trademarks and a patient database that were acquired in the transaction; however, there lacks a material impact of these intangible assets in the cash flow producing activities of the related business. Consequently, in determining their preliminary value in the preliminary purchase price allocation, no value has been allocated to these intangibles as any value attributed thereto is expected to be immaterial.

The goodwill generated as a result of this acquisition relates to other intangible assets that do not qualify for separate recognition.

If the acquisition had occurred on January 1, 2021, management estimates that revenue would have increased by \$2.6M and net loss would have been relatively unchanged.

## 5. INVENTORY

Inventory is valued at cost less an allowance for obsolete items.

## 6. TRADE AND OTHER PAYABLES

The Company's exposure to liquidity and currency risks related to trade and other payables is presented in note 14.

|                     | At September 30, 2021 | At December 31, 2020 |
|---------------------|-----------------------|----------------------|
|                     | \$                    | \$                   |
| Trade payables      | 1,293,156             | 1,253,471            |
| Accrued liabilities | 1,074,663             | 1,268,670            |
|                     | 2,367,819             | 2,522,141            |

## 7. NOTES PAYABLE AND CONVERTIBLE DEBENTURES

Notes payable consists of:

|                                                 | At September 30, 2021 | At December 31, 2020 |
|-------------------------------------------------|-----------------------|----------------------|
|                                                 | \$                    | \$                   |
| Note payable to HDL [a]                         | 661,513               | 671,489              |
| Note payable to shareholders and a director [b] | <u>235,889</u>        | <u>228,390</u>       |
| Total                                           | 897,402               | 899,879              |
| Less: current portion of notes payable          | (355,889)             | (348,390)            |
| Long-term portion of notes payable              | 541,513               | 551,489              |

Convertible debentures held at fair value consists of:

|                           | At September 30, 2021 | At December 31, 2020 |
|---------------------------|-----------------------|----------------------|
|                           | \$                    | \$                   |
| Convertible debenture [d] | -                     | 2,041,720            |

Short-term loans consist of:

|               | At September 30, 2021 | At December 31, 2020 |
|---------------|-----------------------|----------------------|
|               | \$                    | \$                   |
| CEBA Loan [e] | 44,544                | 28,543               |

### [a] Note payable to HDL

In May 2015, StageZero Holdings Inc. issued a note payable in the amount of \$1.0 million to Health Diagnostic Laboratories (HDL) to purchase additional shares of StageZero Life Sciences Inc. increasing its share from 33⅓% to 50% and in March 2016, StageZero Holdings Inc. assumed an additional \$1.0 million note payable to HDL to own 100% of StageZero Life Sciences Inc. Effective March 1, 2017, the Company agreed to pay principal of \$2,095,843.

On May 4, 2016, StageZero Holdings Inc. received a notice of default from HDL for missing two monthly payments under the terms of the Notes that were renegotiated in March 2016. On August 15, 2016, Richard Arrowsmith, as Liquidating Trustee of the HDL Liquidating Trust (the "Liquidating Trust"), filed a Complaint against StageZero Holdings Inc., in the United States Bankruptcy Court, Eastern District of Virginia, Richmond Division (the "Bankruptcy Court"). The parties entered into negotiations and on March 1, 2017 reached a settlement agreement pursuant to which StageZero Holdings Inc. would pay the Liquidating Trust an aggregate settlement amount of \$2,095,843, to be paid in a \$25,000 upfront payment and monthly payments of \$15,000 beginning March 1, 2017 to July 1, 2017, followed by monthly payments of \$10,000 until the outstanding debt has been paid in full. The Bankruptcy Court granted the Liquidating Trust's motion to approve the settlement agreement and, on April 27, 2017, the action against StageZero Holdings Inc. was dismissed with prejudice by the Bankruptcy Court.

During the nine months ended September 30, 2021, the Company paid \$90,000 [2020 - \$90,000]. The note payable was initially recognized at fair value, and subsequently measured at amortized cost using the effective interest rate method. The initial fair values were calculated with a valuation technique that uses parameters obtained from observable markets, including credit spread and interest rate volatility. The prevailing interest rate used in the valuations was 16% at initial recognition. The loan is unsecured, and the balance of the note is expected to be repaid in full by 2034.

## **[b] Notes payable to shareholders and director**

On October 25, 2018, the Company entered into agreements with two shareholders of the Company, one of whom is also a director of the Company, who loaned \$200,000 and \$50,000 respectively to the Company and were issued convertible notes (the “Notes”) in consideration. These Notes are due on demand with simple interest earned at 5% per annum. The Lenders have the right to convert the accrued interest and principal into common shares of the Company through the Term. The conversion rate is calculated as the 5-day volume weighted average price of the common shares of the Company (each a “Common Share”) for the period ending October 24, 2018 of Cdn\$ 0.42544 plus Cdn\$ 0.04 premium, totaling Cdn\$ 0.46544. The number of Common Shares issuable by the Company upon conversion is calculated as the total accrued balance of principal and interest owing on the date of demand for conversion, converted from USD to Cdn\$ at the Bank of Canada’s exchange rate on October 24, 2018 of 1.3029 and divided by the common share price in Cdn\$.

During the period from October 3, 2018 until December 31, 2019, the Company issued additional demand note agreements with the above director for loans totaling \$440,000 to the Company. The Notes were payable on demand with simple interest earned at 5% per annum and were secured by a security interest in the Company’s patents and trademarks.

On June 29, 2020, \$390,766 of the notes payable was converted to 951,120 common shares (note 9(b) [iv]). On October 28, 2020, \$50,000 of the notes payable were converted to 156,335 common shares. As at September 30, 2021, the convertible notes payable balance is \$235,889 including accrued interest payable, which approximates the fair value. The notes are secured by a security interest in the Company’s patents and trademarks

## **[c] Convertible debentures**

### **[i] 2018 Debentures**

On June 8, 2018, the Company entered into a Convertible Security Funding Agreement (the “CSFA”) with Lind Asset Management XI, LLC (“Lind”) for up to Cdn\$7.5 million in convertible securities. Under the terms of the Agreement, Lind advanced Cdn\$1,541,800, less a closing fee of Cdn\$100,000, in consideration for the issuance of a convertible security with a face value of Cdn\$2.4 million (the “First CSFA”). Lind could increase the funding under the First CSFA by an additional Cdn\$1,000,000 during its thirty-month term.

The Agreement also provided for the issuance of a second CSFA on mutual agreement of the Company and Lind and satisfaction of conditions including that 75% of the face amount of the First CSFA has been repaid or converted, in which case Lind could fund up to another Cdn\$3,000,000 (the “Second Tranche”). Similar to the First CSFA, Lind could also increase the funding under the Second CSFA by up to Cdn\$1,500,000. If the Second CSFA occurred, the Company would pay Lind a closing fee equal to 5% of the amount advanced in the Second CSFA.

Each CSFA had a thirty-month term from the date of issuance and bore interest of 8% per annum on the amount funded that is attributed to its face value upon the issuance of each CSFA. The Company’s obligations under the Agreement were secured by all of the Company’s present and after-acquired property other than intellectual property, including a pledge of its equity interests in its subsidiaries.

Shares underlying each CSFA are restricted from trading for a period of four months and one day from the time of issuance of the applicable CSFA (the “Lock-up Period”). Lind could convert the CSFA’s in monthly installments over the term at a conversion price equal to 85% of the 5-day trailing volume-weighted average price (“VWAP”) of the Company’s common shares prior to the date that notice of conversion is provided by Lind. The Agreement contained restrictions on how much may be converted in any particular month and how many common shares Lind may hold at any given time. Lind was entitled to accelerate its conversion right to the full amount of the face value or demand repayment of the face value in cash upon a default and other specified events. To the extent that the full, face value of a convertible security may not have been converted at maturity, the balance of the face value was to be paid in cash at the end of the thirty-month term.

The Company had the option to buy-back the CSFA’s in cash at any time by paying a buy-back premium equal to 5% of the outstanding balance of the applicable convertible security, except that no such premium was payable if the Company elects to buy back the First Convertible Security within the Lock-Up Period.

The Agreement and the issuance of securities thereunder were conditionally approved by the TSX, with up to 756,112 common shares issuable under the Agreement. At the Company's June 28, 2018 shareholder meeting, the company received shareholder approval to issue up to an additional 5,000,000 common shares to Lind under the Agreement. Any additional issuances of common shares under the Agreement will be subject to further shareholder approval.

Lind increased the funding under the First CSFA by an additional Cdn\$750,000 on April 9, 2019. Lind advanced Cdn\$750,000, less a closing fee of Cdn\$37,500 in consideration for the issuance of a CSFA with a face value of Cdn\$900,000 (the "First CSFA").

In addition, the Company issued 1,691,475 warrants to Lind in respect of the First CSFA, exercisable for 36 months at an exercise price of Cdn\$0.768 per share. The number of warrants issued in connection with the First CSFA are equal to 50% of the amount advanced by Lind (Cdn\$2,000,000) divided by the VWAP of the common shares of the Company on the TSX for the five trading days immediately preceding the closing date. On April 23, 2019, in respect of the Additional Funding Cdn\$750,000, the Company issued 319,094 warrants exercisable for 36 months at an exercise price of Cdn\$1.5272 per share.

Each convertible security had a thirty-month term from the date of issuance and bore interest of 8% per annum on the amount funded that was attributed to its face value upon the issuance of each convertible security. The Company's obligations under the Agreement were secured by all of the Company's present and after-acquired property other than intellectual property, including a pledge of its equity interests in its subsidiaries.

The Company had the option to buy-back the convertible securities in cash at any time by paying a buy-back premium equal to 5% of the outstanding balance of the applicable convertible security.

The fair values of the First CSFA and the conversion liability were determined at the date of grant, and at quarter end using a binomial lattice model with the following assumptions:

|            | Expiry date<br>(mm/dd/yyyy) | Risk-free<br>interest rate | Conversion price<br>discount | Foreign exchange rate |
|------------|-----------------------------|----------------------------|------------------------------|-----------------------|
| Issued on: |                             |                            |                              |                       |
| 31-Mar-20  | 7/12/2020                   | 0.18%                      | 15%                          | 1.4187                |
| 15-Apr-20  | 7/12/2020                   | 0.18%                      | 15%                          | 1.4086                |
| 8-May-20   | 7/12/2020                   | 0.18%                      | 15%                          | 1.3934                |

#### Convertible Debenture Private Placement in February 2020

The Company closed a private placement of convertible debentures (each a "Debenture") for gross proceeds of Cdn\$1,180,000 on February 19, 2020 (the "Offering"). The Debentures, issued in increments of \$1,000, bear interest at a rate of 6% per annum, have a term of 18 months from the date of issue and are convertible into units ("Units") at a conversion price of \$0.32 per Unit. Each Unit consists of one (1) common share ("Common Share") of the Company and one-half (1/2) of a Common Share purchase warrant. Each whole warrant (a "Warrant") is exercisable into one Common Share of the Company at an exercise price of Cdn\$0.56 per Common Share for a period of twenty-four (24) months from the date of issuance of the Debentures. Securities issued pursuant to the Offering are subject to a statutory hold period lasting four (4) months and a day after the issuance of the securities. All principal of the Convertible Debentures has been converted to units as of September 30, 2021.

As the conversion price is variable due to currency differences, resulting in the recognition of an embedded derivative, the Company designated the entire convertible instrument as a financial liability at fair value through profit or loss and recognized any changes in the fair value in the consolidated statement of loss. The fair value of the convertible debenture was calculated using a combination of discounted cash flows using a discount rate of 35% and option pricing models using the following inputs:

| Measurement Date | Expected volatility<br>Conversion Option/Unit<br>Warrant* | Risk-free interest rate<br>Conversion Option/Unit<br>Warrant |
|------------------|-----------------------------------------------------------|--------------------------------------------------------------|
| 19-Feb-20**      | 160%/146%                                                 | 1.56%/1.48%                                                  |
| 31-Dec-20        | 115%/148%                                                 | 0.11%/0.16%                                                  |

\* Where the transaction price is fair value, and the valuation model uses unobservable inputs the valuation model is calibrated such that the result of the valuation technique equals the transaction price. The indicated volatility is prior to the calibration adjustment.

\*\* On initial recognition there is a discount for lack of marketability (“DLOM”) as a result of a four-month statutory hold period was determined using a Finnerty Model with initial term of 4 mos. and volatility of 130%, in subsequent measurement periods, the hold period is expired and accordingly no DLOM is applied.

#### [d] Convertible debentures

##### Fair value of convertible debenture

|                               | \$          |
|-------------------------------|-------------|
| At January 1, 2021            | 2,041,720   |
| Issuance during the period    | -           |
| Revaluation during the period | 1,131,592   |
| Less: Conversion              | (3,172,882) |
| Foreign exchange              | (430)       |
| At September 30, 2021         | -           |

#### [e] Short-term debt

During 2020 and second quarter of 2021, the Company received a Cdn\$60,000 Canada Emergency business Account (“CEBA”) loan from the Government of Canada via its commercial bank. The loan is interest free until December 31, 2022, with a maturity date of December 31, 2025. If Cdn\$40,000 of the loan has been repaid by December 31, 2022, the remaining balance (maximum Cdn\$20,000) will be forgiven. Should the loan not be repaid by December 31, 2022, interest at 5% will be charged per annum commencing on January 1, 2023 until maturity on December 31, 2025. The loan is unsecured.

## 8. WARRANT LIABILITY

|                                                                 | #           | \$               |
|-----------------------------------------------------------------|-------------|------------------|
| At January 1, 2020                                              | 9,995,965   | 997,233          |
| January 16, 2020 [b]                                            | 1,053,775   | 166,470          |
| January 16, 2020 [b]                                            | 27,738      | -                |
| February 19, 2020 [b]                                           | 202,343     | -                |
| June 29, 2020 [b]                                               | 8,272,010   | 483,676          |
| June 29, 2020 [b]                                               | 951,120     | 55,613           |
| June 29, 2020 [b]                                               | 297,645     | -                |
| June 29, 2020 [b]                                               | 297,645     | -                |
| November 27, 2020 [b]                                           | 162,728     | 17,671           |
| December 04, 2020 [b]                                           | 4,621,850   | 577,686          |
| December 04, 2020 [b]                                           | 323,530     | -                |
| December 04, 2020 [b]                                           | 323,530     | -                |
| Warrant Exercise during the period                              | (2,660,809) | (342,035)        |
| Warrant issued due to the conversion for convertible debentures | 234,375     | 40,617           |
| Foreign exchange adjustment during the period                   |             | 21,186           |
| Revaluation                                                     |             | 1,395,837        |
| At December 31, 2020                                            | 24,103,444  | 3,356,484        |
| Warrant Exercise during the period                              | (2,181,617) | (909,537)        |
| Warrant expired during the period                               | (1,929,305) | -                |
| Warrant issued due to the conversion for convertible debentures | 1,600,903   | 1,023,158        |
| Revaluation                                                     |             | (2,076,884)      |
| At September 30, 2021                                           | 21,593,425  | 1,393,221        |
| <b>Short-term portion of warrant liability</b>                  |             | <b>155,484</b>   |
| <b>Long-term portion of warrant liability</b>                   |             | <b>1,237,737</b> |

The following warrants were issued and outstanding as of September 30, 2021:

|              | <b>Warrants</b>   | <b>Exercisable into<br/>common shares</b> | <b>Exercise<br/>Price</b> | <b>Expiry date</b> |
|--------------|-------------------|-------------------------------------------|---------------------------|--------------------|
|              | #                 | #                                         | Cdn\$                     |                    |
| Date issued: |                   |                                           |                           |                    |
| 4-Nov-16     | 125,000           | 125,000                                   | 1.6                       | 4-Nov-21           |
| 30-Dec-16    | 162,500           | 162,500                                   | 1.6                       | 30-Dec-21          |
| 17-Feb-17    | 201,250           | 201,250                                   | 1.6                       | 17-Feb-22          |
| 9-May-17     | 12,952            | 12,952                                    | 1.6                       | 9-May-22           |
| 25-Mar-19    | 722,606           | 722,606                                   | 0.72                      | 25-Mar-22          |
| 23-Apr-19    | 319,094           | 319,094                                   | 1.528                     | 23-Apr-22          |
| 23-Apr-19    | 220,797           | 220,797                                   | 0.96                      | 23-Apr-22          |
| 23-Apr-19    | 390,626           | 390,626                                   | 0.8                       | 23-Apr-22          |
| 10-Jul-19    | 1,448,596         | 1,448,596                                 | 1.48                      | 10-Jul-22          |
| 24-Jul-19    | 566,874           | 566,874                                   | 1.48                      | 24-Jul-22          |
| 16-Jan-20    | 765,103           | 765,103                                   | 0.48                      | 16-Jan-23          |
| 16-Jan-20    | 25,000            | 25,000                                    | 0.48                      | 16-Jan-23          |
| 19-Feb-20    | 202,343           | 202,343                                   | 0.56                      | 18-Feb-22          |
| 29-Jun-20    | 951,120           | 951,120                                   | 0.72                      | 29-Jun-23          |
| 29-Jun-20    | 8,234,306         | 8,234,306                                 | 0.72                      | 29-Jun-23          |
| 29-Jun-20    | 8,125             | 8,125                                     | 0.68                      | 29-Jun-23          |
| 29-Jun-20    | 297,645           | 297,645                                   | 0.68                      | 29-Jun-23          |
| 8-Jul-20     | 31,250            | 31,250                                    | 0.56                      | 18-Feb-22          |
| 9-Jul-20     | 78,125            | 78,125                                    | 0.56                      | 18-Feb-22          |
| 15-Oct-20    | 50,782            | 50,782                                    | 0.56                      | 18-Feb-22          |
| 15-Oct-20    | 54,688            | 54,688                                    | 0.56                      | 18-Feb-22          |
| 27-Oct-20    | 15,625            | 15,625                                    | 0.56                      | 18-Feb-22          |
| 27-Nov-20    | 162,728           | 162,728                                   | 1.1                       | 27-Nov-23          |
| 4-Dec-20     | 4,621,856         | 4,621,856                                 | 1.1                       | 4-Dec-23           |
| 4-Dec-20     | 323,530           | 323,530                                   | 1.1                       | 4-Dec-23           |
| 25-Jan-21    | 62,500            | 62,500                                    | 0.56                      | 18-Feb-22          |
| 28-Jan-21    | 273,438           | 273,438                                   | 0.56                      | 18-Feb-22          |
| 29-Jan-21    | 490,625           | 490,625                                   | 0.56                      | 18-Feb-22          |
| 29-Jan-21    | 343,750           | 343,750                                   | 0.56                      | 18-Feb-22          |
| 25-Feb-21    | 23,438            | 23,438                                    | 0.56                      | 18-Feb-22          |
| 1-Mar-21     | 9,375             | 9,375                                     | 0.56                      | 18-Feb-22          |
| 9-Mar-21     | 234,375           | 234,375                                   | 0.56                      | 18-Feb-22          |
| 25-Mar-21    | 31,250            | 31,250                                    | 0.56                      | 18-Feb-22          |
| 18-Aug-21    | 62,500            | 62,500                                    | 0.56                      | 18-Feb-22          |
| 19-Aug-21    | 69,653            | 69,653                                    | 0.56                      | 18-Feb-22          |
|              | <b>21,593,425</b> | <b>21,593,425</b>                         |                           |                    |

The weighted average exercise price for total outstanding warrants as of September 30, 2021 is Cdn\$ 0.89.

## **[a] Warrants issued 2019**

### **Warrants issued in First Tranche of Unit Private Placement on March 25, 2019**

In connection with the Unit Private Placement, on March 25, 2019, 1,250,000 warrants were issued, exercisable at a price of Cdn\$0.72 per common share, expiring on March 25, 2022.

In connection with the Unit Private Placement, on April 23, 2019, 398,437 warrants were issued and are exercisable at a price of Cdn\$0.80 per common share, expiring on April 23, 2022.

In connection with convertible note payable extinguishment on April 23, 2019 [Note 7(b)], 220,797 Warrants were issued and are exercisable at a price of Cdn\$0.96 per common share, expiring on April 23, 2022.

In connection with the Unit Private Placement, on July 10, 2019, 1,448,586 warrants were issued and are exercisable at a price of Cdn\$1.48 per common share, expiring on July 10, 2022.

In connection with the Unit Private Placement, on July 24, 2019, 566,874 warrants were issued and are exercisable at a price of Cdn\$1.48 per common share, expiring on July 24, 2022.

### **Warrants issued to Lind on January 9, 2019**

The Company issued 2,361,163 Common Share purchase warrants ("Warrants") to Lind in respect of the Convertible Security on January 9, 2019. Each Warrant is exercisable for one Common Shares for 36 months at an exercise price of \$0.2752 per Common Share. The number of Warrants issued in connection with the Convertible Security are equal to 100% of the amount advanced by Lind (CDN\$500,000) divided by the VWAP of the Common Shares on the TSX for the five trading days immediately preceding the execution date of the Agreement. The Warrants provide for cashless exercise by the holder in the event that the Company ceases to be a foreign private issuer, as such term is defined under the United States Securities Act of 1933.

The Company will be entitled, in its sole discretion, to exercise its Acceleration Right, permitting it to accelerate the exercise of the warrants, upon the occurrence of an Acceleration Event, which is defined as thirty (30) consecutive trading days during which the Common Shares traded on the Exchange at a VWAP that is at least 300% of the Exercise Price, by delivering an Acceleration Notice to the Holder. An Acceleration Notice must include the following information: (i) identifying the thirty (30) consecutive trading days during which the Common Shares traded on the Exchange at a VWAP that is at least 300% of the Exercise Price, (ii) details of the VWAP calculation, and (iii) the new Expiry Date. An Acceleration Notice will be delivered by the Company to the Holder in the manner provided in section 9 on the date of the Acceleration Notice. The Company shall not deliver an Acceleration Notice if any Face Value amount on the Convertible Security remains outstanding, and any Acceleration Notice delivered in such circumstances shall be null and void.

### **Warrants issued to Lind on April 22, 2019**

The Company issued 319,094 warrants to Lind in respect of the Additional Funding with an exercise price of Cdn\$1.5272, which is 130% of the 5-day VWAP at April 10, 2019, and exercisable for 36 months. The number of warrants issued in connection with the Additional Funding is equal to 50% of the Cdn\$750,000 advanced by Lind divided by the VWAP of the common shares of the company on the TSX for the five trading days immediately preceding the closing date.

## **[b] Warrants issued 2020**

### **Warrants issued for Unit Private Placement on January 16, 2020**

In connection with the Unit Private Placement, January 16, 2020, 1,053,763 warrants were issued and are exercisable at a price of Cdn\$0.48 per common share, expiring on January 16, 2023.

### **Warrants issued to Hampton Security Company on January 16, 2020**

The Company issued 27,737 warrants to Hampton Security Company in respect of the broker warrants for Unit Private Placement on January 16, 2020 with an exercise price of Cdn\$0.48, exercisable for 36 months. As these warrants were issued to a broker for financing services, the issuance was accounted for as share-based compensation and the fair value on issuance was recorded in contributed surplus.

### **Warrants issued to Hampton Security Company on February 19, 2020**

The Company issued 202,343 warrants to Hampton Security Company in respect of the broker warrants for Convertible Debentures closed on February 19, 2020 with an exercise price of Cdn\$0.56, and exercisable for 18 months. As these warrants were issued to a broker for financing services, the issuance was accounted for as share-based compensation and the fair value on issuance was recorded in contributed surplus.



On August 5, 2021 the Company announces that it is extending the expiry date (“Warrant Extension”) of 202,343 Warrants. The Company and holder of the Warrants have agreed to the Warrant Extension whereby the current expiry of the Warrants being August 19, 2021, will be extended by six (6) months to February 19, 2022. All other terms of the Warrants, including the exercise price of \$0.56 per common share, will remain unchanged.

**Warrants issued for Unit Private Placement on June 29, 2020**

In connection with the Unit Private Placement, June 29, 2020, 951,120 warrants were issued and are exercisable at a price of Cdn\$0.72 per common share, expiring on June 29, 2023.

**Warrants issued for Public Offering on June 29, 2020**

In connection with the Public Offering, June 29, 2020, 8,272,010 warrants were issued and are exercisable at a price of Cdn\$0.72 per common share, expiring on June 29, 2023.

**Warrants issued to National Bank Financial Inc. on June 29, 2020**

The Company issued 297,645 warrants to National Bank Financial Inc. in respect of the broker warrants for the Public Offering on June 29, 2020 with an exercise price of Cdn\$0.68, and exercisable for 36 months. As these warrants were issued to a broker for financing services, the issuance was accounted for as share-based compensation and share issuance costs and the fair value on issuance was recorded in contributed surplus.

**Warrants issued to Fidelity Clearing Canada ULC on June 29, 2020**

The Company issued 297,645 warrants to Fidelity Clearing Canada ULC in respect of the broker warrants for Public Offering on June 29, 2020 with an exercise price of Cdn\$0.68, and exercisable for 36 months. As these warrants were issued to a broker for financing services, the issuance was accounted for as share-based compensation and share issuance costs and the fair value on issuance was recorded in contributed surplus.

**Warrants issued for Unit Private Placement on November 27, 2020**

In connection with the Unit Private Placement, November 27, 2020, 162,728 warrants were issued and are exercisable at a price of Cdn\$1.10 per common share, expiring on November 27, 2023.

**Warrants issued for Public Offering on December 4, 2020**

In connection with the Public Offering, December 4, 2020, 4,621,850 warrants were issued and are exercisable at a price of Cdn\$1.10 per common share, expiring on December 4, 2023.

**Warrants issued to National Bank Financial Inc. on December 4, 2020**

The Company issued 323,530 warrants to National Bank Financial Inc. in respect of the broker warrants for the Public Offering on December 4, 2020 with an exercise price of Cdn\$1.10, and exercisable for 36 months. As these warrants were issued to a broker for financing services, the issuance was accounted for as share-based compensation and share issuance costs and the fair value on issuance was recorded in contributed surplus.

**Warrants issued to Fidelity Clearing Canada ULC on December 4, 2020**

The Company issued 323,530 warrants to Fidelity Clearing Canada ULC in respect of the broker warrants for Public Offering on December 4, 2020 with an exercise price of Cdn\$1.10, and exercisable for 36 months. As these warrants were issued to a broker for financing services, the issuance was accounted for as share-based compensation and share issuance costs and the fair value on issuance was recorded in contributed surplus.

**Warrants issued due to the conversions of convertible debentures in the first three quarter 2021**

The Company issued 1,600,903 warrants to unitholders in respect of the conversion of convertible debentures with the exercise price of Cdn\$0.56, and exercisable till February 18, 2022.

**[c] Financial liability accounting**

Because such warrants were denominated in Cdn\$ [a currency different from the Company’s functional currency], they were recognized as a financial liability at fair value through profit or loss, except for broker warrants issued to Hampton Security Company, National Bank Financial Inc. and Fidelity Clearing Canada ULC, which were compensation warrants and were recorded in accordance with IFRS 2, Share-based payments, to contributed surplus.

The fair value of each warrant is estimated on the date of grant and on the revaluation date using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires four subjective assumptions, including future stock price volatility of the Company’s common shares which trade on the TSX (“Expected volatility”), the risk-free interest rate (sourced to Government of

Canada Bond Yields for the noted term); expected dividend yield and expected time until exercise (“Expected life”), which greatly affect the calculated values.

The fair values of the warrants issued during 2021 and 2020 were determined at the date of grant with the following assumptions (all with an expected dividend yield of nil):

|                       | Expiry date<br>(mm/dd/yy)                                      | Expected<br>volatility | Risk-free<br>interest rate | Expected life             | Weighted-average<br>fair value at<br>measurement date<br>(in Cdn\$) |
|-----------------------|----------------------------------------------------------------|------------------------|----------------------------|---------------------------|---------------------------------------------------------------------|
| Date issued:          |                                                                |                        |                            |                           |                                                                     |
| 16-Jan-20             | 1/16/2023                                                      | 133%                   | 0.52%                      | 1.0 years and<br>3 months | 0.1904                                                              |
| June 29, 2020 (i)     | 6/29/2023                                                      | n/a                    | n/a                        | n/a                       | 0.03                                                                |
| June 29, 2020 (i)     | 6/29/2023                                                      | n/a                    | n/a                        | n/a                       | 0.03                                                                |
| 8-Jul-20              | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 9-Jul-20              | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 28-Sep-20             | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 29-Sep-20             | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 27-Oct-20             | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| December 4, 2020 (ii) | 12/4/2023                                                      | n/a                    | n/a                        | n/a                       | 0.24                                                                |
| December 4, 2020 (ii) | 12/4/2023                                                      | n/a                    | n/a                        | n/a                       | 0.24                                                                |
| 25-Jan-21             | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 28-Jan-21             | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 29-Jan-21             | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 29-Jan-21             | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 25-Feb-21             | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 1-Mar-21              | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 9-Mar-21              | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 25-Mar-21             | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 18-Aug-21             | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| 19-Aug-21             | 2/18/2022                                                      | 103%                   | 0.18%                      | 5.5 months                | 0.05                                                                |
| <hr/>                 |                                                                |                        |                            |                           |                                                                     |
| (i)                   | warrants valued based on public warrant price (TSX: SZLS-WT-T) |                        |                            |                           |                                                                     |
| (ii)                  | warrants valued based on public warrant price (TSX: SZLS-WS-T) |                        |                            |                           |                                                                     |

The fair values of the warrants, except for broker warrants issued to Hampton Security Company, National Bank Financial Inc. and Fidelity Clearing Canada ULC, were revalued at September 30 2021 using the Black-Scholes option pricing model with the following assumptions (all with dividend yield of nil):

|                       | Expiry date<br>(mm/dd/yyyy) | Expected<br>volatility | Risk-free<br>interest rate | Expected<br>life | Weighted-<br>average fair<br>value at<br>measurement<br>date (in Cdn\$) |
|-----------------------|-----------------------------|------------------------|----------------------------|------------------|-------------------------------------------------------------------------|
| Date issued:          |                             |                        |                            |                  |                                                                         |
| 4-Nov-16              | 11/4/2021                   | 99%                    | 0.18%                      | 1 months         | 0                                                                       |
| 30-Dec-16             | 12/30/2021                  | 108%                   | 0.26%                      | 3 months         | 0.0001                                                                  |
| 17-Feb-17             | 2/17/2022                   | 104%                   | 0.26%                      | 4.5 months       | 0.0086                                                                  |
| 9-May-17              | 5/9/2022                    | 104%                   | 0.26%                      | 7.3 months       | 0.0086                                                                  |
| 25-Mar-19             | 3/25/2022                   | 100%                   | 0.26%                      | 6 months         | 0.0352                                                                  |
| April 23, 2019 *      | 4/23/2022                   | 93%                    | 0.26%                      | 6.8 months       | 0.0285                                                                  |
| 23-Apr-19             | 4/23/2022                   | 103%                   | 0.26%                      | 6.8 months       | 0.0399                                                                  |
| 23-Apr-19             | 4/23/2022                   | 103%                   | 0.26%                      | 6.8 months       | 0.028                                                                   |
| 10-Jul-19             | 7/10/2022                   | 93%                    | 0.26%                      | 9.3 months       | 0.0232                                                                  |
| 24-Jul-19             | 7/24/2022                   | 107%                   | 0.26%                      | 9.8 months       | 0.0244                                                                  |
| 16-Jan-20             | 1/16/2023                   | 108%                   | 0.52%                      | 1.0 year         | 0.1904                                                                  |
| June 29, 2020 (i)     | 6/29/2023                   | n/a                    | n/a                        | n/a              | 0.03                                                                    |
| June 29, 2020 (i)     | 6/29/2023                   | n/a                    | n/a                        | n/a              | 0.03                                                                    |
| 8-Jul-20              | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 9-Jul-20              | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 28-Sep-20             | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 29-Sep-20             | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 27-Oct-20             | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| December 4, 2020 (ii) | 12/4/2023                   | n/a                    | n/a                        | n/a              | 0.24                                                                    |
| December 4, 2020 (ii) | 12/4/2023                   | n/a                    | n/a                        | n/a              | 0.24                                                                    |
| 25-Jan-21             | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 28-Jan-21             | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 29-Jan-21             | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 29-Jan-21             | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 25-Feb-21             | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 1-Mar-21              | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 9-Mar-21              | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 25-Mar-21             | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 18-Aug-21             | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |
| 19-Aug-21             | 2/18/2022                   | 103%                   | 0.18%                      | 5.5 months       | 0.05                                                                    |

\* The indicated warrants were valued using a Barrier Option Pricing Model in order to reflect the Acceleration clause noted in the related warrant agreements in addition to the usual inputs used in the Black Scholes Model.

(i) warrants valued based on public warrant price (TSX: SZLS-WT-T)

(ii) warrants valued based on public warrant price (TSX: SZLS-WS-T)

The exchange rate used on September 30, 2021 for revaluation was Cdn\$ 1.2741.

## 9. SHARE CAPITAL

On September 18, 2020, a share consolidation of 8:1 was completed. All references to the common shares, warrants, stock options, and earnings per share have been updated in the notes to reflect the 8:1 share consolidation.

### [a] Authorized

An unlimited number of non-voting preference shares, issuable in one or more series. Issued: none (2020: none)

An unlimited number of voting special shares, entitling the holder to a dividend if and when declared by the Board in parity with the common shares and convertible into common shares. Issued: none (2020: none)

An unlimited number of voting common shares. Issued: see statements of changes in shareholders' equity (deficiency).

### [b] Financings

#### [i] 2020 Unit Private placement in January

On January 24, 2020, the Company closed a unit financing (the "Unit Financing") and issued 2,107,526 units for gross proceeds of \$516,987 (Cdn\$5674,409). Each Unit ("Unit"), issued at a price of Cdn\$0.32 per Unit, consists of one common share plus one-half of one warrant. Each whole warrant is exercisable into one common share at an exercise price of Cdn\$0.48 for a period of thirty-six months from issuance, until January 24, 2023.

In connection with the private placement, 27,377 broker warrants to acquire shares at \$0.48 per common share until January 16, 2023 valued at \$4,382 using the Black-Scholes option pricing model (Note 8). In connection with financing the Company incurred cash finders' fees, legal expenses, and other financing costs of \$14,811.

#### [ii] 2020 Unit Private placement in June

On June 29, 2020, the Company closed a unit financing (the "Unit Financing") and issued 951,120 units for gross proceeds of \$389,291 (Cdn\$532,628). Each Unit ("Unit"), issued at a price of Cdn\$0.56 per Unit, consists of one common share plus one warrant. Each whole warrant is exercisable into one common share at an exercise price of Cdn\$0.72 for a period of thirty-six months from issuance, until June 29, 2023.

#### [iii] 2020 Public Offering in June

On June 29, 2020, the Company closed a public offering of 8,272,012 units of the Company (the "Units") at a price of \$0.56 per Unit (the "Offering Price") for aggregate gross proceeds of \$3,385,709 (Cdn\$4,632,327) (the "Offering"). Each Unit was comprised of one common share of the Company and one warrant. Each Warrant is exercisable to purchase one Common Share at any time prior to June 29, 2023 at a price of Cdn \$0.72 per Common Share.

In connection with the public offering 595,290 broker warrants to acquire shares at \$0.68 per common share until June 29, 2023 valued at \$146,469 using the Black-Scholes option pricing model (Note 8). In connection with financing the Company incurred cash finders' fees, legal expenses and other financing costs of \$582,913.

#### [iv] 2020 Public Offering in December

On December 04, 2020 the Company closed a public offering of 9,243,700 units of the Company (the "Units") at a price of \$0.78 per Unit (the "Offering Price") for aggregate gross proceeds of \$5,632,440 (Cdn\$7,210,086) (the "Offering"). Each Unit was comprised of one common share of the Company and one-half warrant. Each Warrant is exercisable to purchase one Common Share at any time prior to December 04, 2023 at a price of Cdn \$1.10 per Common Share.

In connection with the public offering 647,060 broker warrants to acquire shares at Cdn \$0.85 per common share until December 4, 2023 valued at \$275,143 using the Black-Scholes option pricing model (Note 8). In connection with financing the Company incurred cash finders' fees, legal expenses, and other financing costs of \$724,716.

#### [v] 2020 Unit Private Placement in December

On December 04, 2020 the Company entered into an agreement to settle outstanding debt in the amount of \$198,309 (Cdn \$253,855) on the same terms as the 2020 Public Offering. As a result, the debtholder was issued 325,456 common shares and 162,728 common share purchase warrants see note 8(b). As the transaction was completed at market terms there was no gain or loss on the transaction.

### [c] Weighted-average number of shares

On September 18, 2020 the Company announced that trading of the common shares on the TSX on a post-Consolidation basis commenced at market opening on September 18, 2020. The Company's options, warrants, including its TSX-listed warrants, and convertible debentures have also proportionately been adjusted in accordance with their terms effective September 18, 2020.

All shares and purchase amounts in these consolidated financial statements have been retroactively restated to reflect the 1 for 8 consolidation of shares.

The weighted-average number of shares outstanding (post-consolidation) as at September 30, 2021, is 66,426,529 [December 31, 2020 – 44,820,966]. The Company has not adjusted its weighted-average number of shares outstanding for the purpose of calculating the diluted loss per share, as any adjustment would be antidilutive. All issued and outstanding stock options at September 30, 2021 of 6,094,899 [December 31, 2020 – 5,076,357] and warrants of 21,593,425 (post-consolidation) [December 31, 2020 – 24,103,444] are deemed anti-dilutive such that the basic and net loss per share are equal.

### [d] Employee stock option plan

On May 25, 2000, the Company adopted a stock option plan (the "Plan") pursuant to which the Board may grant stock options to directors, officers, employees, or consultants of the Company. The current terms of the Plan, approved by the Company's shareholders on June 30, 2016, provide that the maximum number of common shares available for issuance under the Plan does not exceed 15% of the Company's issued and outstanding shares at any time. All options granted have a term of five years from the date of grant. The vesting schedule of all granted options is determined at the discretion of the Board. The exercise price of an option must be not less than the closing price of the Company's common shares on the TSX on the trading day immediately preceding the date the option is granted. As at September 30, 2021, there were 6,094,899 [December 31, 2020 – 5,076,357] options outstanding, representing 7.7% [2020 – 8.4%] of the Company's issued and outstanding common shares. All exercised options are settled by the issuance of the Company's common shares.

There were no option cancellations or modifications to the Plan during the during nine months ended September 30, 2021 and 2020.

In compliance with current accounting standards, the fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes model requires four subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. The following assumptions were used to calculate the weighted-average fair values of the stock options granted during the years ended:

|                               | September 30, 2021 | September 30, 2020 |
|-------------------------------|--------------------|--------------------|
| Expected dividends            | —                  | —                  |
| Expected option life in years | 4.2                | 4.2                |
| Expected volatility           | 174%               | 142%               |
| Risk-free interest rate       | 1.2%               | 0.26%              |
| Vesting period in years       | 0.5                | 0.5                |

The risk-free interest rate is based on the implied yield on a Canadian government zero-coupon issue with a remaining term equal to the expected term of the option. The life of the options is estimated with consideration of the vesting period at the grant date, the term of the option and the average length of time similar grants have remained outstanding in the past. The expected volatility is estimated based on the historical volatility over a period similar to the life of the option. The dividend yield was nil because it is the present policy of the Company to retain all earnings to finance operations and future growth.

The following table summarizes the measurement date weighted-average fair value of stock options granted during the periods ended September 30, 2021 and 2020:

|                                              | <b>Number<br/>of options granted<br/>#</b> | <b>Grant date<br/>weighted-average<br/>fair value<br/>(In Cdn\$)</b> |
|----------------------------------------------|--------------------------------------------|----------------------------------------------------------------------|
| <b>Three months ended September 30, 2021</b> | <b>1,500,000</b>                           | <b>0.405</b>                                                         |
| Three months ended September 30, 2020        | 1,887,500                                  | 0.44                                                                 |

The following is a summary of the status of the Plan at September 30, 2021 and 2020, and changes during the periods then ended:

|                                   | <b>Period ended<br/>September 30, 2021</b> |                                                           | <b>Period ended<br/>September 30, 2020</b> |                                                      |
|-----------------------------------|--------------------------------------------|-----------------------------------------------------------|--------------------------------------------|------------------------------------------------------|
|                                   | <b>Number<br/>of options<br/>#</b>         | <b>Weighted-<br/>average<br/>exercise price<br/>Cdn\$</b> | <b>Number of<br/>options<br/>#</b>         | <b>Weighted average<br/>exercise price<br/>Cdn\$</b> |
| Outstanding, beginning of period  | 5,076,360                                  | 0.75                                                      | 3,733,778                                  | 0.896                                                |
| Granted                           | 1,500,000                                  | 0.405                                                     | 1,887,500                                  | 0.44                                                 |
| Exercised                         | (258,336)                                  | 0.9561                                                    | (18,750)                                   | 0.24                                                 |
| Expired or forfeited              | (223,125)                                  | 1.579                                                     | (223,125)                                  | 1.96                                                 |
| <b>Outstanding, end of period</b> | <b>6,094,899</b>                           | <b>0.38</b>                                               | <b>5,379,403</b>                           | <b>0.8</b>                                           |
| <b>Exercisable, end of period</b> | <b>5,094,899</b>                           | <b>0.38</b>                                               | <b>4,441,904</b>                           | <b>0.8</b>                                           |

The following table summarizes information about stock options outstanding at September 30, 2021:

| <b>Range of exercise<br/>prices per share<br/>Cdn\$</b> | <b>Number<br/>outstanding<br/>#</b> | <b>Number<br/>exercisable<br/>#</b> | <b>Weighted-<br/>average exercise<br/>price<br/>Cdn\$</b> | <b>Weighted-average remaining<br/>contractual life<br/>years</b> |
|---------------------------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------|
| \$0.41                                                  | 1,500,000                           | 500,000                             | \$0.375                                                   | 4.91                                                             |
| \$0.44                                                  | 1,756,250                           | 1,756,250                           | \$0.352                                                   | 3.85                                                             |
| \$0.64                                                  | 118,750                             | 118,750                             | \$0.565                                                   | 1.74                                                             |
| \$0.80                                                  | 1,893,649                           | 1,893,649                           | \$0.725                                                   | 2.89                                                             |
| \$0.88                                                  | 453,750                             | 453,750                             | \$0.782                                                   | 1.50                                                             |
| \$1.08                                                  | 20,625                              | 20,625                              | \$0.983                                                   | 0.86                                                             |
| \$1.16                                                  | 156,250                             | 156,250                             | \$1.021                                                   | 1.22                                                             |
| \$1.52                                                  | 175,000                             | 175,000                             | \$1.326                                                   | 1.02                                                             |
| \$2.12                                                  | 20,625                              | 20,625                              | \$1.836                                                   | 0.61                                                             |
|                                                         | <b>6,094,899</b>                    | <b>5,094,899</b>                    |                                                           |                                                                  |

## 10. EXPENSES BY NATURE

Expenses included in the consolidated statements of loss for the three months ended and nine months end September 30, 2021 and 2020, are as follows:

|                                  | Nine-month period ended    |                  |                          |                     |                            |           |
|----------------------------------|----------------------------|------------------|--------------------------|---------------------|----------------------------|-----------|
|                                  | September 2021             |                  |                          |                     |                            | Total     |
|                                  | Cost of goods and services | Laboratory costs | Research and development | Sales and marketing | General and Administrative |           |
|                                  | \$                         | \$               | \$                       | \$                  | \$                         | \$        |
| Salaries and short-term benefits | 156,531                    | 645,374          | -                        | 822,058             | 2,386,775                  | 4,010,738 |
| Share-based compensation         | -                          | 17,103           | -                        | -                   | 318,920                    | 336,023   |
| Additional rent                  | -                          | 59,262           | -                        | -                   | 10,094                     | 69,356    |
| Depreciation                     | -                          | 281,642          | -                        | -                   | 44,149                     | 325,791   |
| Laboratory supplies              | 592,080                    | -                | 299,239                  | -                   | -                          | 891,319   |
| Other                            | -                          | 598,351          | -                        | 228,262             | 2,163,720                  | 2,993,333 |
| Foreign exchange loss (gain)     | -                          | -                | -                        | -                   | (258,968)                  | (258,968) |
|                                  | 748,611                    | 1,601,731        | 299,239                  | 1,050,320           | 4,664,690                  | 8,367,591 |
| September 2020                   |                            |                  |                          |                     |                            |           |
| Salaries and short-term benefits | -                          | 332,744          | -                        | -                   | 1,185,463                  | 1,518,207 |
| Share-based compensation         | -                          | 82,882           | -                        | -                   | 677,600                    | 760,482   |
| Additional rent                  | -                          | 37,359           | -                        | -                   | 10,754                     | 48,113    |
| Depreciation                     | -                          | 166,752          | -                        | -                   | 61,530                     | 228,282   |
| Laboratory supplies              | 245,406                    | -                | -                        | -                   | -                          | -         |
| Other                            | -                          | 546,968          | -                        | -                   | 700,218                    | 1,492,232 |
| Foreign exchange loss (gain)     | -                          | -                | -                        | -                   | (249,216)                  | (249,216) |
|                                  | 245,406                    | 1,166,705        | -                        | -                   | 2,386,349                  | 3,798,100 |

**Three-month period ended**

|                                  | September 2021             |                  |                          |                     |                            |           |
|----------------------------------|----------------------------|------------------|--------------------------|---------------------|----------------------------|-----------|
|                                  | Cost of goods and services | Laboratory costs | Research and development | Sales and marketing | General and Administrative | Total     |
|                                  | \$                         | \$               | \$                       | \$                  | \$                         | \$        |
| Salaries and short-term benefits | 156,531                    | 275,014          | -                        | 42,000              | 750,221                    | 1,223,766 |
| Share-based compensation         | -                          | 2,783            | -                        | -                   | 213,724                    | 216,507   |
| Additional rent                  | -                          | 41,463           | -                        | -                   | 5,832                      | 47,295    |
| Depreciation                     | -                          | 191,669          | -                        | -                   | 21,656                     | 213,325   |
| Laboratory supplies              | 54,112                     | -                | 227,755                  | -                   | -                          | 281,867   |
| Other                            | -                          | 85,775           | -                        | 186,262             | 932,070                    | 1,179,482 |
| Foreign exchange loss (gain)     | -                          | -                | -                        | -                   | (266,742)                  | (266,742) |
|                                  | 210,643                    | 596,704          | 227,755                  | 228,262             | 1,656,761                  | 2,895,500 |
| September 2020                   |                            |                  |                          |                     |                            |           |
| Salaries and short-term benefits | -                          | 206,206          | -                        | -                   | 419,374                    | 625,580   |
| Share-based compensation         | -                          | 82,926           | -                        | -                   | 432,360                    | 515,286   |
| Additional rent                  | -                          | 13,524           | -                        | -                   | 4,795                      | 18,319    |
| Depreciation                     | -                          | 59,438           | -                        | -                   | 13,099                     | 72,537    |
| Laboratory supplies              | 204,617                    | -                | -                        | -                   | -                          | 204,617   |
| Other                            | -                          | 406,791          | -                        | -                   | 239,995                    | 646,786   |
| Foreign exchange loss (gain)     | -                          | -                | -                        | -                   | 71,957                     | 71,957    |
|                                  | 204,617                    | 768,885          | -                        | -                   | 1,181,580                  | 2,155,082 |

## 11. RELATED-PARTY TRANSACTIONS

The key management personnel of the Company at September 30, 2021 and 2020 are the directors, including the Chairman and Chief Executive Officer, the former interim Chief Financial Officer and the Chief Financial and Chief Operating Officer. A former director, who retired from the Board of Directors of the Company in September 2019, is the Chairman of the Board for the Company's former third-party billing company and this same director provided interim financing to the Company between December 2015 and December 2019 [see note 6[b]]. With the 2018 Unit Private Placement [see note 8[b][i]], this director participated for \$445,213 (Cdn\$561,770) in lieu of debt repayment in cash and received 877,765 common shares and 438,882 warrants. In a 2019 Unit Private Placement [see note 8[b][iii]], this director participated for \$314,576 (Cdn\$411,183) in lieu of debt repayment in cash and received 446,937 common shares and 223,469 warrants. In a 2020 Unit Private Placement [see note 9[b][v]], this director participated for \$390,766 (Cdn\$532,628). in lieu of debt repayment in cash and received 951,120 common shares and 951,120 warrants.

A director and shareholder of the Company provided interim financing in 2019 [see note 6[b]].



Compensation for key management personnel of the Company is detailed below for periods ended September 30, 2021 and 2020:

|                                        | <b>Three Months Ended September 30</b> |             | <b>Nine Months Ended September 30</b> |             |
|----------------------------------------|----------------------------------------|-------------|---------------------------------------|-------------|
|                                        | <b>2021</b>                            | <b>2020</b> | <b>2021</b>                           | <b>2020</b> |
|                                        | <b>\$</b>                              | <b>\$</b>   | <b>\$</b>                             | <b>\$</b>   |
| Salaries, fees and short-term benefits | <b>159,981</b>                         | 113,810     | <b>435,525</b>                        | 393,518     |
| Share-based compensation               | <b>199,390</b>                         | 211,771     | <b>279,853</b>                        | 404,560     |
|                                        | <b>359,371</b>                         | 325,581     | <b>715,378</b>                        | 798,078     |

As at September 30, 2021, key management personnel controlled 2.9% (2020-5.8%) of the issued and outstanding common shares of the Company and \$361,492 (2020-\$769,129) of compensation remains unpaid to current and former key management personnel and is included in trade and other payables. Such amounts are unsecured, non-interest bearing with no fixed terms of repayment.

Stock options held by key management personnel to purchase common shares have the following expiry dates and exercise prices:

| <b>Year issued</b> | <b>Year of expiry</b> | <b>Range of exercise prices per share</b> | <b>Number outstanding</b> |                     |
|--------------------|-----------------------|-------------------------------------------|---------------------------|---------------------|
|                    |                       |                                           | <b>2021</b>               | <b>2020</b>         |
|                    |                       |                                           | <b>September 30</b>       | <b>September 30</b> |
|                    |                       | <b>\$</b>                                 | <b>#</b>                  | <b>#</b>            |
| 2017               | 2022                  | 1.08 to 1.52                              | <b>250,000</b>            | 250,000             |
| 2018               | 2023                  | 0.64 to 0.88                              | <b>381,250</b>            | 381,250             |
| 2019               | 2024                  | 0.64 to 0.80                              | <b>1,380,728</b>          | 1,380,728           |
| 2020               | 2025                  | 0.40 to 0.44                              | <b>1,200,000</b>          | 1,200,000           |
| 2021               | 2026                  | 0.40 to 0.44                              | <b>1,500,000</b>          |                     |
|                    |                       |                                           | <b>4,711,978</b>          | 3,211,978           |

## 12. COMMITMENTS AND CONTINGENCIES

On December 5, 2017, the Company renegotiated the lease of its premises effective January 1, 2018 to September 30, 2023. The property and office space lease bears interest at an estimated rate of 14.4%. The lease liability as of September 30, 2021 is \$464,911 (December 31, 2020 – \$600,224). Effective August 1, 2018, the Company subleased 74.46% of its leased space for a commensurate share of the rental cost for the remaining term of its lease. The sublease contract was terminated June 30, 2021.

The Company may be involved from time to time in various legal claims and regulatory proceedings arising in the ordinary course of business, including arbitrations, class actions, civil litigation, and investigations. Some of these matters may include intellectual property disputes, professional liability, employee related matters and inquiries, including subpoenas and other civil investigative demands. The inquiries may relate to the Company or other healthcare providers and may come from governmental bodies, Medicare or Medicaid payers and managed care payers who review billing practices or request comments on allegations of billing irregularities brought to their attention through billing audits or third parties.

## 13. SEGMENT INFORMATION

Through September 2, 2021 the Company was organized in and operated as a single reportable segment for management purposes. As of September 2, 2021, and due to the acquisition of CareOncology, management has begun operating as three distinct business units. The business units are StageZero Life Science, CareOncology US, and CareOncology UK. The impact of the newly acquired CareOncology segments on the overall financial results for the period ended September 30, 2021 is immaterial.

### Geographic information

As of September 30, 2021, \$0.7 million of property, plant and equipment \$0.4 million of right of use asset, net, were held in the US [December 31, 2020 – \$0.7 million of property, plant and equipment and \$0.5 million of right of use asset net, were held in the US]. The Company's total revenue for the nine months ended September 30, 2021 was \$3.6 million [2020 – \$1.6 million], primarily earned from operations in the United States.

## 14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK-MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to liquidity, credit and market risk, the management of which is overseen by the Company's senior management.

### [a] Financial instruments

The fair value of warrants is estimated using the Black-Scholes option pricing model incorporating various inputs including the underlying price volatility and discount rate, [see note 7]. All other notes payable were initially recognized at fair value, and subsequently were measured at amortized cost using the effective interest rate method, whereby the fair value of the notes payable approximates their carrying value. As at September 30, 2021, the Company's warrant liability, conversion liability and notes payable, are carried on the consolidated statements of financial position at fair value, warrant liability has been classified as Level 2, conversion liability and notes payable have been classified as Level 3, in the fair value hierarchy. The Earn Out Consideration is valued as disclosed in Note 4, which utilizes Level 3 inputs and has been classified accordingly.

### [b] Liquidity risk

Liquidity risk represents the contingency that the Company is unable to gather the funds required with respect to its financial obligations at the appropriate time and under reasonable conditions. The Company attempts to manage this risk in order to ensure that it has sufficient liquidity at all times to be able to honor its current and future financial obligations under normal conditions and in exceptional circumstances. Financing strategies to ensure the management of this risk include resorting to the capital markets through the issuance of equity or debt securities.

The Company's ability to continue as a going concern depends upon its ability to achieve profitable operations and raise additional capital. In the past three years, the Company has earned limited revenue. During 2019 and 2020, the Company completed a series of common share, structured notes payable, capital commitment, common share and warrant and convertible debenture financings. The Company expects to continue to pursue further financings as or until operations become profitable.

The tables below summarize the maturity profile of the Company's financial instruments as at September 30, 2021 and year-end 2020:

|                              | Financial instrument maturation periods |              |                 | Total     |
|------------------------------|-----------------------------------------|--------------|-----------------|-----------|
|                              | 1 year or less                          | 1 to 5 years | 5 years or more |           |
| <b>At September 30, 2021</b> | \$                                      | \$           | \$              | \$        |
| <b>Financial assets</b>      |                                         |              |                 |           |
| Cash                         | 1,591,743                               | -            | -               | 1,591,743 |
| Other receivable             | 198,962                                 | -            | -               | 198,962   |
| <b>Financial liabilities</b> |                                         |              |                 |           |
| Trade and other payable      | 2,367,819                               | -            | -               | 2,367,819 |
| Earn Out Consideration       | -                                       | 1,416,461    | -               | 1,416,461 |
| Note payable                 | 355,889                                 | 480,000      | 1,100,000       | 1,935,889 |
| Long-term liabilities        | -                                       | 67,340       | -               | 67,340    |

### Financial instrument maturation periods

|                              | 1 year or less | 1 to 5 years | 5 years or more | Total     |
|------------------------------|----------------|--------------|-----------------|-----------|
| At December 31, 2020         | \$             | \$           | \$              | \$        |
| <b>Financial assets</b>      |                |              |                 |           |
| Cash                         | 6,597,187      | -            | -               | 6,597,187 |
| Other receivable             | 73,955         | -            | -               | 73,955    |
| <b>Financial liabilities</b> |                |              |                 |           |
| Trade and other payable      | 1,870,140      | -            | -               | 1,870,140 |
| Convertible debenture        | -              | 808,985      | -               | 808,985   |
| Note payable                 | 348,390        | 480,000      | 1,100,000       | 1,928,390 |
| Long-term liabilities        | -              | 67,340       | -               | 67,340    |

#### [c] Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and other receivables. Cash consists of deposits with major commercial banks and is therefore subject to minimal credit risk.

#### [d] Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of foreign exchange rate risk and interest rate risk.

##### Foreign exchange rate risk

The Company operates in Canada and the United States and transacts business primarily with US partners and suppliers. During the period ended September 30, 2021, a 5% appreciation (depreciation) in the Cdn\$ to US dollar foreign exchange rate, with all else being equal, would have affected net income by approximately \$94,061 [December 31, 2020 – \$47,425]. The Company's exposure to foreign currency changes for all other currencies is not material.

##### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate for the Company's notes payable to HDL was renegotiated during the first quarter of 2016 and interest began to be accrued at Wall Street Journal Prime Rate plus 4.00% per annum effective April 1, 2016, while the note payable to a shareholder and director as was issued in 2016 is fixed at 2% per annum, the notes payable to shareholders and director, issued after 2017 are fixed at 5% per annum, and the convertible debentures are fixed at 6%.

The remeasurement of the February 2020 Convertible Debentures (note 7) requires reassessment of the appropriate discount rate at each reporting period in determining the fair value. That discount rate could fluctuate depending on changes in interest rates as well as changes in the Company's credit risk. A 2% increase or decrease in the discount rate would have had an immaterial impact on the fair value of the instrument as of September 30, 2021.

Accordingly, there have been no significant impacts on the Company's consolidated statements of loss and comprehensive loss from changes in interest rates.

## 15. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard its accumulated capital in order to maintain the ability to continue as a going concern and provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of issues of notes payable, conversion liability, common shares and warrants; it totaled \$96.3 million as of September 30, 2021 [December 31, 2020 – notes payable, conversion liability, warrants and common shares of \$95.6 million].

To address this risk, the Company manages its capital structure and makes adjustments to it in light of economic conditions. Upon approval of the Board, the Company balances its overall capital structure through new share or debt issuances, or by undertaking other activities as deemed appropriate in the circumstances. The Board does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the Toronto Stock Exchange ("TSX") which requires adequate working capital or financial resources such that, in the opinion of TSX, the listed issuer will be able to continue as a going concern. TSX will consider, among other things, the listed issuer's ability to meet its obligations as they come due, as well as its working capital position, quick asset position, total assets, capitalization, cash flow and earnings as well as disclosures in the consolidated financial statements regarding the listed issuer's ability to continue as a going concern.

The Company's ability to continue as a going concern depends upon its ability to achieve profitable operations and raise additional capital; in the past two years, the Company has had limited revenue. During 2019 and into 2020, the Company completed a series of common share, structured notes payable, capital commitment, common share and warrant and convertible debenture financings. The Company expects to continue to pursue further financings as or until operations become profitable.

The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2020.

## 16. FINANCE COSTS

|                                                             | Three-month period ended |         | Nine-month period ended |         |
|-------------------------------------------------------------|--------------------------|---------|-------------------------|---------|
|                                                             | September 30             |         | September 30            |         |
|                                                             | 2021                     | 2020    | 2021                    | 2020    |
|                                                             | \$                       | \$      | \$                      | \$      |
| Interest on note payable to HDL                             | 33,602                   | 27,051  | 80,025                  | 81,764  |
| Interest on note payable to shareholder and director        | 2,502                    | 3,125   | 7,500                   | 19,144  |
| Interest on convertible debenture                           | (10,761)                 | 26,488  | 9,199                   | 82,875  |
| Interest costs on lease liability                           | 19,708                   | 24,047  | 58,535                  | 76,170  |
| Broker warrants relating to convertible debenture financing | -                        | -       | -                       | 134,147 |
| Transaction costs due to acquisition                        | 925,821                  | -       | 1,196,968               | -       |
| Transaction costs relating to public offering               | -                        | -       | -                       | -       |
| Transaction costs relating to issuance of debt              | -                        | 22,757  | -                       | 509,703 |
|                                                             | 969,052                  | 103,468 | 1,352,226               | 903,803 |

## 17. REVENUE

Disaggregation of Revenue:

|                       | Three month ended September 30 |           | Nine month ended September 30 |           |
|-----------------------|--------------------------------|-----------|-------------------------------|-----------|
|                       | 2021                           | 2020      | 2021                          | 2020      |
|                       | \$                             | \$        | \$                            | \$        |
| Laboratory Testing    | 410,926                        | 1,464,155 | 3,292,474                     | 1,555,974 |
| Clinical Consultation | 273,398                        | -         | 273,398                       | -         |
| Total                 | 684,324                        | 1,464,155 | 3,565,872                     | 1,555,974 |

Disaggregation of Deferred Revenue:

|                       | Three month ended September 30 |      | Nine month ended September 30 |      |
|-----------------------|--------------------------------|------|-------------------------------|------|
|                       | 2021                           | 2020 | 2021                          | 2020 |
|                       | \$                             | \$   | \$                            | \$   |
| Laboratory Testing    | 53,916                         | -    | 53,916                        | -    |
| Clinical Consultation | 115,982                        | -    | 115,982                       | -    |
| Total                 | 169,898                        | -    | 169,898                       | -    |

## 18. LEASES

The Company's portfolio of leases consists of office spaces with lease terms generally between 3 to 5 years. We currently do not have leases with variable lease payments, residual value guarantees, extension or termination options, or leases not yet commenced to which we are committed. Lease liabilities have been measured by discounting future lease payments using our incremental borrowing rate as rates implicit in the leases were not readily determinable. The weighted-average rate applied was 14%.

Accounting affecting the lease liabilities during the period ended September 30, 2021 was as follows:

|                                           | Period ended       |                   |
|-------------------------------------------|--------------------|-------------------|
|                                           | September 30, 2021 | December 31, 2020 |
|                                           | \$                 | \$                |
| Lease liability as at January 1, 2021     | 600,224            | 753,409           |
| Interest expense                          | 58,540             | 98,770            |
| Lease payments                            | (193,853)          | (251,955)         |
| Lease liabilities                         | 464,911            | 600,224           |
| Less current portion of lease liabilities | 211,907            | 184,854           |
| Long-term portion of lease liabilities    | 253,004            | 415,370           |

The maturity of the contractual undiscounted lease obligation payments as at September 30, 2021 is as follows:

|                             |          |
|-----------------------------|----------|
|                             | \$       |
| 2021                        | 65,682   |
| 2022                        | 267,323  |
| 2023                        | 205,646  |
| Total undiscounted payments | 538,651  |
| Less: imputed interest      | (73,740) |
| Lease liability             | 464,911  |

## 19. SUBSEQUENT EVENTS

None.