Lattice Biologics Ltd.

Consolidated Financial Statements
For the Years Ended September 30, 2019 and 2018
(Expressed in U.S. dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Lattice Biologics Ltd.

Opinion

We have audited the consolidated financial statements of Lattice Biologics Ltd. and its subsidiary (the “Company”), which comprise the consolidated statements of financial position as at September 30, 2019 and 2018, the consolidated statements of comprehensive loss, changes in shareholders’ deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $1 million during the year ended September 30, 2019 and, as of that date, the Company's current liabilities exceeded its total assets by $6.6 million. These events or conditions, along with other matters as set forth in Note 1 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the Management Discussion & Analysis for the year ended September 30, 2019, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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

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

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

Hay + Watson

Chartered Professional Accountants
Vancouver, BC, Canada
January 28, 2020

Lattice Biologics Ltd.
Consolidated Statements of Financial Position
(Expressed in U.S. dollars)
As at

	September 30, 2019	September 30, 2018
Assets		
Current assets:		
Cash	$ 15,669	$ 6,448
Accounts receivable (Note 6)	263,931	171,355
Prepaid expenses and other current assets	55,380	16,075
Inventory (Note 5)	703,153	1,483,653
Total current assets	1,038,133	1,677,531
Property and equipment (Note 3)	491,535	505,003
Intangible assets (Note 4)	138,663	277,325
Goodwill (Note 4)	606,428	606,428
Total assets	$ 2,274,759	$ 3,066,287
Liabilities and Deficit		
Current liabilities:		
Accounts payable and accrued liabilities (Note 7)	$ 5,544,719	$ 5,453,633
Obligations under finance lease, current portion (Note 8)	37,407	34,042
Factoring advances	-	8,328
Notes payable, current portion (Note 10)	1,890,976	1,268,225
Warrant liability (Note 11)	69,756	46,187
Provisions (Note 16)	142,081	163,000
Total current liabilities	7,684,939	6,973,415
Obligations under finance lease, long-term portion (Note 8)	441	14,654
Notes payable, long-term portion (Note 10)	202,181	700,114
Royalty funding, long-term portion (Note 12)	700,000	700,000
Total liabilities	8,587,561	8,388,183
Shareholders' Deficiency:		
Share capital (Note 13)	9,619,469	9,619,469
Warrant reserve (Note 11)	21,862	21,862
Option Reserve	472,290	451,284
Accumulated deficit	(16,426,423)	(15,414,511)
Total deficit	(6,312,802)	(5,321,896)
Total liabilities and deficit	$ 2,274,759	$ 3,066,287

Nature of Business and Going Concern *(Note 1)*
Commitments, Contingencies and Provisions *(Note 16)*

Approved by the Board

Donald McInnes — Director (Signed)

Guy Cook — Director (Signed)

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

Lattice Biologics Ltd.
Consolidated Statements of Comprehensive Loss
(Expressed in U.S. dollars)

	Year Ended September 30,	
	2019	**2018**
Revenue	$ 2,188,631	$ 1,155,041
Cost of sales:		
Cost of sales - Exclusive of depreciation	1,191,125	561,891
Cost of sales - Depreciation	54,745	51,996
Total cost of sales	1,245,870	613,887
Gross profit	942,761	541,154
Operating expenses:		
Depreciation and amortization	149,352	149,191
General and administrative	213,268	265,834
Research and development	6,476	2,185
Professional fees	254,855	256,015
Rent	121,185	137,351
Salaries	603,405	872,284
Sales and marketing	88,674	149,426
Utilities	70,102	37,984
Total operating expenses	1,507,317	1,870,270
Loss from operations	(564,556)	(1,329,116)
Other income (expense):		
Interest and finance charges	(544,267)	(467,027)
Share based payments (Note 13)	(21,006)	(154,852)
Other income	76,052	44,575
Gain on assumed International Biologics loan restructuring (Note 10)	-	469,229
Change in fair value of warrants (Note 11)	41,865	206,097
Total other income (expense)	(447,356)	98,022
Net loss and comprehensive loss	$ (1,011,912)	$ (1,231,094)
Basic and diluted loss per share	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding	93,458,300	93,457,396

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

Lattice Biologics Ltd.
Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in U.S. dollars)

	Number of Shares	Share Capital	Warrant Reserve	Option Reserve	Accumulated Deficit	Shareholders' Deficiency
Balances at September 30, 2017…..	93,293,341	$ 9,602,508	$ 21,862	$ 296,433	$ (14,183,417)	$ (4,262,614)
Shares issued………………………..	164,959	16,961	-	-	-	16,961
Share-based payments…………….	-	-	-	154,851	-	154,851
Net loss for the period…………….	-	-	-	-	(1,231,094)	(1,231,094)
Balances at September 30, 2018…..	93,458,300	9,619,469	21,862	451,284	(15,414,511)	(5,321,896)
Share-based payments…………….	-	-	-	21,006	-	21,006
Net loss for the period…………….	-	-	-	-	(1,011,912)	(1,011,912)
Balances at September 30, 2019…..	93,458,300	$ 9,619,469	$ 21,862	$ 472,290	$ (16,426,423)	$ (6,312,802)

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

Lattice Biologics Ltd.
Consolidated Statements of Cash Flows
(Expressed in U.S. dollars)

	Years Ended September 30	
	2019	**2018**
Operating activities:		
Net loss	$ (1,011,912)	$ (1,231,094)
Non-cash adjustments to reconcile net loss to net cash flows provided by operations:		
Depreciation of property and equipment	65,435	62,524
Amortization of intangible assets	138,662	138,662
Bad debt expense	15,346	-
Debt accretion	242,411	307,657
Change in fair value of warrants	(41,865)	(206,097)
Gain on assumed International Biologics loan restructuring	-	(469,229)
Warrants issued to partially settle a legal claim	65,434	-
Share-based payments	21,006	154,851
Changes in working capital:		
Accounts receivable	(107,922)	45,368
Prepaid expenses and other assets	(39,305)	(11,354)
Inventory	780,500	363,921
Accounts payable, accrued liabilities and provisions	42,167	1,208,766
Factoring advances	(8,328)	(99,883)
Cash provided by operating activities	161,629	264,092
Investing activities:		
Purchase of property and equipment	(51,967)	(230,788)
Cash used in investing activities	(51,967)	(230,788)
Financing activities:		
Repayment of finance lease obligations	(10,848)	(10,599)
Repayment of notes payable	(89,593)	(35,078)
Cash used in financing activities	(100,441)	(45,677)
Increase (decrease) in cash	9,221	(12,373)
Cash, beginning of year	6,448	18,821
Cash, end of year	$ 15,669	$ 6,448
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 55,293	$ 12,000
Cash paid for income taxes	$ -	$ -
Non-cash investing and financing activities:		
Company securities issued for settlement of payables	$ 65,434	$ 16,961
Note payable issued for settlement of payables	$ -	$ 82,292

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

1. NATURE OF BUSINESS AND GOING CONCERN

Lattice Biologics Ltd. (the “Company”) develops, manufactures and markets biologic products to domestic and international markets. The Company’s products are used in a variety of applications including enhancing bone regeneration in dental, spine, and general orthopedic indications. The acellular dermal matrix can be used in enhancing breast reconstruction post mastectomy, hernia repair, sports medicine indications, and dental flaps used to close dental post implantation. The stem cell based technology AmnioBoost, can be used to accelerate and enhance bone regeneration for dental post implantation.

On August 3, 2015 (as amended September 3, 2015), Lattice Biologics, Inc. entered into a letter of intent to engage in an acquisition whereby Blackstone Ventures Inc. (“Blackstone”), an arm’s-length Public Corporation registered in British Columbia, Canada, would acquire all of the issued and outstanding securities of Lattice Biologics, Inc. (the “Reverse Takeover”). Lattice Biologics Inc. was incorporated under the laws of Delaware on July 18, 2013; however, Lattice Biologics, Inc. did not commence operations until September 21, 2013. The Reverse Takeover was completed on December 23, 2015 and Blackstone was renamed as Lattice Biologics Ltd. In accordance with International Financial Reporting Standards (“IFRS”) 3, Business Combinations, the substance of the transaction was a reverse takeover of a non-operating company by Lattice Biologics, Inc. and as such, the transaction did not constitute a business combination as Blackstone did not meet the definition of a business under this standard. As a result, the transaction was accounted for as an acquisition of a stock exchange listing with Lattice Biologics Inc. being identified as the acquirer, and the equity consideration transferred by Lattice Biologics, Inc. measured at fair value. Following the Reverse Takeover, Lattice Biologics, Inc. became a wholly owned subsidiary of the Company. Accordingly, the accounts of the Company consist of the consolidated balances of Lattice Biologics, Inc. and Blackstone following the Reverse Takeover and only the accounts of Lattice Biologics, Inc. prior to the Reverse Takeover. Separately, on September 20, 2013, Lattice Biologics, Inc. acquired certain assets and liabilities of International Biologics, LLC (“International Biologics”), a non-related, privately held company. The Company’s common shares are listed under the symbol “LBL” on the TSX Venture Exchange (“TSX-V”).

As described above, the former shareholders of Lattice Biologics, Inc. control the resulting entity following the Reverse Takeover. As Blackstone had no operations it did not constitute a business, and accordingly, the acquisition of Blackstone is accounted for under IFRS 2 at the fair value of the equity instruments granted to the former Blackstone shareholders, less the remaining net assets of Blackstone at the Reverse Takeover date. As Lattice Biologics, Inc. shareholders control the Blackstone entity, these financial statements present the continuation of the business of Lattice Biologics, Inc.

The Company’s consolidated financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company incurred a net loss of $1 million for the year ended September 30, 2019 (September 30, 2018 - $1.2 million) and has an accumulated deficit of $16.4 million at September 30, 2019 (September 30, 2018 - $15.4 million), and has a working capital deficiency of $6.6 million at September 30, 2019 (September 30, 2018 - $5.3 million). These conditions reflect a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. In order to meet its obligations and realize its investment in its assets, the Company is dependent on the continued support from investors and related parties. The Company may not be able to achieve or maintain profitability and may continue to incur losses in the future. In addition, it is expected that the Company will continue to increase operating expenses as it implements initiatives to continue to grow its business.

The Company plans to continue to make investments to support the growth of the business and is expected to require additional funds to respond to business challenges, including the need to develop new services or enhance existing services, enhance operating infrastructure and acquire complementary businesses and technologies. Management will be required to continue to raise capital to develop, market and promote the Company’s products and technology, and to maintain its ongoing operations. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. The Company’s consolidated financial statements do not reflect the adjustments or reclassifications that would be necessary if the Company was unable to continue operations.

The Company’s registered office and processing facilities are located at 512 East Madison Avenue, Suite 101, Belgrade, Montana 59714.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Statement of Compliance

These financial statements have been prepared in accordance with IFRS and the IFRS Interpretations Committee. The financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair value, as discussed in the accounting policies below. The accounting policies have been consistently applied throughout the period unless otherwise stated. Certain figures have been reclassified to conform to current year's presentation. These consolidated financial statements were authorized for issue by the Board of Directors on January 28, 2020.

These financial statements consolidate the accounts of the Company and its wholly owned subsidiary, Lattice Biologics Inc. Intercompany balances and transactions are eliminated upon consolidation. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are discussed below.

Functional and Presentation Currency

These consolidated financial statements are presented in United States dollars, which is also the functional currency of the Company and its subsidiary. Unless otherwise noted as being denominated in Canadian dollars ("C$"), all amounts presented herein are stated in United States dollars.

New Accounting Standards and Interpretations

The following is a summary of new standards, amendments and interpretations that are effective for annual periods beginning on or after January 1, 2018. The adoption of these new standards did not have any material impact on these consolidated financial statements.

Financial Instruments

IFRS 9 Financial Instruments was issued in final form in July 2014 by the IASB and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements.

The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

Revenue from Contracts with Customers

In May 2014, IASB issued IFRS 15 Revenue from Contracts with Customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue—Barter Transactions Involving Advertising Services.

Share-based Payment

The amendments to IFRS 2 provide clarification and guidance on the treatment of vesting and non-vesting conditions related to cash-settled share-based payment transactions, on share-based payment transactions with a net settlement feature for withholding tax obligations, and on accounting for modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The following pronouncements were issued by the IASB or the IFRS Interpretations Committee. Those pronouncements that are not applicable or are not expected to have a significant impact to the Company have been excluded from the summary below. The following have not yet been adopted and are being evaluated to determine the impact on the Company.

Leases

In January 2016, the IASB issued IFRS 16 Leases, which requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with earlier adoption permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16. The Company is currently assessing the impact of IFRS 16 on the Company's consolidated financial statements along with the planned timing of our adoption of IFRS 16.

Leases are classified as finance leases when the lease arrangement transfers substantially all of the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at fair value or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance lease liability. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the balance of the liability. Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets that are owned by the Company. The corresponding finance lease liability is reduced by lease payments, net of imputed interest. All other leases are treated as operating leases with payments on such operating leases recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Income Taxes

IFRIC 23 – *Uncertainty Over Income Tax Treatments* clarifies application of the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

Cash

Cash includes cash on hand, unrestricted cash, and balances with banks.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is recorded as follows:

- Freezers and freeze dryers: Straight line over eight and ten years respectively
- Sensor thermometers: Straight line over ten years
- Medical tools and equipment: Straight-line over eight and ten years respectively
- Leasehold improvements: Straight line over the lease term
- Office equipment and card system: Straight line over five and fifteen years respectively

Repair and maintenance expenditures that extend the useful life of the asset are capitalized and minor repair and maintenance costs are expensed as incurred to the statement comprehensive loss. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains or losses on disposals are determined by comparing the proceeds received to the carrying amounts and are recognized within the statement comprehensive loss.

Business Combinations

Acquisitions are accounted for as business combinations using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition-related transaction costs are recognized in income and comprehensive income as incurred.

When the consideration transferred in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified.

Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Goodwill

Goodwill represents the excess amount of consideration given over the fair value of the underlying assets in a business combination, and is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash generating units ("CGU") that are expected to benefit from the synergies of the acquisitions. If the recoverable amount of the CGU is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to other assets of the CGU. The Company operates under one CGU.

Intangible Assets

Intangible assets are measured at fair value on acquisition less accumulated amortization and accumulated impairment losses. Amortization is recorded as follows:

- Acquired intellectual property and operating licenses: Straight-line over seven years
- Customers lists: Straight-line over three years

The estimated useful life is reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite lives are subject to annual impairment tests.

Impairment of Non-Financial Assets

The Company reviews assets such as property and equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intangible assets with indefinite lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows, or the CGU level. The recoverable amount is the greater of an asset's fair value less the cost of disposal and value in use, (being the present value of the expected future cash flows of the relevant asset or CGU), as determined by management. Impairment losses are recognized immediately in the statement of comprehensive loss. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Provisions

Provisions are recognized when present (legal or constructive) obligations as a result of a past event will lead to a probable outflow of economic resources and amounts can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered remote, no liability has been recognized.

Earnings Per Share

Basic earnings (loss) per share is calculated by dividing net earnings (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing the applicable net earnings (loss) for the period by the sum of the weighted average number of shares outstanding during the period and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period.

Inventory

Inventory consists of raw materials and finished goods. Inventory is valued at the lower of cost based on the specific identification cost and net realizable value. Net realizable value is the estimated selling price less applicable selling expenses and costs to complete. If the carrying value exceeds the net realizable value, a write-down is recognized. A reserve is taken on inventory for quantities not expected to be consumed or sold. This reserve offsets the inventory balance. There were no reversals of inventory reserves for the periods presented.

Revenue Recognition

Revenue is recognized in the statement of comprehensive loss when goods are delivered and title has passed to the customer, at which time all of the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods and control over the goods to the customer;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue represents the amounts receivable after the deduction of discounts, other sales taxes, allowances given, provisions for chargebacks, other price adjustments and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted in light of contractual and historical information.

Financial Instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value, plus transaction costs if the financial instrument is not subsequently measured at fair value through profit and loss.

Financial assets are measured subsequently at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit and loss ("FVTPL") based on the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Financial assets which are investments in equity instruments are measured subsequently at FVTPL unless they are not held for trading and are designated as FVOCI. Financial liabilities are measured subsequently at amortized cost, except for derivatives and certain other specified exceptions measured at FVTPL.

The Company has classified its financial assets and liabilities as follows:

Financial Instrument	Previous Classification Under IAS 39	Current Classification Under IFRS 9
Cash	FVTPL	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Notes payable	Other liabilities	Amortized cost
Warrant liability	FVTPL	FVTPL
Royalty funding	Other liabilities	Amortized cost
Factoring advances	Other liabilities	Amortized cost
Finance lease obligations	Other liabilities	Amortized cost

Financial instruments classified as amortized cost are measured at amortized cost using the effective interest method, adjusted as required for credit-impaired financial assets.

Financial assets measured at amortized cost are subject to a loss allowance for expected credit losses resulting from default events that are possible within 12 months after the reporting date, or an allowance for lifetime expected losses for certain trade receivables, contract assets and lease receivables, and for financial assets where credit risk has increased significantly since initial recognition. Changes in the amount of expected credit losses are recognized as an impairment gain or loss in profit and loss.

Financial assets are derecognized when the contractual rights to the cash flows expire, for certain transfers, or when there is no reasonable expectation of recovering the financial asset.

Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

Warrants are classified as level 2 within the fair value hierarchy. There have been no movements or reclassifications between levels during the past two reporting periods.

Accounting Estimates and Judgements

The preparation of financial statements in compliance with IFRS requires the Company's management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of the Company's assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the amortization of and measurement of impairment of property and equipment and other assets, and deferred income taxes. The judgments notably relate to the assessment of going concern uncertainties, the Company's inventory costing technique, the determination of cash generating units and review of impairment and the Company's accounting applied to the royalty funding. The most significant estimates and judgements are described below:

(i) *Inventory Costing Technique.* The Company uses a specific identification approach to capture the costs of raw materials and overhead to bring the inventory to its present salable condition. This specific identification approach best reflects the physical inputs of raw materials, direct labor and direct overhead.

(ii) *Determination of Cash Generating Unit and Review of Impairment.* The Company has determined that it presently operates as one cash generating unit and has allocated goodwill to this single cash generating unit. The Company is required to test all indefinite life intangible assets at least annually for impairment.

(iii) *Accounting for Flow Capital (formerly "Grenville") Royalty Funding and Debt Restructuring.* The Company's royalty funding agreement with Flow Capital Corp. (formerly Grenville Royalty Corp.) ("Flow Capital") has been accounted for as a financial liability and measured at fair value at initial recognition, with a re-measurement recognized in June 2017 at the time the agreement was restructured. The Company made this determination after reviewing the substance of the agreement and determining that the cash received at the inception of the arrangement did not represent advance payments for any future sales. The Company has valued the royalty agreement (i) at fair value when it initially became party to the arrangement and (ii) upon re-measurement in June 2017 for the debt restructuring with Flow Capital (Notes 10 and 12) using the prevailing discount rate at the applicable time).

(iv) *Provision for Lease Termination*. During June 2017, the Company relocated its registered office and processing facilities from Scottsdale, Arizona to Belgrade, Montana. At such time, the Company recognized a provision for the onerous Scottsdale, Arizona lease based on management's best estimate of unavoidable payments that are expected under the lease agreement following the facility relocation. The provision for the onerous Scottsdale, Arizona lease has been updated to reflect the agreement reached with the Company's former landlord. (see Note 16)

(v) *Property and Equipment.* The Company's property and equipment are primarily equipment used in the processing of inventory. Critical accounting judgment is used in estimating the expected useful life of and net cash flows from the Company's property and equipment.

(vi) *Warrants and Share Purchase Options.* The fair value of warrants and share purchase options are estimated using the Black Scholes model, which requires management to use estimates, judgment and assumptions in determining the relevant inputs.

(Expressed in US dollars)

3. PROPERTY AND EQUIPMENT

Property and equipment cost is summarized as follows:

	September 30, 2017	Additions	Disposals	September 30, 2018	Additions	Disposals	September 30, 2019
Freezers and freeze dryers…….	$ 137,827	$ 16,002	$ -	$ 153,829	$ -	$ -	$ 153,829
Medical tools and equipment…	331,177	-	-	331,177	44,757	-	375,934
Office and other equipment……	70,561	-	-	70,561	7,210	-	77,771
Construction in progress………	-	214,786	-	214,786	-	-	214,786
Total cost………………………..	$ 539,565	$ 230,788	$ -	$ 770,353	$ 51,967	$ -	$ 822,320

Property and equipment accumulated depreciation is summarized as follows:

	September 30, 2017	Additions	Disposals	September 30, 2018	Additions	Disposals	September 30, 2019
Freezers and freeze dryers…….	$ 75,825	$ 14,748	$ -	$ 90,573	$ 15,248	$ -	$ 105,821
Medical tools and equipment…	109,506	37,250	-	146,756	39,497	-	186,253
Office and other equipment……	17,495	10,526	-	28,021	10,690	-	38,711
Total accumulated depreciation	$ 202,826	$ 62,524	$ -	$ 265,350	$ 65,435	$ -	$ 330,785

Property and equipment net book value is summarized as follows:

	September 30, 2019	September 30, 2018
Freezers and freeze dryers…………………………..	$ 48,008	$ 63,256
Medical tools and equipment………………………	189,681	184,421
Office and other equipment…………………………	39,060	42,540
Construction in progress……………………………	214,786	214,786
Total…………………………………………………..	$ 491,535	$ 505,003

Carrying amounts for property under finance leases at September 30, 2019 were $103,961 (September 30, 2018 - $129,437). See Note 8 for further details.

4. INTANGIBLE ASSETS AND GOODWILL

The Company's goodwill and other intangible assets were recognized as a part of the September 2013 acquisition of International Biologics. Goodwill recognized was $606,428, and amortizable intangible asset cost consists of customer lists of $766,210 and intellectual property and licenses of $970,637.

(Expressed in US dollars)

Amortizable intangible accumulated amortization is summarized as follows:

	September 30, 2017	Amortization	September 30, 2018	Amortization	September 30, 2019
Customer list	$ 766,210	$ -	$ 766,210	$ -	$ 766,210
Intellectual property and licenses	554,650	138,662	693,312	138,662	831,974
Total accumulated depreciation	$1,320,860	$ 138,662	$ 1,459,522	$ 138,662	$ 1,598,184

Amortizable intangible carrying balances consist of intellectual property and licenses of $138,663 at September 30, 2019 (September 30, 2018 – $277,325). Customer lists were fully amortized at September 30, 2016.

5. INVENTORY

Inventory consists of the following:

	September 30, 2019	September 30, 2018
Unprocessed raw materials	$ 423,592	$ 947,368
Finished products	404,915	566,955
Reserve	(125,354)	(30,670)
Total inventory	$ 703,153	$ 1,483,653

During the years ended September 30, 2019 and 2018, inventory recognized as cost of sales totaled $1,103,723 and $561,891, respectively. During the years ended September 30, 2019 and 2018, the Company wrote off and recorded in cost of sales $115,108 and $67,745 in expired unprocessed raw materials and increased its reserve for impaired inventory by $94,684 and $nil, respectively.

6. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	September 30, 2019	September 30, 2018
Accounts receivable	$ 281,279	$ 269,600
Less: Allowance for doubtful accounts	(17,348)	(98,245)
Accounts receivable, net	$ 263,931	$ 171,355

Accounts receivable of $119,284 and $8,507 were written off for the years ended September 30, 2019 and 2018, respectively.

(Expressed in US dollars)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	September 30, 2019	September 30, 2018
Accounts payable	$ 3,050,499	$ 2,928,158
Accrued liabilities	2,266,467	2,290,972
Provision for lease termination	227,753	207,353
Deferred revenue	-	27,150
Accounts payable and accrued liabilities	$ 5,544,719	$ 5,453,633

During June 2017, the Company relocated its head office and processing facilities to Belgrade, Montana and vacated its Scottsdale, Arizona facility. During April 2018, the Company entered into a settlement agreement with the former landlord in Scottsdale, Arizona for approximately $180,000 to be paid over 2 years. Payment terms included $9,000 due April 1, 2018, $4,000 per month from May 1, 2018 through July 1, 2018 and regular monthly payments of $7,950 starting August 1, 2018 for twenty months. Prepayment clauses allowed for a discounted payment plan with accelerated payments. Should these required payments not be met, the Company will be required to pay $225,000 plus interest at a rate of 10% per annum, accruing from April 1, 2018, net of any payments made. As at September 30, 2019 and 2018, the Company was in default of its required payments and has accrued the higher amount plus interest, net of payments made to date.

8. FINANCE LEASE OBLIGATIONS

The Company has entered into several finance lease obligations for various pieces of equipment. These leases bear interest at rates ranging from 15% to 32% and have terms ranging from one to two years. The following table summarizes remaining amounts due under the Company's finance lease obligations at September 30, 2019 (for the fiscal year ending):

2020	$ 42,660
2021	453
Total future payments	43,113
Less: Amounts representing interest	(5,265)
Obligations under finance lease	37,848
Less: Current portion	(37,407)
Long-term portion	$ 441

9. OFFICER LOANS AND CONVERSION

During periods prior to October 1, 2015, two of the Company's officers loaned the Company funds. These loans bore interest at a rate of 20% per annum and had a stated maturity of August 1, 2017. During August 2016, the Company and the holders of these officer loans converted the principal and interest due at June 30, 2016 totaling $1,390,507, into 8,568,171 shares of the Company's common stock. At September 30, 2018, a total of $57,843 of unpaid accrued interest related to these previous loans remained outstanding, all of which was paid during the year ended September 30, 2019.

(Expressed in US dollars)

10. NOTES PAYABLE

The carrying value of notes payable as at September 30, 2019 and 2018 consist of the following:

	Principal	Maturity	Interest Rate	September 30, 2019	September 30, 2018
Assumed International Biologics loan	$ 660,000	September 15, 2036	0.00%	$ 187,312	$ 188,784
Lifeshare Transplant Donor Services	201,623	Demand	5.50%	195,365	197,532
Redwood Fund	100,974	Demand	24.00%	203,330	154,169
Flow Capital (formerly "Grenville") secured note	848,264	April 24, 2022	4.24%	576,276	503,092
Flow Capital (formerly "Grenville") unsecured note	250,000	Demand	10.50%	324,673	292,445
Eurofins VRL	56,201	Demand	8.00%	56,201	82,317
Investor notes	550,000	Demand	24.00%	550,000	550,000
Total notes payable				2,093,157	1,968,339
Less: Current portion				(1,890,976)	(1,268,225)
Long-term portion				$ 202,181	$ 700,114

The reconciliation of the carrying value of the notes payable is:

	September 30, 2019	September 30, 2018
Carrying vlaue, beginning of year	$ 1,968,339	$ 2,240,684
Repayments	(62,300)	(23,078)
Interest expense at effective interest rate	242,411	231,962
Gain on assumed International Biologics loan restructuring	-	(469,229)
Interet paid	(55,293)	(12,000)
Carrying value, end of year	$ 2,093,157	$ 1,968,339

Assumed International Biologics Loan

During September 2013, the Company assumed a non-interest bearing $2,200,000 loan from an Officer of International Biologics. This loan originally had a maturity date of August 31, 2015; however, it was restructured on May 6, 2015 to extend the maturity date to February 2017. The restructured loan remained non-interest bearing and called for 22 monthly installments of $50,000, which commenced on May 15, 2015. At the conclusion of the 22nd payment, the entire amount due and owing under the note shall be deemed paid in full. This loan is secured by the Company's inventory, equipment and accounts receivable. This note is currently in default as the Company has not remitted the $50,000 monthly payment since December 2015 due to the Company's working capital deficiency; however, the Company made payments totaling $90,000 for this note during the year ended September 30, 2017. During April 2018, the holder of the assumed International Biologics loan transferred the loan in the amount of $660,000 to a third party. Repayment terms are $3,000 per month beginning May 15, 2018 until repaid in full. The carrying value of the note at September 30, 2019 is $187,312, which represents the present value of the expected repayments (September 30, 2018 – $188,784). A total of $9,000 of payments were made during the year ended September 30, 2019 and at September 30, 2019, $39,000 in scheduled payments were due and included in accounts payable and accrued liabilities (Note 7).

Lifeshare Transplant Donor Services

On July 17, 2014, a non-related, third party vendor, LifeShare Transplant Donor Services, converted their outstanding payable balance of $615,819 into a promissory note with a maturity date of December 26, 2014, which bears security over all assets held by the Company. The Company was unable to repay the loan by December 26, 2014 and restructured the note on May 8, 2015. The amended note bears interest at 1.5% compounded monthly, and featured two balloon payments of $250,000 in May 2015, and the remaining balance due at maturity in August 2015. As part of this restructuring, Lifeshare still bears security over all of the Company's assets, except the Company's accounts receivable, which was released after the Company met the initial $250,000 payment in May 2015. The Company was not able to make the August 2015 payment and the Company restructured the note once again on December 29, 2015. Following this second restructuring, $50,000 was paid at the time of the restructuring and the remaining principal plus accrued interest was due in two separate payments on March 31, 2016 and June 30, 2016, neither of which were made. During December 2016, the Company executed a restated promissory note totaling $295,000 that calls for monthly payments of $10,000, interest at 5.5% and a maturity date of June 1, 2019. The Company made payments totaling approximately $25,500 during the year ended September 30, 2019 for this restated promissory note (year ended September 30, 2018 – $20,000). The note's carrying value at September 30, 2019 is $195,365 (September 30, 2018 – $197,532).

Redwood Fund

On June 26, 2015, the Company secured a note from Redwood Fund, LP, a non-related Company, in the amount of $287,356 with an original issue discount of 13% (a resultant amount of $250,000). This note bears interest at 24% and is secured by all assets held by the Company. In accordance with the terms of this note, the Company is currently making monthly payments of 1/5 of the interest incurred. This loan was previously due during June 2016 but has been amended and required payment in full of all outstanding principal and interest balances during September 2016. The Company has made payments totaling $180,000 from July 1, 2016 to August 29, 2016 and was required to make additional payments totaling $120,000 during September 2016. The Company made additional payments totaling $20,000 during October 2016. The Company had been engaged in litigation with Redwood Fund, LP during the first half of fiscal 2017; however, this note was subsequently sold from Redwood Fund, LP to a non-controlling shareholder of the Company, and the matter was dismissed. The Company is currently in negotiations with the new note holder regarding repayment terms. The note's carrying value at September 30, 2019 is $203,330 (September 30, 2018 – $154,169).

Flow Capital (formerly "Grenville") Notes and Restructuring

During June 2017, the Company completed a restructuring of amounts due to Flow Capital, including balances due under a royalty agreement as described further in Note 13, and two notes payable, which are described as follows:

(i) *Secured Note Payable.* On July 31, 2015, the Company received funding under a $700,000 note payable with Flow Capital, which bore interest at 12.50% per annum, was secured by all assets of the Company and was convertible into additional royalty interests under certain circumstances (Note 13). No payments of principal or interest were due until July 31, 2016, at which time, all amounts outstanding were due. In connection with the loan, the Company granted 500,000 warrants at an exercise price of $0.60, which expired during December 2016.

(ii) *Unsecured Notes Payable*. During February and April 2016, Flow Capital loaned the Company $150,000 and $100,000, respectively. These loans bear interest at 10.50% per annum and had maturity dates of February 5, 2017 and April 6, 2017, respectively. No principal or interest amounts are due until the maturity dates of these loans.

The June 2017 Flow Capital debt restructuring resulted in the following:

(i) The Secured Note Payable, which had a carrying value of approximately $0.8 million prior to the restructuring, was amended to (i) extend the maturity date to April 24, 2022; (ii) require monthly payments of $3,000 through the maturity date; and (iii) reduce the interest rate to 4.244% per annum;

(ii) The Company issued 18,246,600 common shares to Flow Capital in consideration for the extinguishment of $2.0 million of the royalty funding and $0.7 million of overdue royalty payments;

(iii) The Company granted a new royalty (the "New Royalty") to Flow Capital in consideration for the extinguishment of the remaining $1.0 million balance of the royalty funding. The New Royalty calls for payments to Flow Capital of 1.25% of the Company's revenue if certain conditions are met, which are described in further detail in Note 12.

(iv) Certain amounts due for interest on the Unsecured Notes Payable and past royalties totaling approximately $0.1 million were forgiven and extinguished; and

(v) No changes were made to the Unsecured Notes Payable other than the forgiveness of prior interest as discussed above.

The June 2017 Flow Capital debt restructuring was accounted for as an extinguishment, as the terms of the debt and equity instruments issued were substantially different from those prior to the restructuring. Accordingly, the Company has recognized the fair value of the debt and equity instruments issued to Flow Capital as part of the restructuring, with a gain on restructuring recognized for the difference between the prior carrying amounts of the Flow Capital debt and the fair value of the debt and equity instruments issued to Flow Capital. The gain recognized of $2.1 million was based on (i) a fair value of $1.4 million for the 18,246,600 common shares issued; (ii) a fair value of $0.7 million for the New Royalty; (iii) a fair value of the modified Secured Note payable of $0.4 million, which was discounted at approximately 20% based on interest rates management believes to be available on comparable secured debt; and (iv) amounts that were forgiven and extinguished.

The carrying value of the Secured Note Payable at September 30, 2019 was $576,276 (September 30, 2018 – $503,092). At September 30, 2019, there was a total of $34,000 of scheduled payments due for the Secured Note Payable, which are included in accounts payable and accrued liabilities (Note 7) (September 30, 2018 – nil). As at September 30, 2019, the Company was in default of the required payments and therefore this note is presented as current. The carrying value of the Unsecured Notes Payable at September 30, 2019 was $324,673 (September 30, 2018 – $292,445).

Eurofins VRL

During February 2018, the Company executed a promissory note with Eurofins VRL, Inc. ("Eurofins VRL") to satisfy accounts payable balances totaling $79,836. Current payment terms require monthly payments of $3,611 and interest is at 8% per annum, with a due date of January 31, 2020. The note's carrying value at September 30, 2019 is $56,201 (September 30, 2018 – $82,317).

Investor Notes

At September 30, 2018 and 2017, the Company had $550,000 in notes payable due to investors, which were issued on January 9, 2015, bear interest at 24% per annum payable monthly and were due February 1, 2018. Due to the Company's working capital deficiency, monthly interest payments have been limited since fiscal 2017. Unpaid accrued interest totaled $452,003 at September 30, 2019 (September 30, 2018 - $320,003), and is included in accounts payable and accrued liabilities (Note 7). Subsequent to year end the Company made $15,000 interest payments to these investors.

11. Warrants

The Company's outstanding warrants that were issued in conjunction with offerings of the Company's debt or common stock and settlement of amounts payable to service providers have been classified as liabilities in the accompanying Consolidated Statement of Financial Position as the Company's functional currency is the United States dollar while the strike price of the warrants is denominated in Canadian dollars. Changes in the fair value of these warrants are recognized as income or loss within the Consolidated Statement of Comprehensive Loss and resulted in $31,471 and $206,097 of income recognized during the years ended September 30, 2019 and 2018, respectively. As at September 30, 2019 and 2018, the fair value of these warrants is $69,756 and $46,187 respectively.

Warrants issued as compensation for services rendered are classified as a warrant reserve within the Company's deficit in the accompanying Consolidated Statement of Financial Position.

On February 11, 2019 the Company issued 4,553,734 warrants, exercisable until January 11, 2029 at a strike price of C$0.0549 per share, to partially settle a legal claim.

A total of 2,631,493 warrants expired during the year ended September 30, 2019. These expired warrants had strike prices ranging from C$0.20 to C$0.30.

Subsequent to year end 3,917,742 warrants expired unexercised.

(Expressed in US dollars)

Warrants to acquire voting common shares at September 30, 2019 are summarized as follows:

Date Issued	Exercise Price (C$)	Date of Expiry	Outstanding and Exercisable
October 12, 2016	0.27	October 18, 2019	660,387
October 21, 2016	0.27	October 24, 2019	1,278,118
December 5, 2016	0.25	December 5, 2019	1,333,196
January 19, 2017	0.27	January 23, 2020	164,243
January 24, 2017	0.27	January 24, 2020	481,798
February 10, 2017	0.27	February 16, 2020	329,130
February 21, 2017	0.27	February 27, 2020	81,292
March 31, 2017	0.27	March 31, 2020	167,270
July 17, 2017	0.25	July 17, 2020	491,363
February 11, 2019	0.05	January 11, 2029	4,553,734
Total warrants (all accounted for as liabilities)…………………			9,540,531

The fair value of warrants at September 30, 2019 and 2018 for the warrants accounted for as liabilities was estimated using the Black Scholes model with the following significant inputs:

	Liabilities - September 30, 2019	Liabilities - September 30, 2018	Issued During Fiscal 2019
Weighted average risk-free interest rate (%)………………………	1.48%	2.19%	1.91%
Expected dividend yield (%)………………………………………	0.00%	0.00%	0.00%
Expected stock price volatility (%)………………………………	173%	152%	138%
Weighted average warrant life in years……………………………	4.9	1.1	9.9
Weighted average exercise price (C$)……………………………	$0.16	$0.25	$0.05
Weighted average fair value (C$)…………………………………	$0.01	$0.01	$0.02
Weighted average stock price (C$)………………………………	$0.02	$0.04	$0.02

Expected volatility was estimated by reference to the Company's historic volatility for a time period consistent with the remaining warrant lives or to the volatility of comparable public companies.

12. ROYALTY FUNDING

Following the June 2017 restructuring of the Company's debt with Flow Capital (see Note 11), the Company is subject to a perpetual New Royalty that calls for payments to Flow Capital of 1.25% of the Company's revenue for a given fiscal quarter, subject to the Company realizing Excess Free Cash Flow for the last day of such fiscal quarter of at least $100,000. Excess Free Cash Flow is defined in the restructuring agreement as the amount by which the Company's cash and cash equivalents on the last day of a given fiscal quarter exceeds the Company's cash and cash equivalents on the last day of the immediately preceding fiscal quarter. No royalty accrues or is due for fiscal quarters in which the Company does not realize $100,000 of Excess Free Cash Flow. Under the terms of the June 2017 Flow Capital debt restructuring, there are no provisions for the repurchase of the New Royalty; accordingly, any future extinguishment of the New Royalty would require separate negotiation with Flow Capital.

All amounts due under the royalty funding prior to the June 2017 Flow Capital debt restructuring (the "Previous Royalty") were extinguished at the time of the restructuring, and the only royalty payments due to Flow Capital on a prospective basis are those called for by the New Royalty, which are described above. Prior to the June 2017 Flow Capital debt restructuring, Flow Capital had advanced a total of $3.0 million to the Company under the Previous Royalty, with $2.0 million advanced during the year ended December 31, 2014 and $1.0 million advanced during May 2015. The first $2.0 million resulted in a monthly royalty payment equal to $41,667 (a "Minimum Monthly Payment") payable up to December 31, 2015. Effective January 1, 2016, the royalty rate was to be determined based on the greater of the Minimum Monthly Payment or 6% of revenue. If revenue for the 2015 calendar year was more than $15,000,000, the royalty rate would have been 2.74%; if 2015 revenues were less than $8,000,000 the royalty rate would have been 6%; and if revenue was between $8,000,000 and $15,000,000 the royalty rate would have been calculated on a proportional basis. The Minimum Monthly Payment was increased to $62,500 during May 2015 as a result of the additional $1.0 million advanced at such time.

(Expressed in US dollars)

On August 1, 2015, Flow Capital adjusted the Minimum Monthly Payment ("Secondary Minimum Monthly Payment") from $62,500 to $31,250, which was applicable up to December 31, 2015. Effective January 1, 2016 to July 31, 2016, the Company was required to pay a monthly royalty payment of the greater of the Secondary Minimum Monthly Payment of $31,250 and a sliding scale between 1.37% and 3% of monthly revenue. After July 31, 2016, the applicable royalty rate was determined based on the greater of the Minimum Monthly Payment of $62,500 or 6% of revenue.

The royalty funding has been, and continues to be, reflected as perpetual debt for accounting purposes, with a current portion presented based on the expected amounts due within the next fiscal year (see Note 15). As at September 30, 2019 and 2018, the carrying value of the royalty funding is $700,000 and it has been recorded as long-term as there are no amounts expected to be due within the next fiscal year.

13. SHARE CAPITAL

Authorized and Issued Share Capital

The Company is authorized to issue an unlimited number of voting common shares without par value, an unlimited number of non-voting restricted common shares without par value and an unlimited number of preferred shares without par value. The non-voting restricted common shares are not entitled to vote other than in connection with a change of control; however, these shares are entitled to receive dividends and are entitled, in the event of any liquidation, dissolution or winding-up or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs, to share rateably, together with the holders of the voting common shares. Each non-voting restricted share is convertible into one voting common share at the option of the holder, unless such conversion would result in greater than 45% of the voting common shares being held, directly or indirectly, by persons resident in the United States of America. The foregoing restriction expired 18 months from the date the non-voting restricted common shares were issued and as of the date of these financial statements, the restricted shares are exchangeable for voting common shares. Holders of the non-voting restricted common shares holding in the aggregate at least 50% of the outstanding non-voting restricted common shares may, by written consent, extend the restricted period for further 12-month periods. In the event of a take-over offer, for so long as the offer remains outstanding, holders of the non-voting restricted common shares may, subject to board approval, elect to redeem their non-voting restricted common shares at the offered take-over price, or alternatively, they may elect to convert them into voting common shares.

At September 30, 2019, there were 67,422,622 voting common shares issued and outstanding and 26,035,678 non-voting restricted common shares outstanding. There was no activity for the Company's share capital for the year ended September 30, 2019. Activity for the Company's share capital for the years ended September 30, 2019 and 2018 is summarized as follows:

	Shares	Amount
Balances, September 30, 2017	93,293,341	$ 9,602,508
Shares issued to vendors for services (i)	164,959	16,961
Balances, September 30, 2019 and 2018	93,458,300	$ 9,619,469

(i) During the year ended September 30, 2018, the Company issued 164,959 common shares in satisfaction of balances payable to a vendor totaling $16,961.

Share Purchase Options and Equity Compensation

Under the common share option plan ("Share Option Plan"), the Company may grant options to acquire up to 10% of the issued and outstanding common shares of the Company to directors, officers, employees, partners and service providers of the Company. The related vesting period over which share-based compensation expense is determined by the Company at the time of grant. Each share option awarded under the Share Option Plan is equity-settled and the share-based compensation expense is based on the fair value estimate on the business day prior to the grant date.

(Expressed in US dollars)

On April 30, 2018, the Company granted 2,000,000 share purchase options which vested immediately, are exercisable at C$0.10 per share and expire on April 30, 2028.

The Company's board of directors had approved, and the Company had granted, a total of 3,300,000 share purchase options during January 2017. These share purchase options have a strike price of C$0.30 and vested at different times from January 2017 to September 2019 and expire three years from the date of vesting. Expiry dates of these options range from January 28, 2020 to September 2, 2022. At September 30, 2019, all of these share purchase options were exercisable.

Subsequent to year end 1,200,000 share purchase options expired unexercised.

The grant date fair value of these options was estimated using the Black Scholes model with the following significant weighted average inputs:

	September 30,	
	2018	**2017**
Risk-free interest rate (%)	0.97%	0.73% to 1.37%
Expected dividend yield (%)	0.00%	0.00%
Expected stock price volatility (%)	113%	106% to 122%
Life in years	10.0	3.0 - 5.6
Exercise price (C$)	$0.10	$0.30
Weighted average fair value (C$)	$0.03	$0.12
Weighted average stock price (C$)	$0.05	$0.23

Expected volatility was estimated by reference to comparable listed entities and the Company incorporated the effects of early exercise in the estimate of the expected life of the share purchase options.

The Company recognized $21,006 and $154,852 of share-based payment expense for the years ended September 30, 2019 and 2018 for these share purchase options, respectively and at September 30, 2019 there was no remaining unrecognized expense related to these share purchase options.

14. INCOME TAXES

The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate to income before taxes. The primary difference results from providing for state income taxes and from deducting certain expenses for financial statement purposes which are not deducted for federal income tax purposes.

The Company has not recognized deferred tax assets in excess of those that have been offset against deferred tax liabilities, as it is not yet probable that the Company will have substantial taxable income against which the deferred tax assets can be utilized in the near future. Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

(Expressed in US dollars)

The Company's income tax expense for the years ended September 30, 2019 and 2018 was nil. A reconciliation of income tax expense to the financial statement expense calculated at statutory tax rates is:

	Year Ended September 30,	
	2019	**2018**
Net loss before taxes	$ (1,011,912)	$ (1,231,094)
Expected income taxes based on combined federal and state statutory rate of 27.75% (2018: 25.46%)	(280,806)	(313,437)
Permanent differences	(5,269)	(11,011)
Effects of income tax rate change	(299,104)	1,835,008
Other	231,473	(384,669)
Change in valuation allowance	353,706	(1,125,891)
Tax expense	$ -	$ -

The following table summarizes the components of deferred taxes:

	September 30,	
	2019	**2018**
Total current assets	$ 559,079	$ 564,512
Long-term assets:		
Net operating loss carryforwards	3,316,179	2,928,394
Intangible assets	180,707	170,231
Other long-term assets	344,296	315,821
Total deferred tax assets	4,400,261	3,978,958
Long-term deferred tax liability - Debt	(585,831)	(537,381)
Long-term deferred tax liability - Property and equipment	(125,478)	(106,332)
Deferred tax assets, net	3,688,952	3,335,245
Less: Valuation allowance	(3,688,952)	(3,335,245)
Deferred tax assets, net after valuation allowance	$ -	$ -

Changes in the Company's deferred tax liability are as follows:

Balance, September 30, 2017	$ -
Deferred tax liability incurred	(264,594)
Additional deferred tax asset recognized	264,594
Balance, September 30, 2018	-
Deferred tax liability incurred	67,596
Additional deferred tax asset recognized	(67,596)
Balance, September 30, 2019	$ -

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. At September 30, 2019, the Company's estimated gross net operating losses total approximately $11.9 million (September 30, 2018 – $11.5 million), of which $10.5 million expire from 2034 to 2037 and $1.4 million may be carried forward indefinitely.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The carrying amount of cash, accounts receivable, accounts payable and accrued liabilities, and other payables approximate their fair values due to the short-term maturities of these instruments. The long-term portions of finance lease obligations, notes payable, and royalty funding have been discounted at rates that approximate current market rates and therefore approximate fair values.

Financial Risk Management

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), fair value risk, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

Market Risk

Currency risk: The Company's revenues, expenses and financing are primarily denominated in US dollars. There is minimal exposure to currency risk.

Interest rate risk: Interest rate risk is the risk that the future cash flows or the fair value of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Company's debt is at fixed rates and due in the short term. Accordingly, there is limited exposure to cash flow or price interest rate risk.

Credit Risk

For the year ended September 30, 2019, the Company had one customer that accounted for more than 10% of sales (year ended September 30, 2018 – one customer). All of the Company's sales for the year ended September 30, 2019 were from this one customer (year ended September 30, 2018 – approximately 16%). Accounts receivable due from this one customer was approximately 72% of total accounts receivable as at September 30, 2019 (September 30, 2018 – approximately 19%). The Company mitigates this risk by evaluating the outstanding balances on a regular basis and abiding by the credit limit that is dictated by the customer's credit rating. At September 30, 2019, the Company has $17,348 of receivables past due (September 30, 2018 - $92,863).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

At September 30, 2019, the Company has current liabilities of $7.7 million (September 30, 2018 - $7.0 million) due within 12 months and has cash of less than $0.1 million (September 30, 2018 – less than $0.1 million) to meet its current obligations. At September 30, 2019, the Company has a working capital deficiency of $6.6 million (September 30, 2018 - $5.3 million) and accordingly, the Company is subject to liquidity risk. Management plans to continue to raise capital to develop, market and promote its products and technology to maintain its ongoing operations.

Capital Management

The Company's objective is to develop a strong capital base to sustain future development and growth of the business. The Company manages its capital by maintaining a flexible capital structure which optimizes the cost of capital at an acceptable level of risk and makes adjustments on it in the light of changes in economic conditions and the risk characteristics of its underlying assets. The Company's capital base is currently represented by total deficit, notes payable, and royalty funding. Management reviews the Company's business plans as part of its strategic initiatives in conjunction with its financial forecast. There has been no change in the capital management policies of the Company during the current fiscal year.

(Expressed in US dollars)

The Company regularly monitors and reviews the amount of capital in proportion to risk and future development. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company has no additional externally imposed capital requirements.

The Company's debt and royalty funding obligations are due as follows for the years ending September 30:

	2020	2021	2022	2023	2024	Thereafter
Notes payable (i)…………	$ 1,890,976	$ 2,111	$ 2,535	$ 3,047	$ 3,661	$ 190,827
Accounts payable and other accrued liabilities…	5,544,719	-	-	-	-	-
Finance leases………………	37,407	441	-	-	-	-
Royalty (ii)…………………..	-	-	-	-	-	-
Provisions	142,081	-	-	-	-	-

(i) The maturity analysis is presented on the basis of the discounted carrying value of the notes payable.
(ii) Royalties under the New Royalty are contingent upon meeting a minimum Excess Free Cash Flow and do not accrue if such minimum is not met. See Note 12 for the terms of the royalty agreement and New Royalty.

16. COMMITMENTS, CONTINGENCIES AND PROVISIONS

Commitments

The Company is committed to leases of its premises and equipment. Minimum lease payments for the years ending September 30 are as follows:

	2020	2021	2022	Total
Premises - Montana…..	$ 103,425	$ 106,528	$ 82,293	$ 292,246
Premises - Arizona…….	227,753	-	-	227,753

During June 2017, the Company relocated its head office and processing facilities to Belgrade, Montana and vacated its Scottsdale, Arizona facility. The Company has executed a settlement agreement as a result of vacating the premises in Scottsdale, Arizona.

The June 2017 lease for the Belgrade, Montana facility calls for minimum monthly payments of $9,300 and expires June 30, 2022 with an option to renew for an additional year under certain circumstances.

Contingencies and Provisions

During October 2016, a distributor of the Company's products filed a claim in the amount of approximately $90,000 related to commissions the distributor claimed to be due. On November 21, 2019 the Company and the distributor entered into a settlement agreement whereby the Company is required to pay $1,701 in the distributor's legal fees and $94,997 in equal instalments commencing December 16, 2019. As at September 30, 2019 and 2018 $0.1 million is accrued and subsequent to year end, the Company has made $15,272 in payments.

During January 2017, the Company received notice from a vendor for breach of contract. Subsequent to year end on January 11, 2019, the Company reached a settlement agreement with the vendor whereby the Company will pay the vendor $162,500 in monthly instalments over three years and will issue 4,553,734 warrants with a strike price of C$0.0549 and an expiry of ten years from the date of issue. The Company issued the 4,553,734 warrants on February 11, 2019 but defaulted on the required payments. The vendor filed a second claim against the Company and on November 13, 2019 obtained a judgment that $130,903 plus interest at a rate of 10% per annum and court costs shall be paid to the vendor. At September 30, 2019, the Company has recorded a provision of $142,081 to cover this settlement (September 30, 2018 - $163,000).

During March 2018, a claim was filed for unpaid services in the amount of $402,400. This amount is recorded in accounts payable at September 30, 2019 and 2018. The Company is currently negotiating a settlement agreement.

During April 2018, the Company received a judgment notice of $66,000 from a vendor. This amount plus accrued interest at 10% per annum are recorded in accounts payable at September 30, 2019 and 2018. The Company is continuing negotiations to reach a settlement agreement.

During April 2018, the Company agreed to pay a distributor commissions in the amount of $37,200. Payment terms are $3,100 per month starting June 1, 2018. Should these required payments not be met, the Company will be required to pay $37,200 plus interest at a rate of 10% per annum, accruing from November 10, 2017, net of any payments made. At September 30, 2019 and 2018, the Company is in default of its payments and has accrued $44,193 in principal and interest.

In August 2018, LifeShare Transplant Donor Services filed a claim against the Company for not meeting its repayment obligations under its note payable (See Note 10), and claims the Company owed $201,623 in principal plus interest at a rate of 5.50% per annum, compounded annually and late fees of $500 per month. The Company did not dispute this claim.

In January 2019, a former officer and director of the Company filed a claim of $2.5 million, against the Company for unpaid salaries, severance pay, repayment of advances made to the Company, and payment for the value of share purchase options granted to the former officer and director. At September 30, 2019, the Company has accrued a total of $0.6 million for this matter (September 30, 2018 - $0.6 million). The outcome of this claim is not determinable.

Subsequent to year end, Flow Capital filed a claim of C$417,433 against the Company for default on repayment of the Unsecured Notes Payable, which is described in Note 10. The outcome of this claim is not yet determinable.

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, vendors and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

17. RELATED PARTY TRANSACTIONS

For the years September 30, 2019 and 2018, the Chief Executive Officer elected to defer payment of his salaries totaling $92,837 and $357,610 (net of advances), respectively, resulting in a total balance due of $1,122,966 and $1,027,129, respectively. These balances are included in accounts payable and other accrued liabilities on the Consolidated Statements of Financial Position. At September 30, 2019 and 2018, the Company also owes this individual $nil and $13,195 for reimbursable expenditures, respectively, which is also included in accounts payable and other accrued liabilities on the Consolidated Statements of Financial Position.

For the year ended September 30, 2018, the former Chief Financial Officer elected to defer payment of her salaries totaling $98,968 (net of advances), which includes her salaries up to her resignation in August 2018.

During June 2017, the former Chief Financial Officer entered into the Belgrade, Montana facility lease for the benefit of the Company (see Notes 3 and 16). This individual has personally guaranteed this lease and there is no additional compensation contemplated to this individual beyond the payments required to the lessor under the terms of the lease agreement.

(Expressed in US dollars)

18. ENTERPRISE WIDE DISCLOSURES

The Company operates as one reportable segment and generates substantially all revenues in the United States of America. Information on the Company's revenue is as follows:

	Years Ended September 30,					
	2019			2018		
ADM dermis…….	$	-	0.0%	$	160,499	14.0%
DBM putty…….		-	0.0%		37,699	3.0%
Bone scaffold…..		2,119,404	97.0%		759,268	66.0%
Other…………….		69,227	3.0%		197,575	17.0%
Total revenue…..	$	2,188,631	100.0%	$	1,155,041	100.0%