



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended June 30, 2019 and June 30, 2018

(expressed in Canadian dollars)

(UNAUDITED)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the three-month period ended June 30, 2019

Management's Responsibility for Financial Information

The condensed consolidated interim financial statements (the "Interim Financial Statements"), the notes thereto and other financial information contained in the management's discussion and analysis are the responsibility of management of Aquarius Surgical Technologies Inc. and have been approved by the Board of Directors.

The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where necessary, include amounts which reflect management's best estimates and judgments based on current available information. Aquarius Surgical Technologies Inc. maintains systems of internal accounting and administrative controls in order to provide reasonable assurance that the Corporation's assets are appropriately accounted for and adequately safeguarded, and that financial information is accurate and reliable.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the Interim Financial Statements and the accompanying management's discussion and analysis.

The Audit Committee is composed of three non-management, independent directors and meets periodically with management and the independent auditors to review internal accounting controls, auditing matters and financial reporting issues, and to satisfy itself that all parties are properly discharging their responsibilities. The Audit Committee reviews the Interim Financial Statements and the management's discussion and analysis of financial results and reports its findings to the Board of Directors for its consideration when approving the Interim Financial Statements for issuance to the shareholders.

"N. Gary Van Nest"

N. Gary Van Nest
Chief Executive Office

"Lorne S. MacFarlane"

Lorne S. MacFarlane
Chief Financial Officer

August 26, 2019



Consolidated Financial Statements

June 30, 2019

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Aquarius Surgical Technologies Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	As at	30-Jun-19	31-Mar-19
ASSETS		\$	\$
Current Assets			
Cash and deposits		517,392	125,440
Accounts receivable		68,594	55,010
Inventories (Note 4)		243,204	195,713
Prepaid expenses and deposits		20,650	57,805
Due from related party (Note 6 (A))		230,591	224,907
		1,080,431	658,875
Long-term investment		1	1
Equipment (Note 5)		1,031,780	1,065,040
		2,112,212	1,723,916
 LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current Liabilities			
Accounts payable and accrued liabilities		341,463	162,541
Note payable (Note 10)		250,000	250,000
		591,463	412,541
Due to related party (Note 6 (B))		1,819,991	1,765,270
Series "A" Special Shares (Notes 8)		1	1
		1,819,992	1,765,271
		2,411,455	2,177,812
 Shareholders' Equity (Deficiency)			
Common Shares (Note 8)		19,343,145	19,042,428
Contributed surplus		8,812,039	8,617,039
Deficit		(28,454,427)	(28,113,363)
		(299,243)	(453,896)
		2,112,212	1,723,916

*The accompanying notes form an integral part of these condensed consolidated interim financial statements
(See Note 2 - Going Concern, Note 14 - Commitments and Note 19- Subsequent events)*

Approved on behalf of the Board

"David J. Hennigar"

David J. Hennigar

"N. Gary Van Nest"

N. Gary Van Nest

August 26, 2019



Aquarius Surgical Technologies Inc.

**Condensed Consolidated Interim Statement of
Comprehensive Loss (Unaudited)**

(Expressed in Canadian dollars)

Three Months Ended

	30-Jun-19	30-Jun-18
	\$	\$
Sales		
Equipment	225,728	-
Fiber sales	63,191	27,514
Equipment rental	13,060	-
Other	1,241	-
	303,220	27,514
Cost of sales	157,284	26,154
	145,936	1,360
Expenses		
General and administrative (Note 12)	378,565	364,510
Bank charges and interest	78,555	2,551
Amortization (Notes 5)	33,261	12,798
	490,381	379,859
Net loss before other items	(344,445)	(378,499)
Other items:		
Interest income	3,381	-
Net loss for period	(341,064)	(378,499)
Loss per share, basic and diluted	(\$0.017)	(\$0.020)
Weighted average number of shares outstanding (Notes 8 and 13)	19,652,876	18,863,929

The accompanying notes form an integral part of these condensed consolidated interim financial statements



Aquarius Surgical Technologies Inc.
Condensed Consolidated Statements of Changes in Equity (Deficiency)
(Expressed in Canadian dollars)
for the 3 months ended June 30, 2019 and June 30, 2018

	Issued Capital		Contributed		Total
	Common Shares	Amount	Surplus	Deficit	
		\$	\$	\$	\$
Balance March 31, 2018	18,233,545	18,618,303	8,037,039	(26,526,654)	128,688
Private placement	1,148,070	378,632	-	-	378,632
Class "C" warrants	-	-	131,000	-	131,000
Brokers warrants	-	-	7,000	-	7,000
Issue costs	-	(17,130)	-	-	(17,130)
Net loss for the period	-	-	-	(378,499)	(378,499)
Balance June 30, 2018	19,381,615	18,979,805	8,175,039	(26,905,153)	249,691
Balance March 31, 2019	19,555,139	19,042,428	8,617,039	(28,113,363)	(453,896)
Private placement	1,446,900	311,415	-	-	311,415
Issued for services	70,500	29,250	-	-	29,250
Warrants - December 26, 2021	-	-	170,000	-	170,000
Brokers warrants - December 26, 2021	-	-	25,000	-	25,000
Issue costs	-	(39,948)	-	-	(39,948)
Net loss for the period	-	-	-	(341,064)	(341,064)
Balance June 30, 2019	21,072,539	19,343,145	8,812,039	(28,454,427)	(299,243)

The accompanying notes form an integral part of these condensed consolidated interim financial statements



Aquarius Surgical Technologies Inc.
Condensed Consolidated Interim Statement of Cash Flows
(unaudited)

(Expressed in Canadian dollars)

Three Months Ended

30-Jun-19 30-Jun-18

Cash flows provided by (used in):

	\$	\$
Operating activities		
Net loss for the period	(341,064)	(378,499)
Amortization (Notes 5)	33,261	12,798
Shares issued for services	29,250	-
Interest accretion (Note 6(B))	65,510	-
Accounts receivable	(13,584)	265,408
Inventory	(47,491)	(266,859)
Prepaid Expenses and deposits	37,155	22,914
Due from related party (Note 6 (A))	(5,684)	(4,664)
Accounts payable and accrued liabilities	178,921	(157,394)
	(63,726)	(506,296)
Financing activities		
Advances from related parties	(10,789)	10,711
Issuance of common shares units	506,415	516,632
Issue costs	(39,948)	(17,130)
	455,678	510,213
Decrease in cash during the year	391,952	3,917
Cash, beginning of period	125,440	162,642
Cash, end of period	517,392	166,559
Non-cash transactions		
Issuance common shares for services	29,250	-

The accompanying notes form an integral part of these condensed consolidated interim financial statements

1. NATURE OF OPERATIONS

Aquarius Surgical Technologies Inc., 89 Scollard Street, Toronto, ON M5R 1G4 (the “Corporation” OR “ASTI”) was incorporated under the *Business Corporations Act* (Ontario) on December 12, 1986. The Corporation trades on the Canadian Securities Exchange (CSE) under the symbol ASTI.

As of March 20, 2017, the Corporation acquired all the outstanding shares of Surgical Lasers Inc. (“SLI”). The business of SLI is the development, sale, distribution, marketing, and exploitation of laser-driven technologies for use in surgical environments, principally in the field of urology. In particular, SLI has entered into two exclusive distribution agreements, covering effectively all countries in the North America, pursuant to which it has exclusive rights over a multi-diode laser system and related fibre-optic delivery devices used principally for minimally invasive treatment of Benign Prostatic Hyperplasia. The exclusivity of the Corporation’s distribution rights is dependent on achievement of certain annual targets agreed between the parties from time to time. When the annual targets have not been met in the past the targets have been waived.

2. GOING CONCERN

The condensed consolidated interim financial statements (the “Interim Financial Statements”) for the Corporation have been prepared on a going concern basis, which assumes the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

During the years ended March 31, 2019 and March 31, 2018 the Corporation had operating revenues of \$393,385 and \$974,538 and recorded losses of \$1,586,709 and \$6,251,890, respectively. For the years ended March 31, 2019 and March 31, 2018 the Corporation had negative cash flow from operations of \$1,351,504 and \$1,612,334, respectively. At June 30, 2019 and March 31, 2019, the Corporation has working capital of \$488,968 and \$246,334, respectively. Also, at June 30, 2019 and March 31, 2019, the Corporation has a shareholders' deficit of \$299,243 and \$453,896, respectively. These circumstances create a material uncertainty that may be considered to cast significant doubt on the ability of the Corporation to continue as a going concern. The Corporation is dependent on the support of its creditors and lenders, the ability to obtain additional financing, and ultimately, the attainment of profitable operations.

If the going concern assumption were not appropriate for these Interim Financial Statements, adjustments would be necessary to the carrying values of assets and liabilities, the reported loss for the year and balance sheet classifications, such adjustments could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The Interim Financial Statements are presented in Canadian dollars which is also the functional currency of the Corporation and its subsidiaries.

The Interim Financial Statements for the period ended June 30, 2019, and the notes thereto present the Corporation’s financial results of operations and financial position under IFRS as at and for the three month periods ended June 30, 2019 and June 30, 2018. The Interim Financial Statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies the Corporation adopted in its financial statements for the year ending March 31, 2019 based on current standards. The Interim Financial Statements do not include all the necessary annual disclosures in accordance with IFRS..

The policies set out in Note 3 were consistently applied to all the years presented unless mentioned.

The Interim Financial Statements were approved by the board of directors for issuance on August 26, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation

The Interim Financial Statements include the accounts of the Corporation and its wholly owned subsidiaries, Surgical Lasers Inc., Scotiachemco Holdings Limited and Scotiachemco Inc. Inter-company transactions and balances have been eliminated.

(c) Basis of preparation

The Interim Financial Statements are prepared on the historical cost basis except for certain assets, liabilities and financial instruments which are measured at their fair values, as explained in the relevant accounting policies set out below.

New Accounting Policies

Financial instruments – IFRS 9

On April 1, 2018 the Corporation adopted IFRS 9 – *Financial Instruments* (“IFRS 9”). A financial asset shall be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognized in a business combination) in other comprehensive income (“OCI”). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

The classification changes for each class of the Corporation's financial assets and financial liabilities are summarized in the following table:

	IAS 39		IFRS 9	
	Classification	Measurement	Classification	Measurement
Financial assets and liabilities				
Cash and deposits	Held for trading	Fair value	Amortized cost	Amortized cost
Accounts receivable and deposits	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Due from related party	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Long-term investment	Available-for-sale	Cost	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Notes payable	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Series “A” special shares	Other financial liabilities	Fair value	FVTPL	FVTPL

Impairment of financial assets at amortized cost

The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses (“ECL”) rather than only incurred credit losses as was the case under IAS 39. Impairment provisions on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the provision decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. The Corporation's accounts receivable, deposits and due from related party are included in this category. The Corporation applies the simplified approach to measuring ECL which uses a lifetime expected impairment. To measure the ECL, impairment provisions on accounts receivable are based on credit risk characteristics and days past due. Accounts receivable are written off when there is no reasonable expectation of recovery. An indicator that there is no reasonable expectation of recovery is the failure of a debtor to engage in a repayment plan with the Corporation. The impact of the change in impairment provision was immaterial and consequently, no adjustment was made.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of preparation (continued)

Modification of Related Party Loan

There was extension of the term of the related party loan which was re-assessed on the adoption of IFRS 9 (see Note 6(B)). This resulted in a fair value gain on date of transition which was recognized as a \$254,850 increase in contributed surplus and a \$254,850 reduction in the related party loan.

Revenue from contracts with customers – IFRS 15

On January 1, 2018, the Corporation adopted the new accounting standard IFRS 15 – “*Revenue from Contracts with Customers*” (“IFRS 15”). IFRS 15 employs a five step process for determining the performance obligations within customer sales contract such that revenue is recognized when each specific performance obligation is satisfied and as or when the transfer of control of goods or services to the customer has occurred. Revenue is recognized to reflect the consideration the Corporation is entitled to receive in exchange for the goods or services included under each specific performance obligation.

The Corporation adopted IFRS 15 using the modified retrospective method. The adoption of IFRS 15 did not result in any material changes to the financial statements related to the amount of revenue recorded or the timing of revenue recognition for the various performance obligations.

The Corporation’s primary sources of revenue under its contracts with customers are the sale of medical devices and fibre-optic delivery devices. The performance obligation regarding the Corporation’s contracts with its customers and the timing of revenue recognition on those obligations is upon shipment and revenue is recognition at a point in time. Payment is normally due on delivery. The Corporation is able to allocate the transaction price to all of its performance obligations using the prices of the promised goods as they are quoted and invoiced to customers on a stand-alone basis. The Corporation also provides a 1 year warranty on sales this is covered by the manufacturer and therefore the Corporation has no warranty provision.

(d) Accounting estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, revenue and expenses and the accompanying notes. Actual results could differ from these estimates under the circumstances.

The areas that management makes critical estimates, assumptions and judgments are the valuation and determination of the useful life of assets, valuation of share capital warrants and stock options, acquisition accounting, fair value of long-term investments, recoverability of deferred tax assets and classification of contingent consideration as a liability or equity.

(e) Cash and deposits

Cash consists of deposits with major financial institutions.

(f) Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses. The cost is determined based on a first-in, first-out basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition which include the purchase price, import duties, non-recoverable taxes, transportation, handling and other costs directly related to the purchase of the inventory.

(g) Equipment

Equipment placed in hospitals and clinics for evaluation purposes are classified as demo equipment. Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Equipment (continued)

and restoring the site on which it is located. Amortization is provided on equipment over the estimated useful life using the following rates and methods:

Computer equipment	- 5 years straight line
Furniture and equipment	- 3 years straight line
Demo equipment	- 10 years straight line

Depreciations methods, useful lives and residual values are reviewed at reviewed at each reporting date and adjusted if appropriate.

(h) Intangibles

Intangible assets include distributions rights and a non-compete agreement that qualify for recognition as intangible assets in a business combination and are measured initially at fair value which is their initial deemed cost. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. Amortization of intangibles is calculated on a straight line basis over 10 years for exclusive distribution rights and over 5 years for the non-compete agreement.

(i) Income taxes

Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using the substantively enacted rates and laws that are expected to be in effect in the periods that the temporary differences are expected to be realized or settled. The effect of changes in rates is included in the statement of comprehensive income in the period which includes the substantive enactment date. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Stock based payments

Stock based payment awards that are direct awards of stock to employees or directors, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by issuing equity instruments, are accounted for using the Black-Scholes option pricing model. The cost is recognized on a straight-line graded method over the vesting period adjusted for expected forfeitures as an employee or director expense with a corresponding increase to equity in contributed surplus. Consideration paid by employees or directors on the exercise of stock options is recorded as share capital.

Stock based payments with parties other than employees, assumes a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. In certain circumstances, the Corporation rebuts this presumption because it cannot estimate reliably the fair value of the goods or services received. The Corporation then measures the goods or services received, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service.

(k) Unit private placements

For private placements of units consisting of common shares and warrants, the Corporation uses the Black-Scholes option-pricing model in determining the fair value of warrants. The common shares are allocated the residual value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Foreign currency

Foreign currency transactions are translated into Canadian dollars at the rate prevailing on the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at the end of the year. Translation gains and losses are recorded in the statement of comprehensive income.

(m) Provisions

A provision is recognized in the statement of financial position when the Corporation has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Earnings (loss) per share

Basic earnings (loss) per share amounts are calculated by dividing net income (loss) for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) attributable to common shareholders by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

(o) Impairment of non-financial assets

Equipment and intangibles are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Goodwill is systematically tested for impairment at each balance sheet date, or more frequently when events or changes in circumstances indicate that the asset may be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value (less costs to sell) is the amount obtainable from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs to sell. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

Impairment losses may be reversed, in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized.

(p) Fair value measurement

The Corporation categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

Long term investments and the Series "A" Special Shares are considered Level 2 in the hierarchy.

(q) Business combinations

At the time of acquisition, the Corporation determines whether what is acquired meets the definition of business, in which case if it does, the transaction is considered a business combination, and otherwise it is recorded as an asset acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Business combinations (continued)

For an asset acquisition, the net identifiable assets acquired and liabilities assumed are measured at the fair value of the consideration paid, based on their relative fair values at the acquisition date. Acquisition related costs are included in the consideration paid and capitalized. No goodwill is recorded and no deferred tax asset or liability arising from the assets acquired or liabilities assumed are recognized upon the acquisition of the assets.

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured. Goodwill is initially measured at

cost, being the excess of the aggregate of the consideration transferred and the fair value of the net identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Acquisition costs are expensed as incurred, unless they qualify to be treated as debt issue costs, or as cost of issuing equity securities.

The measurement period is the period from the date of acquisition to the date the Corporation obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year. The Corporation elects on a transaction-by-transaction basis whether to measure non-controlling

interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

(r) Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretation Committee that are mandatory for accounting periods beginning after January 1, 2017 or later periods. Updates that are not applicable or are not consequential to the Company have been excluded there from. The Company is in the process of evaluating the impact on its financial statements.

IFRS 16 *Leases* sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12-months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers*.

4. INVENTORIES

Inventories consists of finished products held for sale.

5. EQUIPMENT

Equipment is comprised of the following:

	Computer equipment \$	Demonstration equipment \$	Office furniture and equipment \$	Total \$
June 30, 2018				
Cost				
Balance, beginning of period	12,178	390,931	16,013	419,122
Balance, end of period	12,178	390,931	16,013	419,122
Accumulated depreciation				
Balance, beginning of period	9,049	39,798	6,568	55,415
Depreciation for period	233	10,955	1,610	12,798
Balance, end of period	9,282	50,753	8,178	68,213
Net book value	2,896	340,178	7,835	350,909
June 30, 2019				
Cost				
Balance, beginning of period	12,178	1,209,478	16,013	1,237,669
Balance, end of period	12,178	1,209,478	16,013	1,237,669
Accumulated depreciation				
Balance, beginning of period	9,983	149,639	13,007	172,629
Depreciation for period	232	31,418	1,610	33,260
Balance, end of period	10,215	181,057	14,617	205,889
Net book value	1,963	1,028,421	1,396	1,031,780

6. DUE FROM AND TO RELATED PARTY

(A) Due from related party

The President, Chief Technology Officer and Director of the Corporation, and Cast Laser Inc., (“Cast”) a corporation owned by the director were indebted to the Corporation as at March 31, 2019, in the amount of \$224,907 (2018-\$121,361); that indebtedness is secured by a Promissory Note made jointly and severally by Cast and the director and an Assignment of Receivables by Cast, and was repayable on or before December 31, 2017 (the “Maturity Date”), without interest, but subject to interest at 6% per year from and after January 1, 2018 if not fully repaid by the Maturity Date. The amounts are currently past due. (See also Note 19 - Subsequent Events.)

6. DUE FROM AND TO RELATED PARTY (continued)

(B) Due to related party

Forest Lane Holdings Limited ("FLH"), a Corporation controlled by David J. Hennigar, Chairman of the Corporation, owns directly and indirectly 8,686,553 shares (41.2%) (June 30, 2018 – 44.8%) of the Corporation. FLH has provided working capital funding to the Corporation for a number of years.

The following table details the changes in the amount due to related party:

	30-Jun-19	30-Jun-18
	\$	\$
Balance beginning of period	2,027,310	1,045,086
Change in foreign currency translation	(10,789)	10,711
Face value of loan	2,016,521	1,055,797
Imputed interest	(196,530)	-
Balance end of period	1,819,991	1,055,797

The amount due is non-interest bearing and has no set terms of repayment. FLH has agreed not to call the loan before April 1, 2020. The expected maturity date of the amount due to related party was extended to April 1, 2020 which resulted in a change to the fair value on initial recognition. Gain on the initial recognition is recognized in contributed surplus as a transaction with a shareholder. The imputed interest expense on the loan of \$65,510 is recorded as a finance cost.

The compensation paid to the directors and key management of the Corporation in the period ended June 30, 2019 was \$100,500 (2018 - \$100,500) paid in management fees and benefits. Key management includes those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly, including any directors.

7. LONG TERM INVESTMENT

Woodland Biofuels Inc. ("Woodland")

The Corporation holds 112,272 shares in Woodland, a private company focused on the development and production of ethanol and other fuels and chemicals from biomass. The Corporation has written down the investment to its original cost of \$1.

8. SHARE CAPITAL

Share capital consists of the following:

- An unlimited number of special shares, issuable in series; and
- An unlimited number of common shares.

Effective April 30, 2018, the Corporation accepted subscriptions for 814,720 units at a subscription price of \$0.45 per unit. Each unit comprises One (1) fully paid and non-assessable common share from the Treasury of the Corporation and One (1) Class "C" Warrant, exercisable for a period of two years from the date of issue at a price of \$0.90. Each Class "C" Warrant will entitle the holder to purchase One (1) fully paid non-assessable common share from the Treasury of the Corporation. In connection with this financing, there were also issued a total of 11,340 non-transferable Brokers Warrants, with terms otherwise similar to the Class "C" Warrants then issued. The fair value of the warrants and Brokers Warrants was determined to be \$98,000 with the residual of \$268,624 allocated to the common shares.

Effective June 3, 2018, the Corporation accepted subscriptions for an additional 333,350 units, the details of which are described above, at a subscription price of \$0.45 per unit. In connection with this financing, there were also issued a total of 26,668 non-transferable Brokers Warrants. The fair value of the warrants and Brokers Warrants was determined to be \$40,000 with the residual of \$110,008 allocated to the common shares.

8. SHARE CAPITAL (continued)

Effective November 1, 2018, the Corporation issued 50,000 common shares at \$0.45 per share and 9,756 common shares at \$0.41 per share as compensation for services.

Effective December 1, 2018, the Corporation issued 12,500 common shares at \$0.45 per share and 9,756 common shares at \$0.41 per share as compensation for services.

Effective December 31, 2018, the Corporation issued 12,500 common shares at \$0.45 per share and 9,756 common shares at \$0.41 per share as compensation for services.

Effective January 31, 2019, the Corporation issued 12,500 common shares at \$0.40 per share and 9,756 common shares at \$0.41 per share as compensation for services.

Effective February 20, 2019, the Corporation issued 11,000 common shares at \$0.43 per share as compensation for services.

Effective February 28, 2019, the Corporation issued 12,500 common shares at \$0.40 per share as compensation for services.

Effective March 1, 2019, the Corporation issued 11,000 common shares at \$0.43 per share as compensation for services.

Effective March 31, 2019, the Corporation issued 12,500 common shares at \$0.40 per share as compensation for services.

Effective April 1, 2019, the Corporation issued 11,000 common shares at \$0.43 per share as compensation for services.

Effective April 30, 2019, the Corporation issued 12,500 common shares at \$0.40 per share as compensation for services.

Effective May 1, 2019, the Corporation issued 11,000 common shares at \$0.43 per share as compensation for services.

Effective May 31, 2019, the Corporation issued 12,500 common shares at \$0.40 per share as compensation for services.

Effective June 1, 2019, the Corporation issued 11,000 common shares at \$0.43 per share as compensation for services.

Effective June 26, 2019, the Corporation accepted subscriptions for 1,446,900 Units at a price of \$0.35 per unit. Each Unit is comprised of one fully paid common share and one-half of a share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional share at a price of \$0.70 from the Treasury of the Corporation during the period up to thirty months from the Closing Date of the Placement. In connection with this financing, there were also issued a total of 90,783 non-transferable Brokers Warrants. Each Broker Warrant entitles the holder to purchase one additional share at a price of \$0.35 from the Treasury of the Corporation during the period up to thirty months from the Closing Date of the Placement. The fair value of the warrants and Brokers Warrants was determined to be \$195,000 with the residual of \$76,467 allocated to the common shares.

Effective June 30, 2019, the Corporation issued 12,500 common shares at \$0.40 per share as compensation for services.

8. SHARE CAPITAL (continued)

Common shares	Shares	Amount
		\$
Balance March 31, 2018	18,233,545	18,616,303
Issued for cash	1,148,070	378,632
Issue costs	-	(17,130)
Balance June 30, 2018	19,381,615	18,977,805
Balance March 31, 2019	19,555,139	19,042,428
Issued for cash	1,446,900	311,415
Issued for services	70,500	29,250
Issue costs	-	(39,948)
Balance June 30, 2019	21,072,539	19,343,145

As at the date of these Financial Statements there are 21,072,539 common shares issued and outstanding. See: Note 19 – Subsequent Events.

Series "A" Special Shares	Shares	Amount
		\$
Balance March 31, 2018 and June 30, 2018	1,532,901	1
Balance March 31, 2019 and June 30, 2019	1,226,321	1

In connection with the financing which closed on April 30, 2018, the Corporation issued an additional 11,340 Brokers Warrants, which are non-transferable, but otherwise in similar terms to the Class “C” Warrants, which were paid as a fee related to the financing, giving total warrants issued and outstanding at April 30, 2018 of 5,413,766. The Corporation determined the fair value of the warrants using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield 0%; Risk-free interest rate 0.73%; Contractual term (in years) 2; Expected volatility 125%.

In connection with the financing which closed on June 7, 2018, the Corporation issued an additional 26,668 Brokers Warrants, which are non-transferable, but otherwise in similar terms to the Class “C” Warrants, which were paid as a fee related to the financing, giving total warrants issued and outstanding at June 7, 2018 of 5,773,784. The Corporation determined the fair value of the warrants using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield 0%; Risk-free interest rate 0.73%; Contractual term (in years) 2; Expected volatility 125%.

In connection with the financing which closed on June 26, 2019, the Corporation issued an additional 90,783 Brokers Warrants, which are non-transferable, exercisable at \$0.35 expiring 30 months from date of issue, which were paid as a fee related to the financing, giving total warrants issued and outstanding at June 26, 2019 of 3,656,737. The Corporation determined the fair value of the warrants using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield 0%; Risk-free interest rate 0.73%; Contractual term (in years) 2.5; Expected volatility 125%.

Expected volatility is derived from the historical volatilities of several comparable unrelated public companies from the same or similar industry

On October 17, 2018, the Corporation issued 187,500 share purchase warrants, exercisable at \$0.50 each to acquire up to 187,500 common shares from the Treasury of the Corporation, valid until April 17, 2020.

8. SHARE CAPITAL (continued)

Class "A" Warrants	Warrants	Amount
		\$
Balance March 31, 2018 and June 30, 2018	4,587,706	3,659,667
Balance March 31, 2019 and June 30, 2019	1,468,926	815,049
<hr/>		
Class "B" Warrants	Warrants	Amount
		\$
None issued	nil	nil
<hr/>		
Class "C" Warrants	Warrants	Amount
		\$
Balance March 31, 2018	nil	nil
Issued for cash	1,148,070	131,000
Brokers warrants	38,008	7,000
Balance June 30, 2018	1,186,078	138,000
Balance March 31, 2019 and June 30, 2019	1,186,078	138,000
<hr/>		
Warrants - April 17, 2020	Warrants	Amount
		\$
Balance March 31, 2018 and June 30, 2018	nil	nil
Balance March 31, 2019 and June 30, 2019	187,500	33,000
<hr/>		
Warrants - December 26, 2021	Warrants	Amount
		\$
Balance March 31, 2019	nil	nil
Issued for cash	723,450	170,000
Brokers warrants	90,783	25,000
Balance June 30, 2019	814,233	195,000

The following table summarizes information about the warrants outstanding and exercisable at June 30, 2019:

Number of warrants outstanding	Expiry Date	Exercise Price \$	Number of warrants exercisable	Weighted average remaining life
1,412,430	6-Jul-2019	1.50	1,412,430	6 days
56,496	6-Jul-2019	1.50	56,496	6 days
187,500	17-Apr-2020	0.50	187,500	292 days
814,720	30-Apr-2020	0.90	814,720	305 days
11,340	30-Apr-2020	0.90	11,340	305 days
333,350	7-Jun-2020	0.90	333,350	343 days
26,668	7-Jun-2020	0.90	26,668	343 days
723,450	26-Dec-2021	0.70	723,450	910 days
90,783	26-Dec-2021	0.35	90,783	910 days
<u>3,656,737</u>			<u>3,656,737</u>	

8. SHARE CAPITAL (continued)

Callable Warrant Feature Class “A” Warrants, Class “B” Warrants and Class “C” Warrants each have a “Callable” feature, empowering the Corporation to Call the Warrant for exercise at any time while they are outstanding if the average closing price of the stock on the market over a period of 20 trading days in any period of thirty consecutive trading days is at or above 130% of the respective exercise price of the Warrants. The Call procedure provides that the Corporation may give Notice to Exercise within 30 days, after which date any unexercised Warrants will become void.

9. STOCK BASED COMPENSATION PROGRAM

The Board of Directors has established a stock option plan (“the plan”) under which options to purchase common shares are granted to directors, officers, consultants and key employees of the Corporation. The plan was approved by the shareholders of the Corporations at the Annual General and Special Shareholders Meeting held on November 21, 2016. Options to acquire common shares are granted at option prices, which shall be not less than the fair market value of the shares at the time the option is granted. Fair market value shall be deemed to be the average between the highest and lowest prices at which the common shares are traded on the day the option is granted and if not so traded, the average between the closing bid and asked prices thereof as reported for the day on which the option is granted. Options expire between one and ten years from the date of the grant and will generally vest immediately.

The Corporation has reserved 3,000,000 common shares pursuant to the plan. There are 1,450,000 options to acquire common shares outstanding under the plan as at June 30, 2019. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

On March 31, 2017, 1,450,000 options were granted to directors, officers, consultants and employees under the plan at an exercise price of \$1.00. These options vested immediately and expire in 5 years. The fair value of these options were estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions; estimated fair value of the shares \$0.53; risk free interest rates of 1.12%; dividend yields of nil; volatility factor of 125%; and a weighted average expected life of the option of 5 years. The fair value of the options is \$600,875. The expected volatility of the Corporation is based on historical volatility of comparable entities for the same weighted average expected life of the option.

On August 24, 2017, 10,000 options were granted to a consultant under the plan at an exercise price of \$1.00. These options vested immediately and expire in 5 years. The fair value of these options were estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions; estimated fair value of the shares \$0.60; risk free interest rates of 0.73%; dividend yields of nil; volatility factor of 125%; and a weighted average expected life of the option of 5 years. The fair value of the options is \$5,000. The expected volatility of the Corporation is based on historical volatility of comparable entities for the same weighted average expected life of the option.

Options issued and outstanding as at June 30, 2019 and June 30, 2018:

	Weighted average exercise price \$	Issued
Balance March 31, 2018 and June 30, 2018	1.00	1,460,000
Balance March 31, 2019 and June 30, 2019	1.00	1,460,000

The following table summarizes information about the options outstanding and exercisable at June 30, 2019:

Number of options outstanding	Expiry Date	Exercise Price \$	Number of options exercisable	Weighted average remaining life (yrs)
1,450,000	31-Mar-2022	1.00	1,450,000	3.3
10,000	24-Aug-2022	1.00	10,000	3.7
1,460,000			1,460,000	

10. NOTE PAYABLE

Effective March 19, 2019, the Corporation borrowed an amount of \$250,000 by way of a short term loan; the loan, which is subject to interest calculated at 15% per year, is secured by a Promissory Note issued by the Corporation and guaranteed by directors of the Corporation, and matures on December 31, 2019.

11. INCOME TAX

The following table reconciles the income tax provision from the expected amount based on statutory rates to the amount reported for consolidated financial statement purposes for the periods ended June 30, 2019 and June 30, 2018:

	30-Jun-19	30-Jun-18
	\$	\$
Net income (loss) before taxes	(341,064)	(378,499)
Income tax (recovery) at Canadian Federal and provincial statutory rates of	(90,382)	(100,302)
Deferred tax asset not recognized	90,382	100,302
Provision for income taxes	-	-
Deferred taxes		
	30-Jun-19	30-Jun-18
	\$	\$
Non-Capital losses carried forward	2,102,000	1,824,000
Equipment	118,000	85,000
Other	30,000	35,000
Intangible assets	-	-
	2,250,000	1,944,000
Less: Deferred tax assets not recognized	(2,250,000)	(1,944,000)
Deferred tax liability	-	-

	\$
Non-capital losses carried forward	
2026	300,680
2027	183,097
2028	327,325
2029	409,661
2030	348,264
2031	217,199
2032	323,394
2033	963,325
2034	735,728
2035	1,178,880
2036	187,084
2037	250,352
2038	1,458,657
2039	1,348,216
	<u>8,231,862</u>

12. EXPENSES BY NATURE

Expense item	Three Months Ended	
	30-Jun-19	30-Jun-18
Selling, general and admin expenses	245,801	230,127
Professional fees	12,274	17,877
Listing expenses	19,142	16,006
Management fees	52,500	52,500
Consulting fees	48,848	48,000
General and administrative	378,565	364,510

13. EARNINGS (LOSS) PER SHARE

The earnings per share is calculated based upon the weighted average number of common shares outstanding during the period of 19,552,876 (June 30, 2018 – 18,863,929). As at June 30, 2019, the Corporation had 3,656,737 outstanding warrants (June 30, 2018 - 5,773,784) and 1,460,000 outstanding stock options (June 30, 2018 – 1,460,000). The dilution created by warrants and options and the Corporation's commitment to issue shares has not been reflected in the per share amounts as the effect would be anti-dilutive.

14. COMMITMENTS

(A) The Corporation is committed to a lease agreement related to the Corporation's premises, commencing on July 1, 2015 and terminating on June 30, 2017 which has since been renewed to expire July 31, 2020. Under the terms of this lease, the Corporation is required to pay a proportionate share of operating costs, realty taxes and utilities, in addition to the minimum lease payments. The future minimum lease payments are shown in the table below.

2020	\$10,047
2021	3,520

(B) The Corporation's exclusive distribution rights are dependent on the achievement of certain annual minimum purchase targets agreed between the parties from time to time. The current future minimum purchase commitments are as follows:

	Lasers	Fibers
2019	24	15,000
2020	36	TBD
2021	TBD	TBD

15. FINANCIAL INSTRUMENTS

Fair Values

The estimated fair values of cash, accounts receivables, due from related party, accounts payable and accrued liabilities and due to related party approximate their carrying values due to the relatively short-term nature of the instruments.

The long-term investment has been recorded at cost. The Series "A" special shares are measured at fair value at the end of the reporting period.

During the periods ended June 30, 2019 and June 30, 2018, there was no transfer of financial assets between the three levels of the fair value hierarchy.

16. FINANCIAL RISKS

The main risks the Corporation's financial instruments are exposed to are credit risk, foreign currency risk, liquidity risk and market risk.

16. FINANCIAL RISKS (continued)

Credit Risk

The Corporation's credit risk is primarily attributable to its accounts receivable and due from related party. The amounts disclosed in the consolidated statements of financial position are net of allowances for doubtful accounts, estimated by the Corporation's management based on prior experience and their assessment of the current economic environment.

The Corporation establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures. As at June 30, 2019, all receivables which are past the due date have been recorded in the allowance for doubtful accounts. The total allowance for bad debts at June 30, 2019 is \$24,747 (2018- \$46,042).

Liquidity Risk

The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Corporation's reputation. To the extent that the Corporation does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions. The Corporation manages its liquidity risk by continuously monitoring forecast and actual cash flows from operations. In recent years, additional loans from directors/shareholders have provided the necessary liquidity required. The payment of accounts payable and accrued liabilities are based upon contractual terms and the amount due to related party is non-interest bearing and has no set terms of repayment and FLH has agreed not to call the loan before April 1, 2020.

Market Risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Corporation. As indicated in Note 7, the Corporation has an investment in a company focused in the development and production of ethanol and other fuels and chemicals from biomass. The fair value of this investment is subject to future financing to further develop the planned facility and the prices of the ethanol and wood. The Corporation has determined that it is not exposed significantly to any other market risk.

Interest Rate Risk

The note payable (Note 10) bears interest at 15%, the amount due from related parties (Notes 6(A) and 19) bears interest at 6% per annum and the amount due to related parties (Note 6(B)) is non-interest bearing with no fixed terms of repayment and, as such, the Corporation is not subject to interest rate price risk resulting from changes in cash flows from market fluctuations in interest rates.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. At the period end the following assets and liabilities originate in US. dollars and Euros and are subject to fluctuations:

	30-Jun-19	30-Jun-18	30-Jun-19	30-Jun-18
	US\$	US\$	€	€
Cash	12,428	17,235	-	-
Accounts receivable	1,794	65,958	-	-
Inventory deposits	-	-	11,600	-
Term deposit	19,750	20,000	-	-
Accounts payable	(90,270)	(41,348)	(65,252)	(63,258)
Credit cards	(11,939)	-	-	-
Related party payable	(390,925)	(390,925)	-	-
	(459,161)	(329,080)	(53,652)	(63,258)

A 5% change in the US and Euro/Canadian dollar exchange rates could create a net loss or gain of \$25,000 in the statement of operations. There would be no impact on the Corporation's Other Comprehensive Income ("OCI").

17. MANAGEMENT OF CAPITAL

The Corporation defines capital that it manages as the aggregate of its loans payable, Series "A" special shares, share capital, contributed surplus and deficit. Its objectives when managing capital are to ensure that the Corporation will continue as a going concern, so that it can provide returns to its shareholders.

	30-Jun-19	30-Jun-18
	\$	\$
Amount due to related party	1,819,991	1,055,797
Series "A" Special Shares	1	1
Share capital	19,343,145	18,870,805
Contributed surplus	8,812,039	8,284,039
Deficit	(28,454,427)	(26,905,153)
Total Capital	1,520,749	1,305,489

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions. The Corporation, upon approval from its Board of Directors and subject to all relevant regulatory and other consents and approvals, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Corporation is not subject to any externally imposed capital requirements or debt covenants and does not presently utilize any quantitative measures to monitor its capital. The Corporation's overall strategy with respect to management of capital remains unchanged from the year ended March 31, 2019.

18. SEGMENTED INFORMATION

Management has determined that during the periods covered by these financial statements, the Corporation carried on business in one operating segment only. All capital assets, except for demonstration equipment, were located in Canada. Sales other than to Canadian customers for the period ended June 30, 2019 were export sales to the United States of \$303,220 (June 30, 2018 - \$27,514).

19. SUBSEQUENT EVENTS

- (a) Effective July 1, 2019, the Corporation issued 11,000 common shares at \$0.43 per share as compensation for services.
- (b) Effective July 31, 2019, the Corporation issued 12,500 common shares at \$0.40 per share as compensation for services.

As of July 30, 2019, each of Gordon Willox, CAST Laser, Inc. and Forest Lane Holdings Inc. delivered a joint and several promissory note to secure the principal amount of \$224,907 together with interest at 6% per year accruing from April 1, 2019. Under this promissory note interest accruing on the outstanding principal from time to time is payable at the end of each month, and the principal is payable on demand. See also Note 6(A) – Due from related party.

DIRECTORS AND OFFICERS

David J. Hennigar	Director and Chairman
N. Gary Van Nest	Director, Vice Chairman and Chief Executive Officer
Gordon Willox	Director, President and Chief Technology Officer
Dr. Robert Francis	Director
Dr. Stanley Swierzewski III	Director
Lorne S. MacFarlane	Chief Financial Officer
Christopher H. Freeman	Secretary