

CHENOMX INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2020



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ST. ARNAUD PINSENT STEMAN

CHARTERED PROFESSIONAL ACCOUNTANTS

Daniel J. St. Arnaud, CPA, CA**
John H.C. Pinsent, FCPA, FCA, ICD.D**
Bernardus C. Steman, CPA, CA, CFA**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Chemomx Inc.

Opinion

We have audited the financial statements of Chemomx Inc. (the "Company") which comprise the statement of financial position as at December 31, 2020, and the statement of accumulated deficit, statement of operations, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Chemomx Inc. as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

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 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 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Material Uncertainty Related to Going Concern

We draw attention to note 1 to the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

John H.C. Pinsent Professional Corporation

Edmonton, Alberta
July 21, 2021

John H. C. Pinsent Professional Corporation
Chartered Professional Accountant



CHENOMX INC.

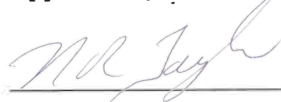
BALANCE SHEET

AS AT DECEMBER 31, 2020

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 64,192	\$ 62,738
Accounts receivable	121,749	128,119
Goods and services tax receivable	555	2,115
Prepaid expenses	<u>991</u>	<u>5,738</u>
	187,487	198,710
INTELLECTUAL PROPERTY (note 3)	51,751	57,418
EQUIPMENT (note 4)	<u>1,916</u>	<u>827</u>
	<u><u>241,154</u></u>	<u><u>256,955</u></u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (notes 5 and 8)	\$ 46,666	\$ 34,536
Due to shareholder (note 8)	823,500	1,088,500
Deferred revenue	<u>1,660</u>	<u>12,419</u>
	871,826	1,135,455
SHAREHOLDERS' DEFICIENCY		
SHARE CAPITAL (note 6)	1,236,965	1,236,965
CONTRIBUTED SURPLUS (note 6(b))	1,888,013	1,888,013
DEFICIT	<u>(3,755,650)</u>	<u>(4,003,478)</u>
	<u>(630,672)</u>	<u>(878,500)</u>
	<u><u>241,154</u></u>	<u><u>256,955</u></u>

GOING CONCERN - note 1

Approved by the Board of Directors



Director



Director

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



CHENOMX INC.
STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>2020</u>	<u>2019</u>
DEFICIT - beginning of year	\$ (4,003,478)	\$ (4,250,925)
Net income for the year	<u>247,828</u>	<u>247,447</u>
DEFICIT - end of year	<u>(3,755,650)</u>	<u>(4,003,478)</u>

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



CHENOMX INC.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>2020</u>	<u>2019</u>
REVENUE		
Software sales	\$ 311,264	\$ 336,125
Software license sales	211,535	162,814
Contract analysis services	48,582	111,136
Software support subscriptions	<u>15,727</u>	<u>27,111</u>
	<u>587,108</u>	<u>637,186</u>
COST OF GOODS SOLD		
Direct contract services	31,377	25,879
Distributor commissions	<u>19,852</u>	<u>16,688</u>
	<u>51,229</u>	<u>42,567</u>
GROSS PROFIT	<u>535,879</u>	<u>594,619</u>
EXPENSES		
Bank charges and interest	6,367	6,447
Dues, subscriptions and membership fees	2,295	7,564
Insurance	20,215	8,299
Lab materials and supplies	3,489	17,023
Legal and audit fees	20,948	12,607
Marketing	23,447	36,888
Office	11,218	6,464
Rent and occupancy costs	5,741	12,116
Salaries, wages and benefits	189,583	169,206
Subcontractors	36,000	39,125
Telephone and communications	<u>1,015</u>	<u>938</u>
	<u>320,318</u>	<u>316,677</u>
NET INCOME BEFORE OTHER ITEMS	<u>215,561</u>	<u>277,942</u>
OTHER ITEMS		
Interest income	712	-
Loss on impairment of intellectual property (note 3)	-	(15,477)
Amortization of property, plant and equipment	(941)	(1,469)
Amortization of intellectual property	(5,665)	(5,665)
Grants and subsidies (note 9)	48,181	-
Realized gain (loss) on foreign exchange	(9,759)	(6,059)
Unrealized gain (loss) on foreign exchange	<u>(261)</u>	<u>(1,825)</u>
	<u>32,267</u>	<u>(30,495)</u>
NET INCOME FOR THE YEAR	<u>247,828</u>	<u>247,447</u>

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



CHENOMX INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Net income for the year	\$ 247,828	\$ 247,447
Items not affecting cash		
Loss on impairment of intellectual property	-	15,477
Amortization of property, plant and equipment	941	1,469
Amortization of intellectual property	<u>5,665</u>	<u>5,665</u>
	254,434	270,058
Net change in non-cash working capital items		
Accounts receivable	7,930	(75,889)
Inventory	-	2,000
Prepaid expenses	4,747	(3,229)
Deferred revenue	(10,759)	9,262
Accounts payable and accrued liabilities	<u>12,130</u>	<u>(43,630)</u>
	268,482	158,572
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,029)	-
Investment in intellectual property	<u>-</u>	<u>(1,483)</u>
	(2,029)	(1,483)
FINANCING ACTIVITIES		
Repayments to shareholder	<u>(265,000)</u>	<u>(130,000)</u>
INCREASE IN CASH	1,453	27,089
CASH - BEGINNING OF YEAR	<u>62,738</u>	<u>35,649</u>
CASH - END OF YEAR	<u><u>64,191</u></u>	<u><u>62,738</u></u>

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



CHENOMX INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

1. NATURE OF OPERATIONS AND GOING CONCERN

Chenomx Inc. (the "Company"), was incorporated on November 9, 2000 under the Business Corporations Act of Alberta. The Company's commercial objective is to establish its technology platform as the premier complex mixture analysis tool used for understanding the relationship between health, disease and toxicology. The Company has developed and is selling a software product as a first step in reaching its objective.

These financial statements have been prepared using Canadian Accounting Standards for Private Enterprises ("ASPE") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

For the year ended December 31, 2020 the Company reported a net profit of \$247,828 (2019 net profit - \$247,447) and had an accumulated deficit of \$3,755,650 (2019 - \$4,003,478) and, prior to becoming profitable, historically had relied on non-operational sources of financing to fund operations. The Company may need to raise financing for the repayment of notes payable to the shareholder in the amount of \$823,500 (2019 - \$1,088,500) which have no specified due date as detailed in note 8. These circumstances lend doubt as to the viability of the Company as a going concern. The Company may seek additional forms of debt or equity financing, but cannot provide assurance that it will be successful in doing so.

These financial statements do not reflect the adjustment to the carrying value of assets and liabilities and the reported revenue and expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Use of estimates and measurement uncertainty

The preparation of financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure or contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Cash consists of cash on deposit which is highly liquid and accessible immediately.

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



CHENOMX INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intellectual property

Intellectual property consists of the cost of the Magnetic Resonance Diagnostic technology acquired from BioTools Incorporated, plus the cost of filing technology patents and trademarks subsequent to its acquisition. Intellectual property is recorded at the lower of cost and estimated fair value. Management annually reviews intellectual property for impairment. If management determines that costs exceed estimated net recoverable value, based on estimated future cash flows, the excess of such costs are charged to operations in that year.

For issued patents and trademarks, amortization is provided for on a straight-line basis over the patent/trademark term remaining. Amortized costs of inactive patents and trademarks are charged to operations in that year.

Equipment

Equipment is recorded at cost. Amortization is provided for on a straight-line basis over the useful life of the assets.

Computer equipment	3 years
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Impairment of long-lived assets

The Company tests its long-lived assets when changes in circumstances indicate that the carrying amount of an asset may exceed the fair value. An impairment loss is recognized if the carrying value of the asset is no longer recoverable and exceeds its fair value.

Revenue recognition

Software license revenue is recognized when the software is invoiced to customers.

Revenue from software maintenance and contract analysis agreements is recognized on a straight-line basis over the contract or maintenance period. Deferred revenue is comprised of funds received for maintenance and contract services not yet rendered at the balance sheet date.

All other revenue is recognized as the services are rendered provided the amount of revenue is determinable and collection is reasonably assured.

Government grants

Government assistance is recognized when the expenditures that qualify for assistance are made and the Company has complied with the conditions for the receipt of government assistance. Government assistance is applied to reduce the carrying amount of any assets acquired or to reduce eligible expenses incurred or recorded separately as other income. A liability to repay government assistance, if any, is recorded in the period when the conditions arise that causes the assistance to become repayable.

Foreign currency translation

Translation of transactions arising in foreign currencies have been recorded at approximate rates of exchange in effect at the dates of the transactions, with resulting monetary assets and monetary liabilities arising in foreign currencies being translated at rates of exchange in effect at the balance sheet date. Gains or losses realized during the period have been included in the statement of operations.

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



CHENOMX INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-based compensation

The Company may grant stock options to employees, directors, officers and consultants pursuant to a stock option plan. Stock option awards are accounted for using the fair value method and result in stock-based compensation expense. The expense is recognized in income over the shorter of the service period of the employee to whom the option was granted or the vesting period of the specific option. Consideration paid on the exercise of stock options is credited to share capital.

Income taxes

The Company follows the liability method of income tax allocation. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax basis. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the date of substantial enactment. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

FINANCIAL INSTRUMENTS

Financial instruments consist of accounts receivable, which will result in future cash receipts as well as accounts payable, accrued liabilities and notes payable to shareholder, which will result in future cash outlays. The fair values of these instruments approximate their carrying value due to their immediate or short-term maturity.

Credit risk

The Company is exposed to credit risk in the event of non-performance by customers, but does not anticipate such non-performance. The maximum exposure is the fair value of the accounts receivable. However, the Company has a diverse international customer base and amounts receivable are not concentrated with any one customer. As at December 31, 2020, the allowance for doubtful accounts was \$nil (2019 - \$nil).

Currency risk

The Company is exposed to currency risk through significant sales denominated in foreign currency. For the current year, 96% of sales were denominated in a foreign currency (2019 - 94%). The Company has not entered into any foreign exchange hedging arrangements to mitigate this risk.

Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on the notes payable to shareholder. However, the interest was initially forgiven in fiscal 2013 and during fiscal 2014 the interest on the notes payable was amended to be at zero percent. The forgiveness and zero interest on the notes remained in place throughout fiscal 2020.

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



CHENOMX INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

3. INTELLECTUAL PROPERTY

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Trademarks	\$ 8,017	\$ 6,731	\$ 1,286	\$ 1,385
Patents	<u>121,841</u>	<u>71,376</u>	<u>50,465</u>	<u>56,032</u>
	<u><u>129,858</u></u>	<u><u>78,107</u></u>	<u><u>51,751</u></u>	<u><u>57,417</u></u>

Amortization expense relating to intellectual property in fiscal 2020 was \$5,665 (2019 - \$5,665). In 2019, the amortized cost of abandoned US patents was charged to operations resulting in a loss of \$15,477.

4. EQUIPMENT

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Computer equipment	<u>\$ 3,808</u>	<u>\$ 1,892</u>	<u>\$ 1,916</u>	<u>\$ 828</u>

Amortization expense relating to equipment in fiscal 2020 was \$941 (2019 - \$1,469).

5. GOVERNMENT REMITTANCES

Government remittances consist of amounts such as property taxes, sales taxes and payroll withholding taxes, required to be paid to government authorities, and are recognized when the amounts become due. In respect of government remittances, \$2,420 (2019 - \$3,140) is included within accounts payable and accrued liabilities as at December 31, 2020.

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



CHENOMX INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

6. SHARE CAPITAL

Authorized

- Unlimited number of common shares
- Unlimited number of preferred shares

Issued and outstanding

	Shares		Value	
	2020	2019	2020	2019
Common shares	6,551,232	6,551,232	\$ 1,236,965	\$ 1,236,965
			<u>1,236,965</u>	<u>1,236,965</u>

a) Stock option plan

The Company maintains a Stock Option Plan (the "Plan") under which the Company may grant options to purchase a maximum of 926,635 common shares of the Company. The options may be granted to service providers, which include employees, directors, officers and consultants as defined in the Plan.

The following table summarizes information relating to stock options outstanding and exercisable under the Company's stock option plan as of December 31, 2020:

	2020		2019	
	Common shares under option #	Weighted average exercise price \$	Common shares under option #	Weighted average exercise price \$
Outstanding - beginning of year	-	-	225,000	0.10
Cancelled	-	-	(225,000)	(0.10)
Granted	-	-	-	-
Outstanding - end of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

There were no options outstanding and none exercisable at December 31, 2020 (2019 - nil).

b) Stock-based compensation expense

The Company recognized stock based compensation expense and contributed surplus during 2020 of \$nil (2019 - \$nil). Previous stock based compensation was determine using the Black-Scholes method where \$0.10 exercise price per option was determined to be reasonable.

Contributed surplus recorded in prior years resulted from a combination of stock-based compensation and the buy-back of previously issued preferred shares.

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



CHENOMX INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

7. INCOME TAXES AND INVESTMENT TAX CREDIT RECOVERABLE

At December 31, 2020, the Company had \$1,655,764 (2019 - \$1,910,198) of non-capital loss carry forwards and \$9,677 (2019 - \$9,677) of investment tax credits available to reduce taxable income in future years. These losses and investment tax credits expire as follows:

	Non-capital loss carry forwards		Investment tax credits
2030	\$ 20,806	2022	\$ 1,267
2031	51,867	2023	2,665
2032	-	2024	2,030
2033	1,437,080	2025	-
2034	<u>146,011</u>	2026	1,038
		2027	1,286
		2028	801
		2029	<u>590</u>
			<u>9,677</u>

Significant components of the Company's unrecorded long-term future tax assets and future tax liabilities are as follows:

	<u>2020</u>	<u>2019</u>
Future tax assets		
Non-capital loss carry forwards	\$ 165,576	\$ 210,122
Intellectual property	3,370	3,084
Property, plant and equipment	<u>1,526</u>	<u>1,576</u>
	170,472	214,782
Valuation allowance	<u>(170,472)</u>	<u>(214,782)</u>
Total future tax assets	-	-
Future tax liabilities		
Intellectual property	<u>-</u>	<u>-</u>
Net future tax assets	<u>-</u>	<u>-</u>

Potential income tax benefits in the amount of \$170,472 (2019 - \$214,782) have not been recognized in the accounts as the expectation of their realization did not meet the requirement of "more likely than not" under the liability method of tax allocation. No net future tax assets were recognized as at December 31, 2020.

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



CHENOMX INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

8. DUE TO SHAREHOLDER AND RELATED PARTY TRANSACTIONS

	<u>2020</u>	<u>2019</u>
Notes payable to shareholder	\$ <u>823,500</u>	\$ <u>1,088,500</u>

Advances from a shareholder, who is also a director and an officer of the Company bear interest at 0% (December 31, 2019 - 0%). During a prior year (2013), the Company and the shareholder extended the due dates of all of the advances so that there are no balances due in the next fiscal year. \$265,000 was repaid in 2020 (2019: \$130,000).

Within accounts payable at December 31, 2020 is \$3,584 (2019 - \$6,667) owing to a shareholder who is a director and an officer of the Company.

A member of the immediate family of a shareholder is employed by the Company at a market rate of remuneration. Gross salary of \$52,000 was paid during the year (2019: \$12,500).

Within accounts receivable at December 31, 2020 is \$nil (2019 - \$3,519) owed by a minority institutional shareholder (2.14%) that is also a vendor to the Company.

Related party transactions are recorded at their exchange amounts which is the amount agreed to by the related parties.

9. COVID-19

On March 17, 2020, the Government of Alberta declared a public health emergency in response to the COVID-19 global pandemic. In response, the Company transitioned staff to working from home, and experienced a significant decrease in sales in the second quarter of 2020. Federal and Provincial programs, support and regulations are continuously developing. The financial impact of this public health emergency continues to evolve, which precludes a reasonable estimate of the overall financial or operational impact on the Company.

The Company applied for and received the Canada Emergency Wage Subsidy, and received \$38,181 in wage supports.

The Company applied for and received the Canada Emergency Business Account Loan for \$40,000. \$10,000 of this loan is forgivable, and has been recorded as income to the Company in the current year. The remaining \$30,000 was repaid to the lender during the year. There is no balance outstanding as at December 31, 2020.

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