InnoMed Two, LLC

Financial Statements

For the Years Ended December 31, 2019 and 2018

RSM

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of InnoMed Two, LLC

Opinion

We have audited the financial statements of InnoMed Two, LLC, (the "Company"), which comprise the statements of financial position as at December 31, 2019 and 2018 and the statements of loss and comprehensive loss, changes in members' deficiency and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its 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 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of $1,586,937 during the year ended December 31, 2019 and cash-flow deficit from operations of $2,983,411. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, 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.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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 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 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.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
July 7, 2020
Toronto, Ontario

InnoMed Two, LLC
Statements of Finanical Position
As at December 31, 2019 and 2018

	2019	2018
Assets		
Current		
Cash	$ 231,269	$ 118,230
Due from parent (Note 6)	359,531	-
	$ 590,800	$ 118,230
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 768,921	$ 1,002,352
Due to parent (Note 6)	-	869,762
	768,921	1,872,114
Promissory note (Note 7)	500,000	-
	1,268,921	1,872,114
Members' Deficiency (Note 4)	(678,121)	(1,753,884)
	$ 590,800	$ 118,230

***Subsequent events** (Note 10)*

Approved by the Board ____________________
Director

InnoMed Two, LLC
Statement of Loss and Comprehensive Loss
Year Ended December 31, 2019 and 2018

	2019	2018
Expenses		
General administration	**$ 10,011**	$ 425
Professional advisor (Note 5)	**405,540**	226,478
Management fees	**360,000**	360,000
Research & development	**725,230**	683,671
Automobile expense	**81**	-
Marketing & multimedia	**19,825**	10,488
Share-based payments	**66,250**	1,600,000
	1,586,937	2,881,062
Net loss	**$ (1,586,937)**	$ (2,881,062)

InnoMed Two, LLC
Statement of Changes in Members' Deficiency
Year Ended December 31, 2019 and 2018

	Class I Units	Class II Units	Class III Units	Total
Balance, January 1, 2018	(1,646,666)	$ (16,627)	$ 356,721	$ (1,306,572)
Issuance of units	-	833,750	1,600,000	2,433,750
Net loss	(1,822,669)	(933,451)	(124,942)	(2,881,062)
Balance, December 31, 2018	**(3,469,335)**	**(116,328)**	**1,831,779**	**(1,753,884)**
Issuance of units	**-**	**2,596,450**	**66,250**	**2,662,700**
Net loss	**-**	**(1,586,937)**	**-**	**(1,586,937)**
Balance, December 31, 2019	**(3,469,335)**	**$ 893,185**	**$ 1,898,029**	**$ (678,121)**

See accompanying notes

InnoMed Two, LLC
Statement of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash provided by (used in)		
Operations		
Net loss	**$ (1,586,937)**	$ (2,881,062)
Items not affecting cash		
Share-based payments	**66,250**	1,600,000
	(1,520,687)	(1,281,062)
Net changes in non-cash working capital		
Accounts payable and accrued liabilities	**(233,431)**	429,596
Due to/from parent	**(1,229,293)**	35,586
	(2,983,411)	(815,880)
Financing		
Contributions	**2,596,450**	833,750
Proceeds from promissory note	**500,000**	-
	3,096,450	833,750
Net change in cash	**113,039**	17,870
Cash, beginning of year	**118,230**	100,360
Cash, end of year	**$ 231,269**	$ 118,230

See accompanying notes

1. NATURE OF OPERATIONS AND GOING CONCERN

InnoMed Two, LLC (the “Company”) was organized under the laws of the State of Alabama, USA on January 3, 2017.

The Company’s head office, principal address and address of its registered and records office is 1100 Dauphin Street, Suite B, Mobile, AL, 36604, USA.

The Company is developing, patenting and clinically testing a new technology in the area of Urology.

The financial statements were prepared on a going concern basis, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company is subject to several risks associated with the successful development of new products and their marketing and the conduct of its clinical studies and their results, in addition to the uncertainties presented by the COVID-19 pandemic (note 10). It is likely that the product developed by the Company will require approval from the U.S. Food and Drug Administration and equivalent organizations in other countries before sales can be authorized. For the year ended December 31, 2019, the Company incurred a loss of $1,586,937 (2018 - $2,881,163) and cash-flow deficit from operations of $2,983,411 ($815,880). The Company’s future operations are dependent upon its ability to secure additional funds to finance its research and development activities and its clinical studies. If the Company is unsuccessful in obtaining adequate financing in the future the Company will have to consider postponing research activities until market conditions improve. It is not possible to predict whether the Company will be successful in securing new financing or acquire approval from the U.S. Food and Drug Administration and equivalent organization in other countries. These circumstances and conditions may cast significant doubt about the Company’s ability to continue as a going concern.

These financial statements do not reflect the adjustments to carrying amounts of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the going concern assumption was deemed inappropriate. Such adjustments could be material.

2. BASIS OF PRESENTATION

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and the interpretations of the IFRS Interpretations Committee “IFRIC”.

These financial statements were approved for issue by the Board of Directors on July 7, 2020.

Basis of Measurement

These financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities measured at fair value.

2. BASIS OF PRESENTATION (Cont'd)

Functional and Presentation Currency

These financial statements are presented in United States dollars, which is the Company's functional currency.

Use of Significant Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses, related disclosures of contingent assets and liabilities. Significant estimates and judgements include going concern assumption and the valuation of share-based payments. Actual results could differ materially from these estimates and assumptions. The Company reviews its estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently in these financial statements.

Research and Development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes.

Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to complete development and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are expensed as incurred. No internal development costs have been capitalized to date.

Research and development expenses include all direct and indirect operating expenses supporting the products in development.

The costs incurred in establishing and maintaining patents are expensed as incurred.

Share-Based Payments

The Company issues share-based payments to employees or consultants. The fair value of the shares issued is recognized over the applicable vesting period as compensation expense unless there is no vesting requirements in which case the entire amount is recognized immediately. The fair value of the shares is calculated using the value of similar Class II units that were recently issued less the value of the preferred return.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments

Classification and measurement of financial instruments

Financial assets are required to be initially measured at fair value and subsequently classified at amortized cost or fair value on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Company's financial assets includes cash and due from parent which are classified at amortized cost because the Company's business model is to hold these financial instruments to maturity to collect contractual cash flows consisting solely of payments of principal and interest on the principal amount outstanding.

Financial liabilities include accounts payable and accrued liabilities, due to parent and due to unitholder which were initially measured at fair value and subsequent classified as amortized cost.

Impairment of financial assets

For the impairment of financial assets under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the date of the statement of financial position. The Company recognizes a loss allowance for expected credit losses on loan receivables which are measured at amortized cost. The measurement of the loss allowance depends upon the Company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognized is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of loan receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of operations and comprehensive loss.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of operations and comprehensive loss for the period to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

4. MEMBERS' DEFICIENCY

Authorized

The authorized unit capital of the Company consists of 3 units of ownership: Class I Units (100 units), Class II Units (33.5 units) and Class III Units (15 units).

Member Units Issued

For the year ended December 31, 2019

	Beginning of Year	Issuance of Units	End of Year
Class I (i)	100.00	-	100.00
Class II (ii)	7.38	9.00	16.38
Class III (iii)	9.50	0.25	9.75

For the year ended December 31, 2018

	Beginning of Year	Issuance of Units	End of Year
Class I	100.00	-	100.00
Class II	3.00	4.38	7.38
Class III	2.50	7.00	9.50

(i) Class I Units are voting and as of December 31, 2019 represents 73.87% (2018 - 83.125%) interest of the Company.

(ii) Class II Units are non voting and as of December 31, 2019 represents 16.38% (2018 - 7.375%) interest of the Company. The Class II units are entitled to a preferred return which upon a sale, license or royalty agreement of the Company's intellectual property, the Class II units would receive an additional distribution of 10-35% depending on the proceeds in accordance with the LLC agreement. During the year, the Company issued 9.005 units of Class II units (2018 - 4.375 units) for proceeds of $2,596,450 (2018 - $833,750).

(iii) Class III Units are for the purpose of compensating certain consultants and professionals and are non voting and as of December 31, 2019 represents 9.75% (2018 - 9.50%) interest of the Company. During the year, the Company granted 0.25 units of Class III units (2018 - 7 units) to various consultants and professionals for services provided to the Company. The fair value of these units issued in 2019 was determined to be $66,250 (2018 - $1,600,000) based on the value of Class II units less the value of the preferred return that were recently issued.

5. PROFESSIONAL ADVISOR FEES

Components of professional advisor expenses for the period ended December 31, 2019 and 2018 were as follows:

	2019	2018
Patent and Trademark Legal Fees	**$ 173,451**	$ 12,929
Other Legal Fees	**88,776**	131,533
Accounting & Audit	**61,975**	27,710
Other Professional Advisors	**81,338**	54,406
	$ 405,540	$ 226,578

6. RELATED PARTY TRANSACTIONS

In 2019, the Company paid $360,000 (2018 - $360,000) to the Company's parent for management fees. As at December 31, 2019, the Company had a $359,531 receivable from its parent (2018 - payable of $869,762). The receivable is unsecured, non-interest bearing with no set terms of repayment.

As at December 31, 2019, the Company had $51,500 (2018 - $299,000) outstanding payable to a company related to the President and COO of the Company.

The Company incurred research & development consulting fees of $480,000 (2018 - $480,000) to a consultant related to the President and COO of the Company. As of December 31, 2019, the Company had $380,000 (2018 - $260,000) of payables outstanding to this consultant.

The Company incurred research & development consulting fees of $180,000 (2018 - $180,000) to consultants that are part of the management team of the parent of the Company. As of December 31, 2019, the Company had $304,500 (2018 - $319,500) of payables outstanding to these consultants.

The Company incurred professional fees of $129,559 (2018 - $170,845) to two minority unitholders of the Company. As of December 31, 2019, the Company had $9,396 (2018 - 105,688) of payables outstanding to these unitholders.

The Company incurred marketing expenses of $6,950 (2018 - $9,600) to a company with common ownership of the Company. As of December 31, 2019, the Company had $nil (2018 - $175) of payables outstanding to this company.

7. PROMISSORY NOTE

On December 31, 2019, the Company issued an unsecured promissory note for $500,000, bearing interest 10% per annum, with principal and interest due on April 1, 2021.

8. MANAGEMENT OF CAPITAL

The Company defines its capital as member units and deficit. The Company's objectives when managing capital are to ensure there are sufficient funds available to carry out its research and development programs. To date, these programs have been funded through the sale of equity securities.

The Company also intends to source non-dilutive funding by accessing grants, government assistance and tax incentives, and through partnerships with corporations and research institutions. The Company uses budgets and purchasing controls to manage its costs. The Company is not exposed to any externally imposed capital requirements.

9. FINANCIAL INSTRUMENTS

Fair Value

Fair Value Measurement provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those that reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the following three different levels of the fair value hierarchy:

Level 1 Quoted prices in active markets for identical instruments that are observable.

Level 2 Quoted prices in active markets for similar instruments; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The hierarchy requires the use of observable market data when available.

Cash and accounts payable are all short-term in nature and, as such, their carrying values approximate fair values.

Risks

The Company has exposure to credit risk, liquidity risk and interest rate risk.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises from the Company's cash and amounts due from parent. The carrying amount of these financial assets represents the maximum credit exposure. The Company follows an investment policy to mitigate against the deterioration of principal and to enhance the Company's ability to meet its liquidity needs. Cash are on deposit with a major American bank.

9. FINANCIAL INSTRUMENTS (Cont'd)

Risks (Cont'd)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is a development stage company and is reliant on external fundraising to support its operations. Once funds have been raised, the Company manages its liquidity risk by investing in cash and short-term instruments to provide regular cash flow for current operations. It also manages liquidity risk by continuously monitoring actual and projected cash flows.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate price risk to the extent that the promissory note is at a fixed interest rate.

10. SUBSEQUENT EVENTS

a) The member units of InnoMed Two, LLC were converted by way of conversion agreements, effective April 15, 2020, between the unitholders and InnoMed Tech Ltd. whereby their units were exchanged into common shares of Innomed Tech Ltd. Subsequent to the conversion, InnoMed Tech Ltd. owns a majority interest of the Company.

b) Promissory note of $500,000 plus $50,000 interest (fixed interest) entered into on December 31, 2019 has been amended whereby $550,000 can be converted into common shares in InnoMed Tech Ltd. at 20% less trading price plus a full warrant exercisable at same price.

c) InnoMed Two, LLC changed its name to PureFlowCath, LLC (Alberta) and is a subsidiary of InnoMed Tech Ltd.

d) Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods. However, depending on the length and severity of the pandemic, COVID-19 could impact operations, could cause delays relating to approval from U.S. Food and Drug Administration and equivalent organizations in other countries, could postpone research activities, and could impair the Company's ability to raise funds depending on COVID-19’s effect on capital markets.