

**Breathtec Biomedical, Inc.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the six months ended February 28, 2017**

**Dated April 25, 2017**

## **BREATHTEC BIOMEDICAL, INC.**

### **Management's Discussion and Analysis**

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This Management's Discussion and Analysis ("MD&A") is intended to help the reader understand Breathtec Biomedical, Inc. ("Breathtec" or the "Company"), its operations, financial performance, current and future business environment and opportunities and risks. This MD&A is intended to supplement and complement the unaudited consolidated financial statements and notes thereto for the six months ended February 28, 2017. It should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2016, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

This MD&A is prepared as of April 25, 2017. All dollar figures stated herein are expressed in Canadian dollars, unless otherwise specified.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) if it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

#### **Cautionary Statement on Forward-Looking Information**

Certain statements in this MD&A that are not based on historical facts constitute forward-looking information. Forward-looking information is not a promise or guarantee of future performance but is only a prediction that relates to future events, conditions or circumstances or the Company's future results, performance, achievements or developments and is subject to substantial known and unknown risks, assumptions, uncertainties and other factors that could cause the Company's actual results, performance, achievements or developments in its business or industry to differ materially from those expressed, anticipated or implied by such forward-looking information. Forward-looking statements include statements regarding the outlook for the Company's future operations, plans and timing for the introduction or enhancement of its services and products, statements concerning strategies or developments, statements about future market conditions, supply conditions, end customer demand conditions, channel inventory and sell through, revenue, gross margin, operating expenses, profits, forecasts of future costs and expenditures, and other expectations, intentions and plans that are not historical fact. The forward-looking statements in this MD&A are based on certain factors and assumptions regarding expected growth, results of operations, performance and business prospects and opportunities. Specifically, management has assumed that the Company's performance will meet management's internal projections. While management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Readers are cautioned not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. Readers are also advised to consider such forward-looking statements in light of the risk factors and uncertainties that may affect the Company's actual results, performance, achievements or developments as described in Appendix 1.

The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except to the extent required by applicable law. Further information concerning risks and uncertainties associated with these forward-looking statements and the Company's business may be found in the Company's other public filings which are available on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.breathtecbiomedical.com](http://www.breathtecbiomedical.com).

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### **Conflicts of Interest**

Certain directors and officers of the Company are, or may become, directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

### **OVERVIEW**

Breathtec is the resulting corporation following the completion of an agreement (the "Merger Agreement") structured as a reverse-takeover, specifically, as a triangular merger (the "Merger") under the Florida Business Corporation Act ("FBCA") among Breathtec, Breathtec Biomedical, Inc. ("Breathtec US") and Breathtec Merger Sub, Inc. ("MergerCo"), a wholly-owned subsidiary of Breathtec. Pursuant to the Merger, Breathtec US was merged with and into MergerCo with Breathtec US as the surviving corporation. The Company acquired a 100% interest in Breathtec US pursuant to and on the terms and subject to the conditions set out in the Merger Agreement resulting in Breathtec US becoming a 100% owned Florida operating subsidiary of the Company.

Breathtec was formed to propel innovative research in the area of breath analysis as a medical diagnostic tool. The principal goal of the Company is to develop and commercialize non-invasive, affordable, breath analysis devices for early detection of infections and life threatening diseases such as cancers, liver disease, kidney failure, diabetes, asthma and tuberculosis.

### **FAIMS Technology**

To achieve its goal, the Company is focused on innovation and advances in the field of specialized mass spectrometry. It is actively pursuing multiple, alternative research efforts into Field Asymmetric Ion Mobility Spectrometry ("FAIMS") technology. FAIMS, a separation technique that exploits differences in ion mobility at very high electric fields to separate ions in the millisecond timescale, allows continuous sample introduction, enabling direct, real-time analysis of compounds found in the breath. The development of the miniaturized breath test device is progressing well. Many proprietary components required for hand held breath testing, such as a high-voltage generator, non-radioactive ionization source, and proprietary detector, are being integrated with the novel FAIMS cell to provide the most technologically advanced FAIMS-based instrument in the world.

### **Na-Nose Technology**

The Company has expanded its goal of being a leader in Breath Testing technologies by acquiring non-exclusive rights to the NA-Nose technology for the diagnosis of specific respiratory diseases.

On April 11, 2016 the Company signed a license agreement with Technion Research and Development Foundation Ltd., an Israeli private company and wholly-owned subsidiary of the Technion – Israeli Institute of Technology ("Technion"), with respect to a non-exclusive license to certain Technion patents and related know-how in connection with NA-NOSE disease detection sensors and the detection of the following indications from exhaled breath: Streptococcus; Methicillin resistant; Staphylococcus; Enterococcus; Vancomycin resistant; Pneumococcus; Hemophilus influenza; Chickenpox; and common cold (the "License - Technion").

In consideration for the License, the Company paid Technion an up-front fee of US \$75,000 (\$97,358 at the Canadian dollar equivalent) and issued 1,000,000 common shares of the Company fair valued at \$480,000. In addition, upon meeting certain development, regulatory and commercialization milestones, the Company will pay Technion up to a further US \$105,000, issue shares with a market value of up to US \$285,000, pay a royalty rate of 6% of all net sales, and pay an annual maintenance fee of US \$37,500, reduced by any royalty paid that year. All shares issued to Technion will be subject to a 4-month hold period pursuant to applicable securities laws.

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#### University of Florida Research Foundation

On June 18, 2016, the Company signed a license agreement with the University of Florida Research Foundation, a non-profit Florida corporation ("UFRF") with respect to an exclusive royalty-bearing license to certain UFRF patent rights and a non-exclusive royalty bearing license to certain UFRF know-how to enable commercial advancements in the field of infections detection (the "License - UFRF")

Pursuant to the terms of the License Agreement, the Company has been granted the License for a period of ten years after the first commercial sale of a licensed product (with an option to extend for additional five year terms).

In consideration for the License, the Company issued to UFRF 468,162 common shares of the Company fair valued at \$121,722. In addition, the Company will pay an annual license maintenance fee and will make payments upon meeting certain development, regulatory and commercialization milestones. Upon commencement of commercial production, the Company will pay a royalty between 2 to 4% on all net sales. All shares issued to UFRF will be subject to a four-month hold period pursuant to applicable securities laws.

During the six months ended February 28, 2017, the Company continued to focus on advancing both the FAIMS and the Na-Nose technology platforms. The Company has received final approval from the Institutional Review Board to initiate the Na-Nose clinical trial in Vancouver. The Company has also been continuing the development of the FAIMS technology with a focus on product development and the design of critical components of the FAIMS device with the goal of optimizing performance and reducing size from the current prototype.

#### COMPANY BUSINESS

##### Reverse Takeover

The following summarizes the reverse takeover of Breathtec by Breathtec US and the assets acquired and the liabilities assumed on October 26, 2015, the Merger date:

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Net tangible assets acquired:	
Cash and cash equivalents	\$ 1,371,792
Funds held in trust	171,038
Prepays	328,529
Accounts payable	(201,493)
	<hr/>
	\$ 1,669,866
Consideration paid:	
Shares of Breathtec US issued	\$ 4,918,977
Warrants issued to Breathtec US shareholders	700,348
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	\$ 5,619,325

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The transaction is considered a reverse takeover since the legal acquiree (i.e. Breathtec US) is the accounting acquirer and its former shareholders end up controlling the consolidated entity after the completion of this transaction. Consequently, the historical results of operations are those of Breathtec US.

As the acquisition was not considered a business combination, the excess value of consideration paid over the net assets acquired together with the estimated fair value of warrants granted to Breathtec US shareholders are expensed as listing costs in the consolidated statement of net loss and comprehensive loss:

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Consideration paid	\$ 5,619,325
Net intangible assets acquired	(1,669,866)
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	\$ 3,949,459

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### **HIGHLIGHTS**

#### **Research and Development**

- The Company has begun the Na-Nose clinical trial in Vancouver during the month of December 2016. However, technical issues with the prototype devices have yet to be resolved.
- The performance testing of the V2 prototype of the FAIMS device continued into the month of February 2017. It took longer than expected due to some minor technical issues that have now been resolved. It is expected to be completed during the next quarter.
- The design work completed for the V2 prototype is unique and will be the subject of new Intellectual Property for the Company and will build on the Company's IP portfolio.
- The Company has engaged an engineering company in Vancouver to develop a new "front end" breath intake system for the V2 prototype to replace the simple system that has been used for the developmental work. This new "front end" design will further advance the performance of the V2 system and may also be another opportunity for new IP for the Company.
- The Company has entered into an extension of the 2016 R&D agreement with the University of Florida for 2017. The new agreement will allow for continued basic science work at the university that will feed into the product development work at the Company. It will continue to allow the Company access to the deep knowledge and expertise of Dr. Rick Yost and his Team in the University of Florida Chemistry Department.
- During the month of February 2017, the Company has entered into an agreement with a Diagnostic and Pharmaceutical Research company located in the Boston, US area with expertise in global infectious diseases to evaluate the potential use of both the Na-Nose and FAIMS technology platform in the area of public health in preventing infectious diseases.

#### **Financing**

- On November 25, 2016, the Company completed a private placement and issued 14,498,664 units at a price of \$0.075 per unit for gross proceeds of \$1,087,400.

#### **Corporate**

- On September 14, 2016, the Company signed a one-year rental space lease agreement in Vancouver BC. The facility has been used for clinical trials.

#### **Other**

- On October 19, 2016, the Company cancelled a total of 975,000 incentive stock options granted under the Company's stock option plan to a director of the Company. The cancelled options were voluntarily surrendered by the holder thereof for no consideration.
- On October 20, 2016, a total of 750,000 incentive share purchase stock options to a director and officer of the Company were issued at an exercise price of \$0.17 per share and are exercisable for a period of up to five years.

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## **Management's Discussion and Analysis**

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### **RESULTS OF OPERATIONS**

#### **Six months ended February 28, 2017**

During the six months ended February 28, 2017, the Company recorded a net loss of \$844,720 compared to a net loss of \$6,132,961 during the six months ended February 29, 2016.

The Company's net loss for the six months ended February 28, 2017 can be attributed mainly to increases in expenses related to research and development, share-based compensation, shareholder communications, marketing, and general and administrative expenses, as well as a total decrease in a listing expense of \$3,949,459 that was incurred in a reverse takeover, which took place on October 25, 2015 within the comparative period. The listing expense consisted of the excess value of consideration paid over the net assets acquired and the estimated fair value of warrants granted to Breathtec US shareholders as a result of the Merger.

Research and development expenses for the six months ended February 28, 2017 were \$224,383. In the six months ended February 29, 2016, there was a recovery of research and development expenses of \$61,780 as a result of a cost-sharing agreement with Cannabix Technologies Inc., a company related by way of a common director.

During the six months ended February 28, 2017, the Company incurred share-based compensation expense (a non-cash item) in the amount of \$90,278 (six months ended February 29, 2016 - \$1,702,324) relating to the granting of 750,000 stock options.

During the six months ended February 28, 2017, the Company incurred shareholder communications expenses of \$26,558 and marketing expenses of \$56,362 (six months ended February 29, 2016 - \$69,552 and \$nil respectively). The shareholder communication costs are primarily associated with statutory listing costs, filing fees and news release dissemination.

General and administrative costs decreased to \$178,581 in the six months ended February 28, 2017 from \$216,462 in the six months ended February 29, 2016. These costs include office rent, wages and salaries, insurance, travel, depreciation of furniture and equipment and depreciation of licenses. The decrease is due to lower key management compensation in the six months ended February 28, 2017, yet overall activities have increased in the same period.

#### **Three months ended February 28, 2017**

For the three months ended February 28, 2017 ("Q2 2017"), the Company recorded a net loss of \$324,597 compared to a net loss of \$2,023,047 during the three months ended February 28, 2016 ("Q2 2016"). The primary driver to this decrease in loss in the amount of \$1,698,450 is the share-based compensation expense of \$nil compared to \$1,702,324 for the three months ended February 29, 2016.

Research and development expenses for Q2 2017 were \$78,459 (Q2 2016 - \$nil).

Professional fees, which include legal, accounting and consulting fees, incurred in the operation of the business were \$136,705 (Q2 2016 - \$123,290).

Shareholder communications expenses of \$13,266 and marketing expenses of \$8,116 were incurred for Q2 2017 (Q2 2016 - \$38,042 and \$nil respectively).

General and administrative expenses for Q2 2017 were \$89,141 (Q2 2016 - \$159,559). The decrease is mainly due to lower key management compensation.

#### **Summary of Quarterly Results**

The following table sets out selected quarterly information of the Company derived from financial statements prepared by management, for those periods reported to date. The Company's condensed consolidated interim financial statements are prepared in accordance with IFRS applicable to interim financial statements and are expressed in Canadian dollars.

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	Three months ended May 31, 2015 <sup>(1)</sup>	Three months ended August 31, 2015 <sup>(1)</sup>	Three months ended November 30, 2015	Three months ended February 29, 2016	Three months ended May 31, 2016	Three months ended August 31, 2016	Three months ended November 30, 2016	Three months ended February 28, 2017
Total revenue	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Loss before other items	203,792	222,313	160,641	1,741,108	472,517	560,234	521,661	325,687
Net Loss	203,736	98,169	4,109,914	1,740,940	467,559	558,376	520,123	324,597
Loss per common share, basic and diluted	\$0.03	\$0.00	\$0.26	\$0.04	\$0.01	\$0.01	\$0.01	\$0.01

(1) prior to the Merger Agreement effective October 26, 2015; results represent accounts of the US subsidiary from the period of its incorporation, January 22, 2015

Net loss for the three months ended November 30, 2015 includes transaction expense of \$3,949,459 resulting from the Merger. No similar transaction occurred in the other quarters. Net loss for the three months ended February 29, 2016 includes a share-based payment expense of \$1,466,522 recorded on the grant of 4,000,000 stock options. Aside from the transaction expense and the share-based payment expense, results for the quarters are comparable.

### Liquidity and Capital Resources

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements.

At February 28, 2017, the Company had working capital of \$1,931,247 compared to working capital at August 31, 2016 of \$1,561,047. This included cash and cash equivalents of \$1,920,999 (August 31, 2016 - \$1,597,728) available to meet short-term business requirements and current liabilities of \$95,151 (August 31, 2016 - \$150,378). The increase in working capital was primarily a result of the proceeds from the non-brokered private placement financing raising \$1,087,400 by the issuance of 14,498,664 units at \$0.075 per unit. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has no long-term debt.

At present, the Company has no current operating income. Without additional financing, the Company may not be able to fund its ongoing operations and complete development activities. The Company intends to finance its future requirements through a combination of debt and/or equity issuance. There is no assurance that the Company will be able to obtain such financings or obtain them on favourable terms. These uncertainties cast doubt on the Company's ability to continue as a going concern. The Company will need to raise sufficient working capital to maintain operations.

### Outstanding Share Data

As at February 28, 2017 and the date of this report, the Company has:

Issued and outstanding common shares	54,752,024
Warrants outstanding	26,029,676
Stock options outstanding	3,495,000

### Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

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### **Management's Discussion and Analysis**

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#### **Contractual Commitments**

Breathtec US has an agreement ("Agreement") with the University of Florida ("UF") whereby UF assists the Company with research and development that is extended annually. The current Agreement is for the period January 16, 2017 to January 15, 2018 and requires the Company to make quarterly payments of US\$13,902 for a total of US\$55,608 (US\$13,902 paid). For the period of January 16, 2016 to January 15, 2017 the Company paid a total of US\$87,306.

#### **Related Party Transactions and Key Management Compensation**

The Company entered into the following transactions with companies controlled by directors or officers. All services provided are considered to be in the normal course of business.

As at February 28, 2017, the Company was owed \$nil (August 31, 2016 - \$21,641) from Cannabix, a company with a common director relating to reimbursement of shared research costs.

Key management personnel are considered to be those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management includes directors and officers of the Company. In addition to the above, short-term key management compensation consists of the following:

	February 28, 2017	February 29, 2016
Short-term benefits	\$ 264,420	\$ 169,330
Share-based payment	90,278	1,032,850
	<u>\$ 336,698</u>	<u>\$ 1,202,180</u>

As at February 28, 2017, included in accounts payable and accrued liabilities is \$nil (August 31, 2016- \$4,039) relating to outstanding balances for expense reimbursements and \$4,200 (August 31, 2016- \$21,237) to the directors and officers for management fees.

On October 19, 2016, a total of 975,000 incentive stock options granted under the Company's stock option plan to a director and officer of the Company were voluntarily surrendered by the holder thereof for no consideration. The cancelled options were originally granted on October 26, 2015 with an exercise price of \$0.25 per share.

On October 20, 2016, the Company granted a total of 750,000 stock options to a director and officer of the Company at a fair value of \$90,278.

#### **SIGNIFICANT ACCOUNTING POLICIES**

The Company's significant accounting policies are disclosed in Note 3 of the Company's annual audited financial statements for the year ended August 31, 2016.

#### **FINANCIAL INSTRUMENTS**

The Company's financial instruments as at February 28, 2017 include cash, funds held in trust, accounts receivable and accounts payable and accrued liabilities.

The Company classifies and measures its financial instruments as follows:

- cash is classified as financial assets at FVTPL;
- accounts receivable are classified



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- accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost

The carrying values of financial assets and liabilities approximate their fair values due to the short-term maturity of these financial instruments.

The carrying amounts of financial assets and liabilities presented in the statement of financial position relate to the following measurement categories as defined in IAS 39:

	<b>Financial Assets</b>	<b>Loans and Receivables</b>	<b>Financial Liabilities</b>
	Fair Value Through Profit	Measured at Amortized Cost	Measured at Amortized Cost
<b>February 28, 2017</b>			
Cash and cash equivalents	\$ 1,920,099	\$ -	\$ -
Accounts receivable	-	11,013	-
Accounts payable and accrued liabilities	\$ -	\$ -	\$ (95,151)

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk exists with respect to the Company's cash, funds held in trust and accounts receivable. The Company limits exposure to credit risk by maintaining its cash and funds held in trust with large financial institutions in the US and Canada. For other receivables, the Company estimates, on a continuing basis, the probable losses and provides a provision for losses based on the estimated realizable value. The Company is not exposed to significant credit risk as the balance is due from a related company that shares the same directors as the Company.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. At February 28, 2017, the Company had a working capital surplus of \$1,931,247.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk. The Company is not exposed to significant market risk.

(d) Foreign currency risk

The Company is exposed to foreign currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the Canadian dollar (primarily US dollars). As at February 28, 2017, the Company had monetary assets of US\$173,276 or \$230,128 (August 31, 2016– US \$472,047 or \$619,137) and monetary liabilities of US\$31,677 or \$42,070 (August 31, 2016 – US \$70,466 or \$92,423) at the Canadian dollar equivalent.

For the period ended February 28, 2017, the Company's sensitivity analysis suggests that a change in the absolute rate of exchange in US by 10% will increase or decrease other comprehensive loss by approximately \$18,806. The Company has not entered into any foreign currency contracts to mitigate the risk.

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**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The information provided in this report, including the condensed consolidated interim financial statements, are the responsibility of Management. In the preparation of this report, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

April 25, 2017

On behalf of Management and the Board of Directors,

*"Michael Sadhra"*

Chief Financial Officer and Director

## **RISKS RELATED TO THE BUSINESS**

### ***Limited Operating History***

The Company has no present prospect of generating revenue from the sale of products. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

### ***Negative Cash Flow for the Foreseeable Future***

The Company has a no history of earnings or cashflow from operations. The Company does not expect to generate material revenue or achieve self-sustaining operations for several years, if at all. To the extent that the Company has negative cash flow in future periods, the Company may need to allocate a portion of its cash reserves to fund such negative cash flow.

### ***Reliance on Management***

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

### ***Reliance on successful development of prototype breath test***

The Company's ability to generate future revenue or achieve profitable operations is largely dependent on the ability to attract the experienced management and know-how to develop new devices and to partner with larger, more established companies in the industry to successfully commercialize products. Successfully developing a breath test into a marketable device may take several years and significant financial resources, and the Company may not achieve those objectives.

In order to commercialize any products, the Company will need to conduct clinical trials, which may not succeed, and to obtain regulatory approvals which it may fail to do. The Company does not know and is unable to predict what type and how many clinical trials the U.S. Food and Drug Administration (the "FDA") will require the Company to conduct before granting approval for it to market its products. The development programs may not lead to a commercial product, either because failure to demonstrate that product candidates are safe and effective in clinical trials and cannot obtain necessary approvals from the FDA and/or similar foreign regulatory agencies or because of inadequate financial or other resources to advance product candidates through the clinical trial process for successful commercialization.

### ***Risks Related to Laboratory Developed Tests (LDTs) and Food and Drug Administration (FDA) Approval***

In the United States, the FDA regulates medical devices, including diagnostic tests, under the Federal Food, Drug and Cosmetic Act. The FDA notification and approval process requires substantial time, effort and financial resources, and the Company cannot be certain that any approvals for its products will be granted on a timely basis, if at all. In 2014, the FDA issued draft guidance on the regulation of laboratory developed tests, or LDTs, such as those being developed by the Company and the period for public comment recently ended. Because the FDA has not issued final rules on the regulation of LDTs, the Company is unable to determine what notification and approval process the FDA may require. Foreign

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jurisdictions have similar government regulatory bodies and requirements that the Company must meet prior to selling products in those jurisdictions.

The Company must be considered in light of the risks, expenses, shifts, changes and difficulties frequently encountered with companies whose businesses are regulated by various federal, state and local governments. The health care, wellness, workers' compensation and similar companies are subject to a variety of regulatory requirements and the regulatory environment is ever changing particularly with recent legislation, the full impact of which is not yet understood as regulations have not been issued. Failure to follow applicable regulatory requirements will have a materially negative impact on the business of the Company. Furthermore, future changes in legislation can not be predicted and could irreparably harm the business of the Company.

The Company will require equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of the Company Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Even if additional financing is obtained, there is no guarantee that it could be completed on terms favourable to the Company.

Because of the early stage of the industry in which the Company will operate, the Company expects to face additional competition from new entrants. To become and remain competitive, the Company will require research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

#### ***Limited Market for Securities***

It is proposed that the Company's common shares will be listed on the CSE, however, there can be no assurance that such listing will be obtained and even if obtained, that an active and liquid market for the common shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

#### ***Permits and Licenses***

The operations of the Company may require licenses and permits from various governmental authorities. There can be no assurance that such licenses and permits will be granted.

#### ***Intellectual Property Rights***

The Company could be adversely affected if it does not adequately protect its intellectual property rights. The Company regards its marks, rights, and trade secrets and other intellectual property rights as critical to its success. To protect its investments and the Company's rights in these various intellectual properties, it may rely on a combination of patents, trademark and copyright law, trade secret protection and confidentiality agreements and other contractual arrangements with its employees, clients, strategic partners, acquisition targets and others to protect proprietary rights. There can be no assurance that the steps taken by the Company to protect proprietary rights will be adequate or that third parties will not

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infringe or misappropriate the Company's copyrights, trademarks and similar proprietary rights, or that the Company will be able to detect unauthorized use and take appropriate steps to enforce rights. In addition, although the Company believes that its proprietary rights do not infringe on the intellectual property rights of others, there can be no assurance that other parties will not assert infringement claims against the Company. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

The Company will rely on trade secrets to protect technology where it does not believe patent protection is appropriate or obtainable. Trade secrets are difficult to protect. While commercially reasonable efforts to protect trade secrets will be used, strategic partners, employees, consultants, contractors or scientific and other advisors may unintentionally or willfully disclose information to competitors.

If the Company is not able to defend patents or trade secrets, then it will not be able to exclude competitors from developing or marketing competing products, and the Company may not generate enough revenue from product sales to justify the cost of development of products and to achieve or maintain profitability.

#### ***Low Barriers to Entry and Competition***

There is high potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

At present, management believes that the Company has certain direct competition from Menssana Research Inc. ("Menssana") and Owlstone Nanotech Inc. ("Owlstone"). Menssana is based in New Jersey and Owlstone is based in the United Kingdom. These companies have the financial ability to compete directly with the Company.

Competitive pressures created by any one of these companies, or by the Company's competitors collectively, could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company believes that the principal competitive factors in its market are the ability to protect IP and bring the first company to deliver hand held breath testing products to the market.

#### ***Difficulty to Forecast***

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the industry. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

#### ***Litigation***

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the Company's common shares. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

Commercial success of the Company will depend in part on not infringing upon the patents and proprietary rights of other parties and enforcing its own patents and proprietary rights against others. The

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research and development programs will be in highly competitive fields in which numerous third parties have issued patents and pending patent applications with claims closely related to the subject matter of the Company's programs. The Company is not currently aware of any litigation or other proceedings or claims by third parties that its technologies or methods infringe on their intellectual property.

While it is the practice of the Company to undertake pre-filing searches and analyses of developing technologies, it cannot guarantee that it has identified every patent or patent application that may be relevant to the research, development, or commercialization of its products. Moreover, it cannot assure that third parties will not assert valid, erroneous, or frivolous patent infringement claims.

#### ***Uninsurable Risks***

The business of the Company may not be insurable or the insurance may not be purchased due to high cost. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the Company.

#### ***The market price of the Company's Common Shares may be subject to wide price fluctuations***

The market price of the Company's common shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company and its subsidiaries, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Company's common shares.

#### ***Dividends***

The Company has no earnings or dividend record, and does not anticipate paying any dividends on the common shares in the foreseeable future.

#### ***Regulatory Changes***

The business of the Company is subject to rapid regulatory changes. Failure to keep up with such changes may adversely affect the business of the Company. Some of the changes are the FDA's implementation of the Universal Device Identifier in October 2015 and the tracking requirements for pharmaceuticals in the United States.

The Company's prospects must be considered in light of the risks, expenses, shifts, changes and difficulties frequently encountered with companies whose businesses are regulated by various federal, state and local governments. The health care, wellness, workers' compensation and similar companies are subject to a variety of regulatory requirements and the regulatory environment is ever changing particularly with recent legislation, the full impact of which is not yet understood as regulations have not been issued. Failure to follow regulatory requirements will have a detrimental impact on the business. Changes in legislation cannot be predicted and could irreparably harm the business.

#### ***Risks Associated with Brand Development***

The Company believes that continuing to strengthen its brand is critical to achieving widespread acceptance of the Company, particularly in light of the competitive nature of the Company's market. Promoting and positioning its brand will depend largely on the success of the Company's marketing efforts and the ability of the Company to provide high quality services. In order to promote its brand, the Company will need to increase its marketing budget and otherwise increase its financial commitment to creating and maintaining brand loyalty among users. There can be no assurance that brand promotion

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activities will yield increased revenues or that any such revenues would offset the expenses incurred by the Company in building its brand. If the Company fails to promote and maintain its brand or incurs substantial expenses in an attempt to promote and maintain its brand or if the Company's existing or future strategic relationships fail to promote the Company's brand or increase brand awareness, the Company's business, results of operations and financial condition would be materially adversely affected.

#### ***Rapid Technological Change***

The business of the Company is subject to rapid technological changes. Failure to keep up with such changes may adversely affect the business of the Company. The Company is subject to the risks of companies operating in the medical and healthcare business.

The market in which the Company competes is characterized by rapidly changing technology, evolving industry standards, frequent new service and product announcements, introductions and enhancements and changing customer demands. As a result, an investment in the stocks of the Company is highly speculative and is only suitable for investors who recognize the high risks involved and can afford a total loss of investment.

#### ***Risks Associated with Acquisitions***

If appropriate opportunities present themselves, the Company intends to acquire businesses, technologies, services or products that the Company believes are strategic. The Company currently has no understandings, commitments or agreements with respect to any other material acquisition and no other material acquisition is currently being pursued. There can be no assurance that the Company will be able to identify, negotiate or finance future acquisitions successfully, or to integrate such acquisitions with its current business. The process of integrating an acquired business, technology, service or product into the Company may result in unforeseen operating difficulties and expenditures and may absorb significant management attention that would otherwise be available for ongoing development of the Company's business. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to goodwill and other intangible assets, which could materially adversely affect the Company's business, results of operations and financial condition. Any such future acquisitions of other businesses, technologies, services or products might require the Company to obtain additional equity or debt financing, which might not be available on terms favourable to the Company, or at all, and such financing, if available, might be dilutive.

#### ***Risks Associated with International Operations***

A component of the Company's strategy is to expand internationally. Expansion into the international markets will require management attention and resources. The Company has limited experience in localizing its service, and the Company believes that many of its competitors are also undertaking expansion into foreign markets. There can be no assurance that the Company will be successful in expanding into international markets. In addition to the uncertainty regarding the Company's ability to generate revenues from foreign operations and expand its international presence, there are certain risks inherent in doing business on an international basis, including, among others, regulatory requirements, legal uncertainty regarding liability, tariffs, and other trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, different accounting practices, problems in collecting accounts receivable, political instability, seasonal reductions in business activity and potentially adverse tax consequences, any of which could adversely affect the success of the Company's international operations. To the extent the Company expands its international operations and has additional portions of its international revenues denominated in foreign currencies, the Company could become subject to increased risks relating to foreign currency exchange rate fluctuations. There can be no assurance that one or more of the factors discussed above will not have a material adverse effect on the Company's future international operations and, consequently, on the Company's business, results of operations and financial condition.

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#### ***Protection and Enforcement of Intellectual Property Rights***

The Company regards the protection of its copyrights, service marks, trademarks, trade dress and trade secrets as critical to its future success and relies on a combination of copyright, trademark, service mark and trade secret laws and contractual restrictions to establish and protect its proprietary rights in products and services. The Company has entered into confidentiality and invention assignment agreements with its employees and contractors, and nondisclosure agreements with parties with which it conducts business in order to limit access to and disclosure of its proprietary information. There can be no assurance that these contractual arrangements or the other steps taken by the Company to protect its intellectual property will prove sufficient to prevent misappropriation of the Company's technology or to deter independent third-party development of similar technologies.

To date, the Company has not been notified that its technologies infringe the proprietary rights of third parties, but there can be no assurance that third parties will not claim infringement by the Company with respect to past, current or future technologies. The Company expects that participants in its markets will be increasingly subject to infringement claims as the number of services and competitors in the Company's industry segment grows. Any such claim, whether meritorious or not, could be time-consuming, result in costly litigation, cause service upgrade delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements might not be available on terms acceptable to the Company or at all. As a result, any such claim could have a material adverse effect upon the Company's business, results of operations and financial condition.

#### ***Economic Environment***

The Company's operations could be affected by the economic context should the unemployment level, interest rates or inflation reach levels that influence consumer trends and consequently, impact the Company's future sales and profitability.

#### ***Global Economy Risk***

The ongoing economic slowdown and downturn of global capital markets has generally made the raising of capital by equity or debt financing more difficult. Access to financing has been negatively impacted by the ongoing global economic risks. As such, the Company is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the Company's ability to raise equity or obtain loans and other credit facilities in the future and on terms favourable to the Company. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized, which could have an adverse impact on the Company's operations and the trading price of the Company's Shares on the stock exchange.

#### ***Going-Concern Risk***

The Company's future operations are dependent upon the identification and successful completion of equity or debt financing and the achievement of profitable operations at an indeterminate time in the future. There can be no assurances that the Company will be successful in completing an equity or debt financing or in achieving profitability.

#### ***Financial Risk Exposures***

The Company may have financial risk exposure to varying degrees relating to the currency of each of the countries where it operates and has financial risk exposure towards digital currencies. The level of the financial risk exposure related to a currency and exchange rate fluctuations will depend on the Company's ability to hedge such risk or use another protection mechanism.



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***Reliance on Yost Research Group at the University of Florida***

If the third parties which the Company relies on do not properly and successfully carry out their obligations to the Company, it may not be able to develop, obtain regulatory approval for, or commercialize its product candidates.

***Attracting and keeping senior management and key scientific personnel***

The success of the Company depends on the continued ability to attract, retain, and motivate highly qualified management, clinical, and scientific personnel and to develop and maintain important relationships with leading academic institutions, companies, and thought leaders.