

# **ProMIS Neurosciences Inc.**

Condensed Consolidated Interim  
Financial Statements

(Unaudited)

**March 31, 2022**

(expressed in Canadian dollars)

# ProMIS Neurosciences Inc.

## Condensed Consolidated Interim Statements of Financial Position (Unaudited)

(expressed in Canadian dollars)

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	17,177,025	21,443,964
Short-term investments	42,078	42,078
Accounts receivables	125,862	61,621
Prepaid expenses and deposits	651,600	871,516
Total current assets	17,996,565	22,419,179
<b>Property and equipment</b>	6,263	5,912
<b>Intangible assets</b>	33,280	34,948
Total assets	18,036,108	22,460,039
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	804,946	517,601
Accrued liabilities	930,739	658,222
Total current liabilities	1,735,685	1,175,823
Convertible debentures (note 3)	5,056,806	4,943,450
Derivative liability (note 3)	4,538,106	6,808,697
Warrant liability (note 5)	2,037,389	2,055,602
<b>Total liabilities</b>	13,367,986	14,983,572
<b>Shareholders' Deficiency</b>		
<b>Common shares</b> (note 4)	72,045,506	72,045,506
<b>Other equity</b> (note 5)	9,019,103	8,838,735
<b>Contributed surplus</b>	9,715,259	9,624,585
<b>Accumulated deficit</b>	(86,111,746)	(83,032,359)
Total shareholders' equity	4,668,122	7,476,467
Total liabilities and shareholders' equity	18,036,108	22,460,039
<b>Commitments and contingencies</b> (note 9)		

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

## ProMIS Neurosciences Inc.

### Condensed Consolidated Interim Statements of Operations and Comprehensive Loss (Unaudited)

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(expressed in Canadian dollars)

	<b>Three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>Revenues</b>		
Sales and royalty income	5,209	-
Interest earned	8,437	-
	<hr/> 13,646	<hr/> -
<b>Operating expenses</b>		
Research and development (note 6)	2,605,995	193,923
General and administrative (note 6)	2,495,402	388,408
	<hr/> 5,087,751	<hr/> 582,331
<b>Operating loss</b>	<hr/> 5,087,751	<hr/> 582,331
Interest expense (note 3)	187,168	2,177
Change in fair value of derivative liability (note 3)	(2,198,948)	7,012,303
Change in fair value of warrant liability (note 5)	3,416	-
Share in net loss of joint venture	-	2,606
	<hr/> -	<hr/> 2,606
<b>Net loss and comprehensive loss for the period</b>	<hr/> <b>(3,079,387)</b>	<hr/> <b>(7,599,417)</b>
<b>Basic and diluted loss per common share</b>	(0.01)	(0.03)
<b>Weighted average number of common shares outstanding</b>	<hr/> 431,731,591	<hr/> 294,096,417

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## ProMIS Neurosciences Inc.

### Condensed Consolidated Interim Statements of Changes in Equity (Deficiency)

(Unaudited)

(expressed in Canadian dollars)

	Common shares		Other equity		Contributed surplus \$	Accumulated deficit \$	Total \$
	Number	Amount \$ (note 4)	Number	Amount \$ (note 5)			
<b>Balance – January 1, 2021</b>	289,730,760	52,741,553	92,220,748	9,139,694	8,350,776	(71,247,944)	(1,015,921)
Conversion of specials warrants into common shares and warrants (note 7)	16,219,581	809,667	-	(809,667)	-	-	-
Forfeiture of share options	-	-	(697,917)	(150,919)	150,919	-	-
Share-based compensation	-	-	-	(68,268)	-	-	(68,268)
Net and comprehensive loss	-	-	-	-	-	(7,599,417)	(7,599,417)
<b>Balance – March 31, 2021</b>	<b>350,950,341</b>	<b>53,551,220</b>	<b>91,522,831</b>	<b>8,110,840</b>	<b>8,501,695</b>	<b>(78,847,361)</b>	<b>(8,683,606)</b>
<b>Balance – January 1, 2022</b>	<b>431,731,591</b>	<b>72,045,506</b>	<b>137,990,244</b>	<b>8,838,735</b>	<b>9,624,585</b>	<b>(83,032,359)</b>	<b>7,476,467</b>
Forfeiture of share options	-	-	(712,000)	(90,674)	90,674	-	-
Issuance of share options	-	-	7,250,000	-	-	-	-
Share-based compensation	-	-	-	271,042	-	-	271,042
Net and comprehensive loss	-	-	-	-	-	(3,079,387)	(3,079,387)
<b>Balance – March 31, 2022</b>	<b>431,731,591</b>	<b>72,045,506</b>	<b>144,528,244</b>	<b>9,019,103</b>	<b>9,715,259</b>	<b>(86,111,746)</b>	<b>4,668,122</b>

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

# ProMIS Neurosciences Inc.

## Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

(expressed in Canadian dollars)

	Three months ended March 31,	
	2022	2021
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss and comprehensive loss for the period	(3,079,387)	(7,599,417)
Change in fair value of derivative liability (note 3)	(2,198,948)	7,012,303
Change in fair value of warrant liability (note 5)	3,416	-
Amortization of intangible assets	1,668	1,668
Amortization of property and equipment	2,255	13,584
Foreign exchange loss	(145,288)	92,650
Loss on joint venture (note 4)	-	2,606
Share-based compensation (note 7)	271,042	(68,268)
Amortization of debt discount (note 3)	165,371	-
Changes in non-cash working capital (note 8)	715,537	(436,568)
Cash used in operating activities	<u>(4,264,334)</u>	<u>(981,442)</u>
<b>Investing activities</b>		
Purchase of property and equipment	<u>(2,605)</u>	<u>-</u>
<b>Financing activities</b>		
Proceeds from issuance of unsecured convertible debentures	-	8,737,150
<b>(Decrease)/increase in cash and cash equivalents during the period</b>	<b>(4,266,939)</b>	<b>7,755,708</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>21,443,964</b>	<b>1,028,968</b>
<b>Cash and cash equivalents – End of period</b>	<b><u>17,177,025</u></b>	<b><u>8,784,676</u></b>
<b>Supplemental cash flow information:</b>		
Cash paid for interest on convertible debt	88,223	-

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

# ProMIS Neurosciences, Inc.

## Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 31 2022

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(expressed in Canadian dollars)

### **1 Organization, nature of operations and liquidity**

ProMIS Neurosciences, Inc. (the Company or ProMIS) is focused on the discovery and development of precision medicine solutions for early detection and effective treatment of neurodegenerative diseases, including Alzheimer's disease (AD), amyotrophic lateral sclerosis (ALS), and multiple system atrophy (MSA). The Company also plans to investigate additional synucleinopathies, including Parkinson's disease (PD), and dementia with Lewy bodies (DLB).

The Company is incorporated under the Canada Business Corporations Act and is located at 1920 Yonge Street, Toronto, Ontario. The Company is traded on the Toronto Stock Exchange (TSX) under the symbol PMN and on the OTCQB Venture Market under the symbol ARFXF.

The Company has a wholly-owned U.S. subsidiary, ProMIS Neurosciences (US) Inc. (ProMIS USA), which was incorporated in January 2016 in the State of Delaware. ProMIS USA has had no material activity and has no material financial impact on the Company's condensed consolidated interim financial statements.

The success of the Company is dependent on obtaining regulatory approvals of its product candidates to market and achieving profitable operations. The continuation of research and development activities and the commercialization of its products are dependent on the Company's ability to successfully complete these activities and to obtain adequate financing. It is not possible to predict either the outcome of future research and development or commercialization programs or the Company's ability to fund these programs.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The going concern basis contemplates the realization of assets and the settlement of liabilities in the normal course of business as they come due for the foreseeable future. The Company had a loss of \$3,079,387 for the three months ended March 31, 2022 and an accumulated deficit of \$86,111,746 as at March 31, 2022. Available funds are expected to fund operations beyond 12 months. The Company may continue to incur net operating losses for at least the next several years as the Company advances the development of its product candidates. The Company is actively pursuing additional financing to further develop certain of the Company's scientific initiatives, but there is no assurance these initiatives will be successful, timely or sufficient.

### **COVID-19**

Impacts resulting from the COVID-19 pandemic have resulted in a widespread health crisis that has already adversely affected the economies and financial markets of many countries around the world. The international response to the spread of COVID-19 has led to significant restrictions on travel; temporary business closures; quarantines; global stock market and financial market volatility; a general reduction in consumer activity; operating, supply chain and project development delays and disruptions; and declining trade and market sentiment; all of which have and could further affect the world economy. The extent to which COVID-19 pandemic may impact the Company's business, preclinical research and development activities will depend on future developments which are highly uncertain and cannot be predicted with confidence, such as the duration of the outbreak, travel restrictions and social distancing in Canada, the United States and other countries, business closures or business disruptions and the effectiveness of actions taken by governments around the globe to contain and treat the disease. International scientific conferences at which the Company has been

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invited to present have been postponed, cancelled or will be held online instead, which diminishes exposure and the opportunity to meet with collaborators and potential partners. These scientific conferences have started to be held in person with an option to attend online. Vendors performing work for the Company have remained open, although they have indicated that their timelines are now somewhat longer. The current global uncertainty and its effect on the local and global economies may also have an adverse effect on the Company's ability to secure additional financing to continue its research and development programs.

These condensed consolidated interim financial statements do not include any adjustments to the amounts and classifications of assets and liabilities and expenses that might be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities other than in the normal course of business and at amounts different from those reflected in the accompanying condensed consolidated interim financial statements. Any such adjustments could be material.

## 2 Summary of significant accounting policies

### Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with IFRS and in compliance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 12, 2022

Significant accounting policies are noted below. These policies have been consistently applied to all periods presented.

### Financial instruments

The Company follows IFRS 9, Financial instruments (IFRS 9) to account for its financial liabilities.

#### *Classification of financial liabilities*

- Financial liabilities

Financial liabilities are classified as measured at amortized cost or Fair Value through Profit & Loss (FVTPL). A financial liability is classified as at FVTPL if it is classified as held for trading or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the consolidated statement of loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense and foreign exchange gains and losses are recognized in the consolidated statement of loss. Any gain or loss on derecognition is also recognized in the consolidated statement of loss.

- Derivatives

The Company evaluates its convertible debt, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under IFRS 9. The result of this accounting treatment is that the fair value of the embedded derivative, if required to be bifurcated, is marked-to-market at each balance sheet date and recorded as a liability. The change in fair value is recorded in the consolidated statements of

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operations and comprehensive loss as a component of other income or expense. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity.

### Recently issued IFRS standards and amendments

Amendments to IFRS that are effective for the first time in 2022 did not have an impact on the condensed consolidated interim financial statements.

### 3 Unsecured convertible debentures

In March 2021, the Company completed a US\$7 million (\$8.7 million CDN) private placement of unsecured convertible debentures (Debentures). The Debentures are convertible in common shares at the option of the holder at a conversion price of US\$0.10 and accrue interest at 1% per annum, which is payable annually. At the Company's election, accrued interest may be paid in cash or common shares (such number of shares determined by dividing the interest due by the 5-day volume-weighted average trading price (VWAP) of the common shares). The company recognized interest expense of \$187,168 relating to the amortization of the debt discount related to the derivative liability and issuance costs allocated to the debentures in the three months ended March 31, 2022.

The Debentures mature on March 22, 2026. Prior to the maturity date, the Company is entitled to convert the Debentures at the conversion price upon raising an aggregate of US\$50 million in equity and/or debt. On the maturity date, the Company may redeem the outstanding principal amount of the Debentures in either cash or common shares (at the then 5-day VWAP less a 10% discount) or a combination thereof.

The conversion feature has been recognized as a derivative liability carried at FVTPL. The derivative liability has been valued at \$4,291,384 at issuance date using a scenario-based valuation method using a Monte Carlo simulation model, volatility of 101.43% and a risk-free interest rate of 0.15%. The derivative liability at March 31, 2022 has been valued at \$4,538,106 using a scenario-based valuation method using a Monte Carlo simulation model, volatility of 87.00% and a risk-free interest rate of 2.41%. The amount of liability as at March 31, 2022 has been allocated to the principal component of the Debenture which is being recognized at amortized cost and carried using the effective interest rate, resulting in a total liability at March 31, 2022 of \$9,594,912.

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(expressed in Canadian dollars)

	<b>March 31, 2022</b>
	<b>\$</b>
Opening balance at December 31, 2021	6,808,697
Change in fair value of the derivative liability	(2,198,948)
Foreign exchange gain	(71,643)
Balance at March 31, 2022	<u>4,538,106</u>

### 4 Share capital

The Company has authorized an unlimited number of both common and preferred shares and has issued 431,731,591 common shares and no preferred shares as at March 31, 2022. The common shares have no par value.

There were no new subscriptions for the three months ended March 31, 2022.

### 5 Warrants and options

The Company has issued warrants and options for the purchase of common shares as follows:

- a) As at March 31, 2022, outstanding common share warrants related to unit offerings are as follows:

<b>Exercise price \$</b>	<b>Number of warrants</b>	<b>Expiry date</b>
CAD 0.300	4,860,543	August 2022
CAD 0.285	1,265,010	August 2022
CAD 0.480	6,004,394	April 2023
CAD 0.480	8,379,500	January 2024
CAD 0.350	4,100,000	June 2024
CAD 0.350	9,049,066	November 2024
CAD 0.350	2,949,998	December 2024
CAD 0.200	16,776,781	November 2025
USD 0.210	31,445,309	August 2026
USD 0.160	8,804,687	August 2026
	<u>93,635,288</u>	

- b) In August 2021, the Company announced the closing of a public offering of 125,781,250 units at a price of US\$0.16 per unit for gross proceeds of US\$20,125,000 (CDN\$25,522,525 and \$23,426,746 net of \$2,095,779 issuance costs). Each unit consisted of one common share and one-quarter common share warrant. Each warrant entitles the holder thereof to purchase one share at an exercise price of US\$0.21 per share at any time for five years. Related to the financing, the Company compensated certain intermediaries US\$1,408,750 and issued 8,804,687 compensation warrants. Each warrant entitles the holder thereof to purchase one common share at an exercise price of US\$0.16 per share at any time for five years. The compensation warrants have been issued as a consideration for services of the intermediaries. They are accounted for as equity-settled instruments in accordance with IFRS 2, Share-based payment. Fair value of the compensation warrants of \$1,215,323 was recorded in other

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(expressed in Canadian dollars)

equity during the year ended December 31, 2021. The allocation of the US\$0.16 per unit issue price to the common shares and the common share warrants was determined based on the relative fair values of the warrants and the residual was charged to equity. The fair value of the warrants was determined using the Black-Scholes option pricing model (Black Scholes). The common shares issued were allocated a price of US\$0.137 per share and the common share warrants were allocated a price of US\$0.023. Assumptions used to determine the value of the one-quarter common share warrant were: an average risk-free interest rate of 0.87%; dividend yield of nil; weighted average expected volatility of 96%; and expected life of 60 months.

The common share warrants are accounted for as a warrant liability since the exercise price is in USD while the Company's functional currency is CDN. The initial balance was calculated using the parameters above resulting in a balance of \$3,717,137. As of March 31, 2022, the fair value of the warrants was calculated using a Monte Carlo model with the following parameters: equity volatility of 94.00%, risk free interest rate of 2.39% and spot price of US\$0.10. The balance at March 31, 2022 was \$2,037,389.

Balance of warrant liability at December 31, 2021	\$2,055,602
Change in fair value of the warrant liability	3,416
Foreign exchange gain	(21,629)
Balance of warrant liability at March 31, 2022	<u>\$2,037,389</u>

- c) The Company maintains the 2007 Stock Option Plan (2007 Option Plan) for directors, officers, employees and consultants. In June 2015, the 2007 Option Plan was amended from a fixed option plan to a rolling share option plan pursuant to which the Company is authorized to grant options of up to 20% of its issued and outstanding common shares. Share options granted vest at various rates and have a term not exceeding ten years. The following table reflects the activity of the share options for the three months ended March 31:

	2022		2021	
	Number of share options	Weighted average exercise price \$	Number of share options	Weighted average exercise price \$
Outstanding – January 1	44,282,248	0.14	38,771,748	0.13
Granted (i)	7,250,000	0.14	1,500,000	0.17
Forfeited	(712,000)	0.11	(697,917)	0.28
Outstanding – March 31	<u>50,820,248</u>	<u>0.14</u>	<u>39,573,831</u>	<u>0.13</u>

# ProMIS Neurosciences, Inc.

## Notes to Condensed Consolidated Interim Financial Statements

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Exercisable – March 31	39,131,710	0.13	38,098,832	0.13
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- i. During the three months ended March 31, 2022 and 2021, the Company granted 7,250,000 and 1,500,000 share options with a grant date fair value of \$719,469 and \$162,796, respectively.

During the three months ended March 31, 2022 and 2021, there were no options exercised.

During the three months ended March 31, 2022, the Company recorded share-based compensation of \$271,042 and in the three months ended March 31, 2021, the Company recorded a reversal of share-based compensation of \$68,268 due to the forfeiture of share options.

The weighted average grant date fair value of the share options granted for the three months ended March 31, 2022 and 2021 is \$0.10 and \$0.11, respectively. The fair value of the share options granted was estimated using Black-Scholes with the following assumptions:

	2022	2021
Weighted average risk-free interest rate	1.81%	1.07%
Weighted average dividend yield	-	-
Weighted average expected volatility	85%	106%
Weighted average expected life of options	6.0	5.5

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices over the prior four years.

- d) The Company has a deferred share unit (DSU) plan for senior officers. Under the DSU plan, rights to the Company's common shares may be awarded on a deferred payment basis to a maximum of 1,000,000 common shares. Each DSU can be redeemed for one common share by the unitholder only on cessation of employment with the Company. The Company has 63,708 DSUs outstanding as at March 31, 2022.

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## Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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(expressed in Canadian dollars)

### 6 Expenses by nature

Components of operating expenses for the three months ended March 31:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Salaries, fees and benefits	1,065,941	215,380
Share-based compensation	271,042	(68,268)
Research programs expense	1,549,113	172,419
Patent expense	146,408	53,674
Consulting	1,678,028	90,033
Legal expense	74,640	99,913
Investor and public relations	293,535	55,720
Amortization of property, equipment and intangible assets	3,923	15,252
Foreign exchange gain	18,767	(51,792)
	<b>5,101,397</b>	<b>582,331</b>

### 7 Related party transactions

The Company evaluates related parties and any transactions that have occurred between these parties. The associated transactions are disclosed below:

a) Compensation for key management personnel during the three months ended March 31 is as follows:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Salaries, fees and short-term benefits	181,002	114,586
Share-based compensation	192,333	43,772
	<b>373,335</b>	<b>158,358</b>

Key management personnel are the Company's directors, executive chairman, chief executive officer, chief scientific officer and chief financial officer.

- a) During the three months ended March 31, 2022 and 2021, the Company paid \$260,537 and \$79,133, respectively, for consulting services to a firm specializing in finance and strategic support for life science companies. The chief financial officer of the Company is the founding managing director of the consulting firm.
- b) In April 2016, the Company entered into a three-year sponsored research agreement (SRA) with the UBC and the Vancouver Coastal Health Authority in the amount of \$787,500 with Dr. Neil Cashman, the Company's chief scientific officer, as principal investigator. In March 2018, the SRA was amended and funding was increased to \$892,500 over three years. In July 2018, the total funding commitment to UBC increased to \$1,130,000 over the period of the agreement. In

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February 2019, the SRA was amended and funding was increased to \$2,130,000 for an additional two-year period. In September 2019, the SRA was amended and funding was increased to \$2,630,000 for an additional one-year period. In November 2021, the SRA was amended for an additional grant of \$800,000 effective January 1, 2022, for total funding of \$3,430,000. During the three months ended March 31, 2022 and 2021, the Company incurred costs of \$125,000 and \$125,000, respectively, related to this contract.

### 8 Supplementary cash flow information

The components of the change in non-cash working capital for the three months ended March 31 are as follows:

	2022 \$	2021 \$
Other receivables	(64,241)	(199,454)
Prepaid expenses and deposits	219,916	(67,453)
Accounts payable	287,345	(252,626)
Deferred compensation - Management	-	(584)
Accrued liabilities	272,517	83,549
	<u>715,537</u>	<u>(436,568)</u>

### 9 Commitments and contingencies

- a) The Company enters into research, development and licence agreements with various parties in the ordinary course of business, where the Company receives research services and rights to proprietary technologies. The agreements require compensation to be paid by the Company, typically, by a combination of the following:
- fees comprising amounts due initially on entering into the agreements and additional amounts due either on specified timelines or defined services to be provided;
  - milestone payments that are dependent on products developed under the agreements proceeding toward specified plans of clinical trials and commercial development; and
  - royalty payments calculated as a percentage of net sales, commencing on commercial sale of any product candidates developed from the technologies.

Milestone and royalty related amounts that may come due under various agreements are dependent on, among other factors, preclinical safety and efficacy, clinical trials, regulatory approvals and, ultimately, the successful development and commercial launch of a new drug, the outcomes and timings of which are uncertain. Amounts due per the various agreements for milestone payments will accrue once the occurrence of a milestone is likely. Amounts due as royalty payments will accrue as commercial revenues from the

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product are earned. Through March 31, 2022 no events have occurred that require accrual of any milestone or royalty related amounts.

- b) In February 2009, the Company entered into an agreement with UBC to further the development and commercialization of certain technology developed, in part, by the Company's chief scientific officer. The agreement was amended and restated in October 2015. Under the amended and restated agreement, the Company is committed to make royalty payments based on revenue earned from the licensed technology. An annual licence fee of \$25,000 is payable over the term of the contract. This agreement remains effective unless terminated under provisions of the agreement. No accrual for any milestone payment has been required to be made.
- c) In April 2006 and through additional amendments through November 2013, the Company entered into an agreement with the University Health Network, Toronto, to license certain technology and related intellectual property. Under the agreement, the Company is committed to make milestone payments of up to \$635,000, based on the successful outcomes of clinical and regulatory outcomes, and royalty payments based on revenue earned from the licensed technology. No accrual for any milestone payment has been required to be made.
- d) The Company indemnifies its directors and officers against any and all claims and losses reasonably incurred in the performance of their service to the Company. The Company maintains liability insurance for its directors and officers.

### **10 Segmented information**

The Company operates within a single operating segment. Substantially all of the Company's assets are located in Canada.

### **11 Subsequent event**

No subsequent events to be reported.