

Consolidated Financial Statements  
(Expressed in Canadian Dollars)

**Telo Genomics Corp.**  
(formerly 3D Signatures Inc.)

For the year ended June 30, 2019

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Telo Genomics Corp.

### Opinion

We have audited the consolidated financial statements of Telo Genomics Corp. and its subsidiary (the "Company"), which comprise the consolidated statement of financial position as at June 30, 2019, and the consolidated statements of loss and comprehensive loss, changes in deficiency and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### 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 Consolidated 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 consolidated 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 consolidated financial statements, which indicates that, as at June 30, 2019, the Company has a deficiency of \$1,044,858 and the Company's current liabilities exceeded its current assets by \$1,224,570. 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.

### Other Matter

The consolidated financial statements for the year ended June 30, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on November 14, 2018.

### Other Information

Management is responsible for the other information. The other information comprises the information included in the management's discussion and analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be through to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kevin Kwan.

Vancouver, Canada  
October 28, 2019

*"Morgan & Company LLP"*  
Chartered Professional Accountant

# Telo Genomics Corp.

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## Consolidated Statements of Financial Position (expressed in Canadian dollars)

	Note	As at June 30, 2019	As at June 30, 2018
<b>Assets</b>		\$	\$
Current assets			
Cash		19,495	67,331
Amounts receivable		36,600	40,532
Prepaid expenses	6	26,861	59,031
Total current assets		82,956	166,894
Non-current assets			
Property and equipment	7	179,712	262,621
Total non-current assets		179,712	262,621
<b>Total assets</b>		<b>262,668</b>	<b>429,515</b>
<b>Liabilities and Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities		1,027,526	743,532
Notes payable	8	280,000	-
Total liabilities		1,307,526	743,532
Deficiency			
Share capital	9	11,741,210	11,441,210
Contributed surplus	9	5,089,264	5,045,913
Deficit		(17,875,332)	(16,801,140)
Total deficiency		(1,044,858)	(314,017)
<b>Total liabilities and deficiency</b>		<b>262,668</b>	<b>429,515</b>

Commitments (Note 10)

Going concern (Note 4)

Subsequent events (Note 15)

Approved on behalf of the board

*/s/ Dr. Sabine Mai*

Director

*/s/ Hugh Rogers*

Director

**Telo Genomics Corp.**

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**Consolidated Statements of Loss and Comprehensive Loss**

(expressed in Canadian dollars)

	Note	For the year ended June 30, 2019	For the year ended June 30, 2018
<b>Expenses</b>		\$	\$
General and administrative		856,747	3,065,741
Research and development		196,774	1,542,052
		<b>(1,053,521)</b>	<b>(4,607,793)</b>
Other (income) expense:			
Impairment of property and equipment		-	102,260
Bad debt expense		-	1,000
Finance expense (income), net		20,671	(4,718)
Gain on settlement of deferred rent obligation		-	(11,717)
		<b>(20,671)</b>	<b>(86,825)</b>
<b>Net loss and comprehensive loss for the year</b>		<b>(1,074,192)</b>	<b>(4,694,618)</b>
Basic and diluted loss per share		<b>(0.02)</b>	(0.08)
Weighted average number of common shares used in computing basic and diluted loss per share		<b>66,126,066</b>	59,768,875

See accompanying notes to the consolidated financial statements.

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**Consolidated Statements of Changes in Deficiency**

(expressed in Canadian dollars)

	Note	Share capital	Contributed Surplus	Deficit	Total
		\$	\$	\$	\$
<b>Balance, June 30, 2018</b>		<b>11,441,210</b>	<b>5,045,913</b>	<b>(16,801,140)</b>	<b>(314,017)</b>
<b>Net loss for the year</b>		-	-	<b>(1,074,192)</b>	<b>(1,074,192)</b>
<b>Shares issued for severance payments</b>	<b>9 (b)</b>	<b>300,000</b>	-	-	<b>300,000</b>
<b>Stock based compensation</b>	<b>9 (c)</b>	-	<b>43,351</b>	-	<b>43,351</b>
<b>Balance, June 30, 2019</b>		<b>11,741,210</b>	<b>5,089,264</b>	<b>(17,875,332)</b>	<b>(1,044,858)</b>
<hr/>					
Balance, June 30, 2017		10,402,822	3,930,216	(12,106,522)	2,226,516
Net loss for the year		-	-	(4,694,618)	(4,694,618)
Issuance of common shares (net of costs)	9(c)	748,640	1,221,790	-	1,970,430
Stock options exercised	9(c)	289,748	(164,784)	-	124,964
Stock-based compensation	9(c)	-	58,691	-	58,691
<b>Balance, June 30, 2018</b>		<b>11,441,210</b>	<b>5,045,913</b>	<b>(16,801,140)</b>	<b>(314,017)</b>

See accompanying notes to the interim consolidated financial statements.

**Telo Genomics Corp.**

(formerly 3D Signatures Inc.)

**Consolidated Statements of Cash Flows**

(expressed in Canadian dollars)

		For the year ended June 30, 2019	For the year ended June 30, 2018
Cash (used in) provided by:		\$	\$
Operating activities:			
Net loss and comprehensive loss for the year		(1,074,192)	(4,694,618)
Impairment loss on property and equipment		-	102,260
Depreciation of property and equipment	7	82,909	124,326
Shares issued for severance payments		300,000	-
Stock-based compensation	9(c)	43,351	58,691
Deferred rent obligations		-	(21,352)
Changes in non-cash working capital accounts			
Amounts receivable		3,932	292,019
Prepaid expenses		32,170	1,053,603
Accounts payable and accrued liabilities		283,994	(121,370)
<b>Cash used in operating activities</b>		<b>(327,836)</b>	<b>(3,206,441)</b>
Financing activities:			
Proceeds from issuance of common shares		-	2,122,673
Exercise of stock options		-	124,964
Share issuance costs		-	(152,241)
Advances of notes payable	8	280,000	-
<b>Cash flows from financing activities</b>		<b>280,000</b>	<b>2,095,396</b>
Investing activities:			
Purchases of equipment	7	-	(23,167)
Government assistance received	5(h)	-	1,148
<b>Cash used in investing activities</b>		<b>-</b>	<b>(22,019)</b>
Decrease in cash		(47,836)	(1,133,064)
Cash, beginning of year		67,331	1,200,395
<b>Cash, end of year</b>		<b>19,495</b>	<b>67,331</b>

See accompanying notes to the consolidated financial statements.

# Telo Genomics Corp.

(formerly 3D Signatures Inc.)

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

### 1. Reporting entity:

Telo Genomics Corp (formerly 3D Signatures Inc.) (the "Company"), was incorporated in Canada on May 25, 2014 and its shares are listed on the TSX Venture Exchange as a Tier 2 issuer under the symbol "TELO"; the OTCQB Venture Market in the United States under the symbol "TDSGF"; and the Frankfurt Stock Exchange in Germany under the symbol "3D0". The Company's registered office is located at 1200-750 West Pender St. Vancouver, BC V6C 2T8 and its corporate head office is located at MaRS Centre, South Tower, 101 College Street, Suite 200, Toronto, Ontario, M5G 1L7.

The Company, through its wholly owned subsidiary 3D Signatures Holdings Inc., is developing diagnostic and prognostic products that will save lives, improve the quality of life, and reduce the cost of care associated with numerous diseases that display genomic instability.

### 2. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved and authorized for issue by the Board of Directors on October 28, 2019.

### 3. Basis of preparation of financial statements:

#### (a) Basis of measurement

##### (b)

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments at fair value through profit or loss which are measured at fair value.

#### (c) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiary.

Subsidiaries are fully consolidated from the date of acquisition, being the date in which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. All intra-group balances, income and expenses, equity and dividends resulting from intra-group transactions have been eliminated upon consolidation.

The Company's subsidiary is as follows:

3D Signatures Holdings Inc. (formerly 3D Signatures Inc.), 100% owned.

#### (d) Functional and presentation currency

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

#### (e) Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future.

Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances.

## **Telo Genomics Corp.**

(formerly 3D Signatures Inc.)

### **Notes to the Consolidated Financial Statements**

(expressed in Canadian dollars)

#### **3. Basis of preparation of financial statements (continued)**

##### ***(d) Significant accounting judgments, estimates and assumptions (continued)***

Information about key assumptions and estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year are included in the following notes:

- Note 5(b): The measurement and period of use of property and equipment
- Note 5(c): The measurement and period of use of intangible assets
- Note 5(e): Assumptions related to impairment of non-financial assets
- Note 5(g): The assumptions and model used to estimate the value of share-based payment transactions and warrants
- Note 5(h): The measurement and recognition of government assistance received

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and futures periods if the revision affects both current and future periods.

#### **4. Going concern:**

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company is a research and development stage company and as such is primarily dependent on the funding of new investors to continue as a going concern. In the future, the Company's ability to continue as a going concern will be dependent upon its ability to attain profitable operations and generate funds there from, and/or to continue to obtain borrowings from third parties sufficient to meet current and future obligations and/or restructure the existing payables.

On May 31, 2018, the Company announced its intention to file for bankruptcy as a result of the uncertainty surrounding the availability of sufficient capital to complete the commercialization and realization of the intangible assets, the Company has recorded a provision against the value of property and equipment (Note 7). Should the underlying circumstances change, the Company may release this provision in the future. During the year ended June 30, 2019, the Company restructured its Board of Directors and obtained a loan from a related party to support continued operations and management and will not be proceeding with the bankruptcy proceedings. The Company expects to receive additional financing from the related party to continue to support operations for the foreseeable future including the next 12 months. Management will continue with capital raising to fund development of its intangible assets.

These consolidated financial statements do not reflect any other adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations. The disclosed factors indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

During the year ended June 30, 2019, the Company incurred a net loss of \$1,074,192 (2018 - \$4,694,618) and has an accumulated deficit of \$17,875,332 (2018 - \$16,801,140).

# Telo Genomics Corp.

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## Notes to the Consolidated Financial Statements (expressed in Canadian dollars)

### 5. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, unless otherwise indicated.

#### (a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less on the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

#### (b) Property and equipment

##### (i) Recognition and measurement

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items of property or equipment.

##### (ii) Depreciation

Depreciation is recognized in profit or loss over the estimated useful lives of each part of an item of property and equipment in a manner which most closely reflects the pattern of consumption of the future economic benefits embodied in the asset. Internally constructed assets are depreciated from the time an asset is available for use. The estimated useful lives for the current and comparative periods is as follows:

<b>Asset</b>	<b>Basis</b>	<b>Rate</b>
Computer equipment	Straight line	2 years
Lab equipment	Straight line	5 years
Furniture and equipment	Straight line	5 years
Leasehold improvements	Straight line	Term of lease

As there exists material uncertainty on the Company's ability to realize the full carrying value of assets, the fixed assets of the Company are being carried at recoverable amounts and are not being used currently as management assesses the strategic direction of the Company.

#### (c) Intangible assets

##### (i) Recognition and measurement

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is 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, and has sufficient resources to complete development and to use or sell the asset.

As there exists material uncertainty on the Company's ability to realize the full carrying value of assets, the intangible assets of the Company are being carried at recoverable amounts and are not being used currently as management assesses the strategic direction of the Company.

# Telo Genomics Corp.

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## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

### 5. Summary of significant accounting policies (continued)

#### (c) Intangible assets (continued)

##### (ii) Patents

Costs incurred in obtaining a patent are capitalized and amortized on a straight-line basis over the legal life of the respective patent of twenty years, or its economic life, if shorter. Costs incurred in successfully obtaining a patent are measured at cost less accumulated amortization and accumulated impairment losses. The costs of servicing the Company's patents are expensed as incurred.

##### (iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

##### (iv) Software

Software packages purchased from third parties for office or lab use are capitalized and amortized over its estimated useful life of five years. Payments made to third parties for the development of software to enable the commercialization of its patented technology are capitalized as incurred. Once the software is available for use, it will be amortized over its estimated useful life.

#### (d) Financial instruments

The Company adopted IFRS 9 in its consolidated financial statements on July 1, 2018. Due to the nature of its financial instruments, the adoption of IFRS 9 had no impact on the opening deficit balance on July 1, 2018. The impact on the classification and measurement of its financial instruments is set out below:

Financial Instrument	Original classification – IAS 39	New classification – IFRS 9
Cash	Loans and receivables	FVTPL
Accounts payable and accrued liabilities	Other payables	Amortized Cost
Notes payable	Other payables	Amortized Cost

##### (i) Financial assets and liabilities

The Company classifies its financial assets into the following categories, depending on the purpose for which the asset was acquired. Management determines the classification of its financial assets at initial recognition.

*Amortized cost* - Amortized cost are those assets which are held within a business whose objective is to hold financial assets to collect contractual cash flows; and the terms of the financial assets must provide on specified dates cash flows solely through the collection of principal and interest.

*Fair value through profit or loss ("FVTPL")* - A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or FVOCI. The Company may however make the irrevocable option to classify particular investments as FVTPL.

*Fair value through other comprehensive income ("FVOCI")* - FVOCI assets are those assets which are held within a business whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial assets give rise on specified dates to cash flows solely through the collection of principal and interest.

Management determines the classification of its financial liabilities at initial recognition.

*Amortized cost* - The Company classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method, except for financial liabilities carried at FVTPL and certain other exceptions.

Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

## **Telo Genomics Corp.**

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### **Notes to the Consolidated Financial Statements**

(expressed in Canadian dollars)

#### **5. Summary of significant accounting policies (continued)**

##### **(d) Financial instruments (continued)**

###### **(ii) Derecognition**

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or when the Company has transferred its rights to receive cash flows from the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

###### **(iii) Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset, an incurred 'loss event', and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance costs.

Financial assets, together with the associated allowance, are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs.

###### **(iv) Interest income and expense**

For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest method, which is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income and expense is included in finance cost.

###### **(v) Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques that are recognized by market participants. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

## **Telo Genomics Corp.**

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### **Notes to the Consolidated Financial Statements**

(expressed in Canadian dollars)

#### **5. Summary of significant accounting policies (continued)**

##### **(d) Financial instruments (continued)**

For those financial instruments where fair value is recognized in the statement of financial position the methods and assumptions used to develop fair value measurements have been classified into one of the three levels of the fair value hierarchy for financial instruments:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;
- Level 3 – Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The following methods and assumptions were used to estimate the fair values:

Cash approximates its carrying amount due to the short-term maturities of these instruments and was originally determined using Level 2 inputs. Accounts payable and accrued liabilities approximate their carrying amount due to their short-term nature and was originally determined using Level 2 inputs. Notes payable's fair value is referenced to similar instruments and reflects its carrying value and was originally determined using Level 2 inputs. Deferred rent obligations represent its amortized cost and was originally determined using Level 2 inputs.

The fair value of notes payable is determined by discounting future cash flows using rates currently available for instruments and debt on similar terms, credit risk and remaining maturities.

##### **(e) Impairment of non-financial assets**

The carrying amount of long-lived non-financial assets, including intangible assets, prepaid expenses, and property and equipment, is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite lives and intangible assets not yet put into use are evaluated for impairment at least annually. An impairment exists when the carrying value of an asset exceeds its recoverable amount, which is higher of its fair value less costs to sell or its value in use. The fair value less costs to sell calculation is based on available data from observable market prices, less incremental costs. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market size and market growth trends, strength of customer demand and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate.

##### **(f) Foreign currency translation**

Transactions denominated in foreign currencies are translated into the functional currency of the Company at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are recognized in profit or loss for the current period.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction and non-monetary items that are measured at fair value are translated using the exchange rates at the date when the items' fair value was determined. Translation gains and losses are included in profit or loss.

## **Telo Genomics Corp.**

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### **Notes to the Consolidated Financial Statements**

(expressed in Canadian dollars)

#### **5. Summary of significant accounting policies (continued)**

##### **(g) Share-based payments**

Where equity instruments are issued and some or all of the goods or services received by the Company as consideration cannot be specifically identified, these non-identifiable goods or services are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity instruments granted is recognized as an expense over the estimated vesting period with a corresponding increase to contributed surplus.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction. The estimate of the number of equity instruments expected to vest is revised if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense and contributed surplus reflects the revised estimate.

Market and non-vesting conditions are taken into account when estimating the fair value of the equity instruments granted and therefore the expense is recognized irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied.

##### **(h) Government assistance**

Government assistance for the acquisition of property and equipment or intangible assets is recorded as a credit to the cost of the related asset when received. During the year ended June 30, 2018, the Company received Scientific Exploration and Experimental Development credits totaling \$1,148 from the Province of Manitoba, of which \$1,148 was credited against the cost of lab equipment.

Income tax credits related to scientific research and development activities are accounted for as a credit to the related expense or as a reduction of capital expenditures based on the nature of the expenses that qualify for the credit. During the year ended June 30, 2018, the Company received Scientific Exploration and Experimental Development credits totaling \$59,415, grants from the National Research Council credits totaling \$3,225, and has credited these amounts against research and development expenses.

For the year ended June 30, 2019, no additional government assistance was received.

## **Telo Genomics Corp.**

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### **Notes to the Consolidated Financial Statements**

(expressed in Canadian dollars)

#### **5. Summary of significant accounting policies (continued)**

##### **(i) Standards issued but not yet effective**

The Company has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at June 30, 2019 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations.

##### ***IFRS 16 Leases***

On January 13, 2016, the IASB issued new IFRS 16 *Leases*. The new standard will replace IAS 17 *Leases* and is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers*. The Company is currently assessing the impact of this standard on its financial statements.

##### **(j) Recently adopted standards due to accounting policy changes**

##### ***New standard IFRS 9 “Financial Instruments”***

This new standard is a partial replacement of IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. This new standard does not have a significant impact on the Company's financial statements.

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### Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

#### 6. Prepaid expenses

During the year ended June 30, 2018, prepaid expenses included fees paid to a shareholder of the Company for advisory services to be rendered over a period of three years. This arrangement was entered into on September 8, 2016 and concludes September 8, 2019. During the year ended June 30, 2018, the Company recorded an expense of \$540,411 in general and administrative relating to this agreement as the services are no longer being provided and the Company does not intend to recover the costs from the provider.

#### 7. Property and equipment:

<b>Cost</b>	<b>Computer equipment</b>	<b>Lab equipment</b>	<b>Furniture &amp; equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
Balance, June 30, 2017	\$ 43,192	\$ 465,484	\$ 13,584	\$ 22,624	\$ 544,884
Additions	15,017	8,150	-	-	23,167
Government assistance received	-	(1,148)	-	-	(1,148)
<b>Balance, June 30, 2018</b>	<b>58,209</b>	<b>472,486</b>	<b>13,584</b>	<b>22,624</b>	<b>\$ 566,903</b>
Additions	-	-	-	-	-
Government assistance received	-	-	-	-	-
<b>Balance, June 30, 2019</b>	<b>\$ 58,209</b>	<b>\$ 472,486</b>	<b>\$ 13,584</b>	<b>\$ 22,624</b>	<b>\$ 566,903</b>

<b>Accumulated depreciation</b>	<b>Computer Equipment</b>	<b>Lab Equipment</b>	<b>Furniture &amp; Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
Balance, June 30, 2017	\$ 11,694	\$ 58,512	\$ 2,828	\$ 4,663	\$ 77,697
Depreciation	24,129	93,980	1,692	4,525	124,326
Impairment	-	80,856	7,967	13,436	102,259
<b>Balance, June 30, 2018</b>	<b>35,823</b>	<b>233,348</b>	<b>12,487</b>	<b>22,624</b>	<b>304,282</b>
Depreciation	20,578	62,073	258	-	82,909
Impairment	-	-	-	-	-
<b>Balance, June 30, 2019</b>	<b>\$ 56,401</b>	<b>\$ 295,421</b>	<b>\$ 12,745</b>	<b>\$ 22,624</b>	<b>\$ 387,191</b>

<b>Carrying amounts</b>	<b>Computer Equipment</b>	<b>Lab Equipment</b>	<b>Furniture &amp; Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
At June 30, 2018	\$ 22,386	\$ 239,138	\$ 1,097	\$ -	\$ 262,621
At June 30, 2019	\$ 1,808	\$ 177,065	\$ 839	\$ -	\$ 179,712

## Telo Genomics Corp.

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### Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

#### 8. Note payable

During the year ended June 30, 2019, the Company secured several promissory note financings totaling \$280,000 (2018 - \$Nil). As at June 30, 2019, the Company incurred \$6,861 (2018 - \$Nil) in interest payable which has been included in accounts payable. Of this balance, \$230,000 of the notes payable were owing to the Chairman of the Company (2018 - \$Nil). The Company's promissory note financings are secured by its present and after acquired personal and intellectual property. The notes bear interest at 10% and mature one year from the loan date.

#### 9. Share capital:

##### a. Authorized

The Company has authorized share capital of an unlimited number of common voting shares without par value, an unlimited number of non-voting common shares without par value, and an unlimited amount of Class A, B, C, and D shares

##### (b) Shares issued and outstanding

Shares issued and outstanding are as follows:

	Number	Amount
<b>Balance at June 30, 2017</b>	<b>53,408,780</b>	<b>\$ 10,402,822</b>
Shares issued in non-brokered private placement	2,000,000	500,000
Share issuance costs	-	(8,215)
Shares issued in non-brokered private placement	8,113,365	1,622,673
Share issuance costs	-	(144,027)
Issuance of warrants	-	(1,182,256)
Finder warrants issued	-	(39,534)
Shares issued through exercise of stock options (9 (c))	1,009,400	289,747
<b>Balance at June 30, 2018</b>	<b>64,531,545</b>	<b>11,441,210</b>
Shares issued for severance payments	2,000,000	300,000
<b>Balance at June 30, 2019</b>	<b>66,531,545</b>	<b>\$ 11,741,210</b>

# Telo Genomics Corp.

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## Notes to the Consolidated Financial Statements

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### 9. Share capital (continued)

#### *(b) Shares issued and outstanding (continued)*

On September 12, 2018, a former key management personnel was issued 2,000,000 common shares of the Company to settle \$300,000 in severance payments. These shares were valued at \$0.15 per share based on the fair value of the instruments granted. In addition, the same key management personnel waived all rights to 925,000 stock options described in Note 11 and agreed to an amended expiry date of September 12, 2023 for 275,000 stock options with an original expiry of September 26, 2026 and 253,125 stock options with an original expiry of January 17, 2027.

On October 4, 2017, the Company announced the closing of a non-brokered private placement (the "ScreenCell Private Placement") issuing 2,000,000 common shares (the "Shares") at a price of \$0.25 per Share for gross proceeds of \$500,000 with ScreenCell SA ("ScreenCell"). The Company incurred cash costs of \$8,215 directly attributable to the ScreenCell Private Placement.

On December 5, 2017, the Company announced the closing of a non-brokered private placement (the "December 2017 Private Placement") by way of the sale of 8,113,365 units (a "Unit") at a price of \$0.20 per unit for gross proceeds of \$1,622,673. Each unit consists of one common share of the Company and one common share purchase warrant (a "Purchase Warrant") at an exercise price of \$0.35 per common share until December 5, 2022.

The fair value of the Purchase Warrants issued in the December 2017 Private Placement was estimated using the following Black-Scholes Model assumptions:

Expected life	5 years
Expected volatility	85%
Risk free rate	1.70%
Dividend yield	Nil
Underlying share price	\$0.24
Strike price	\$0.35

Cash costs directly attributable to the Offering were \$144,027, including \$91,704 paid to certain finders (the "Finders"), equal to 6% of the gross proceeds raised by the Finders. In addition, the Finders received 458,520 non-transferrable warrants (a "Finder's Warrant") equal to 6% of the number of Units issued by the Company to investors introduced to the Company by the Finders. Each Finder's Warrant is exercisable to purchase one common share of the Company until December 5, 2019 at an exercise price of \$0.35. The fair value of the Finder's Warrants were estimated using the following Black-Scholes Model assumptions:

Expected life	2 years
Expected volatility	85%
Risk free rate	1.54%
Dividend yield	Nil
Underlying share price	\$0.24
Strike price	\$0.35

## Telo Genomics Corp.

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### Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

#### 9. Share capital (continued)

##### (c) Stock option plan

The Company has an incentive stock option plan (the "Plan") whereby the Company may grant to directors, officers, employees and contractors options to purchase voting common shares of the Company. The terms and conditions of each option granted under the Plan are determined by the Board of Directors.

The fair value of the options issued during the year ended June 30, 2018 was estimated using the Black-Scholes model with the following significant assumptions:

Expected life	10 years
Expected volatility	85%
Risk free rate	1.10% - 2.04%
Dividend yield	Nil
Underlying share price	\$0.10 - \$0.79
Strike price	\$0.10 - \$0.79

Expected volatility was estimated by reference to comparable listed entities, due to the limited trading history of the Company. Stock based compensation for the year ended June 30, 2019 was \$43,351 (2018 - \$58,691). These expenses were included in general and administrative expenses.

Changes in the number of options outstanding are as follows:

		June 30, 2019		June 30, 2018
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	3,786,552	\$ 0.41	5,054,496	\$ 0.37
Granted	-	-	-	-
Exercised	-	-	(1,009,400)	(0.12)
Forfeited, cancelled or expired	(437,866)	(0.60)	(258,544)	(0.65)
Balance, end of year	3,348,686	\$ 0.40	3,786,552	\$ 0.41
Options exercisable, end of year	3,348,686	\$ 0.40	3,417,958	\$ 0.38

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**Notes to the Consolidated Financial Statements**  
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**9. Share capital (continued)**

**(c) Stock option plan (continued)**

The following is a summary of the 3,348,686 outstanding options issued under the Plan as at June 30, 2019:

<b>Exercise price</b>	<b>Number outstanding</b>	<b>Weighted average remaining contractual life (years)</b>
\$0.12	1,675,604	2.93
\$0.25	40,376	0.07
\$0.25	40,376	0.07
\$0.25	134,585	0.25
\$0.68	939,620	2.03
\$0.75	200,000	0.44
\$0.76	65,000	0.14
\$0.79	253,125	0.57
	<b>3,348,686</b>	<b>6.51</b>

**(d) Warrants**

Changes in the number of warrants outstanding are as follows:

	<b>June 30, 2019</b>		<b>June 30, 2018</b>	
	<b>Number of warrants</b>	<b>Weighted average exercise price</b>	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
Balance, beginning of year	<b>15,616,699</b>	<b>\$ 0.58</b>	7,044,814	\$ 0.86
Issued	-	-	8,571,885	0.35
Balance, end of year	<b>15,616,699</b>	<b>\$ 0.58</b>	15,616,699	\$ 0.58

**(e) Escrow shares**

As at June 30, 2019, the Company has 519,384 shares held in escrow. The shares are released at a rate of 15% bi-annually until September 12, 2019.

**10. Commitments**

As at June 30, 2019, and in the normal course of business, the Company has obligations to make future payments representing contracts and other commitments that are known and committed as follows:

Lease Payments ending April 30, 2020	\$ 70,605
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## Telo Genomics Corp.

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### Notes to the Consolidated Financial Statements (expressed in Canadian dollars)

#### 11. Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Chief Executive Officer, Chief Financial Officer, Chief Business Officer, Chief Scientific Officer and VP Finance are key management personnel.

In addition to their salaries, the Company also provides non-cash benefits and participation in the Stock Option Plan. The following table details the compensation to key management personnel and directors:

	<b>June 30, 2019</b>	June 30, 2018
Salaries, fees and short-term benefits	\$ 260,999	\$ 907,286
Interest	5,985	-
Stock-based compensation	-	62,693
	<b>\$ 266,984</b>	<b>\$ 969,979</b>

During the year ended June 30, 2019, the Company paid \$11,878 in fees to former key management personnel that resigned early in the year. \$39,137 in stock-based compensation expenses were also incurred with former key management personnel. See Note 9 (b) for additional stock-based compensation issued to former key management personnel.

As at June 30, 2018, the Company has \$219,390 (2018 - \$111,002) recorded within accounts payable and accrued liabilities relating to amounts payable to key management personnel. See Note 8 for additional related party balances.

Included within stock-based compensation expense during the year ended June 30, 2018 is stock-based compensation recovery of \$79,385 representing the service recovery of 925,000 stock options to be issued to a member of key management personnel at a future date, with pricing to be determined and in accordance with the Company's share price on the Toronto Venture Stock Exchange on the date of the grant. The fair value of the options to be issued to the member of key management was estimated using the Black-Scholes Model with the following significant assumptions:

Expected life	10 years
Expected volatility	85%
Risk free rate	2.04%
Dividend yield	Nil
Underlying share price	\$0.10
Strike price	\$0.10

The service expense was calculated according to the following vesting schedule:

	<b>Number of stock options to be issued</b>
Immediately	308,000
September 2017	154,250
March 2018	154,250
September 2018	154,250
March 2019	154,250
<b>Total options to be granted</b>	<b>925,000</b>

During the year ended June 30, 2019, the options were not granted and the rights to these options were forfeited (Note 9).

## **Telo Genomics Corp.**

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### **Notes to the Consolidated Financial Statements**

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#### **12. Financial instruments and financial risk management:**

##### **(a) Risks arising from financial instruments**

###### **(i) Market risk**

The Company is exposed to foreign exchange risk, the risk that the fair value of future cash flows for financial instruments will fluctuate because of changes in foreign exchange rates, due to its United States dollar denominated cash and accounts payable and accrued liabilities. A 5% appreciation or deterioration of the Canadian dollar against the United States dollar would result in an increase and decrease, respectively in the Company's net income of approximately \$3,000 as at June 30, 2019. The Company is not exposed to any significant interest risk as it does not have any variable rate borrowings.

###### **(ii) Credit risk**

Credit risk is the potential that customers or a counterparty to a financial instrument fail to meet their obligation to the Company. The Company believes this risk to be low as there are no trade receivables as no revenues have been earned to June 30, 2019. Additionally, amounts receivable are primarily composed of government remittances receivable in which the Company believes the collection risk is low. Additionally, the Company mitigates credit risk by holding all cash in a chartered bank.

##### **(b) Risks arising from financial instruments**

###### **(iii) Liquidity risk**

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial obligations as they become due. The Company manages liquidity risk through cash management. In managing liquidity risk, the Company maintains access to equity markets, the availability of which is dependent on market conditions. The Company monitors its requirements regularly and believes there may not be sufficient funding for the foreseeable future. All financial liabilities are current and due within the next twelve months.

##### **(c) Capital management**

The Company's objective when managing capital is for the Company to safeguard the entity's ability to continue as a going concern, so that it can continue to explore and develop its research to ultimately provide returns for shareholders and benefits for other stakeholders.

The Company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets as with consideration of externally imposed capital requirements. In order to maintain or adjust the capital structure, the Company may issue new shares or attempt to obtain debt financing.

The Company's management of capital as at June 30, 2019 consists of only the remaining cash at year end.

#### **13. Segmented information:**

The Company has a single operating segment, focused on the development and commercialization of predictive technological products designed to personalize treatment plans for patients who have specific conditions. Substantially all of the Company's employees and assets are located within Canada.

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### Notes to the Consolidated Financial Statements (expressed in Canadian dollars)

#### 14. Deferred income taxes

As at June 30, 2019 and 2018, the Company has unused tax losses and deductible temporary difference for which no deferred tax asset has been recognized as follows:

	2019	2018
Non-capital loss carryforwards	\$ 12,556,000	\$ 12,839,616
Deductible temporary differences	916,000	1,821,336
Total	\$ 13,472,000	\$ 14,660,952

The reconciliation between income tax expense and accounting loss multiplied by the combined federal and provincial income rate is as follows:

	2019	2018
Net loss for the year	\$ (1,074,192)	\$ (4,694,618)
Income tax recovery at statutory rate of 26.5% (2018 – 26.5%)	(285,000)	(1,244,074)
Non-deductible expenses	91,000	19,176
Taxable loss carry-forwards and temporary difference not recognized	194,000	1,224,898
Income tax expense (recovery)	\$ -	\$ -

As at June 30, 2019, unused tax losses for which deferred tax assets are not recognized, including their dates of expiry where applicable, are approximately as follows:

2034	\$ 168,000
2035	823,000
2036	742,000
2037	5,557,000
2038	4,638,000
2039	628,000
	\$ 12,556,000

#### 15. Subsequent events

On August 30, 2019, the Company secured several promissory note financings totaling \$300,000 bearing interest at 10% and maturing one year from the loan date.