NOVOHEART HOLDINGS INC
(Formerly Novoheart Holdings Limited)

Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(Expressed in Canadian dollars)

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Novoheart Holdings Inc.

Opinion

We have audited the consolidated financial statements of Novoheart Holdings Inc. (the "Company") and its subsidiaries set out on pages 5 to 49, which comprise the consolidated statements of financial position as at June 30, 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of 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 ("IFRS").

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 "Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our auditors' 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.

Emphasis of Matter – Comparative Information

We draw attention to Note 2 to the consolidated financial statements, which explains that certain comparative information presented for the year ended June 30, 2018 has been adjusted. Our opinion is not modified in respect of this matter.

The consolidated financial statements for the year ended June 30, 2018, excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on August 21, 2018.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review or apply any procedures to the consolidated financial statements as at and for the year ended June 30, 2018 and as at July 1, 2017. Accordingly, we do not express an opinion or any other form of assurance on those consolidated financial statements taken as a whole.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated. We obtained the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. 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 IFRS issued by the International Accounting Standards Board, 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.

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 consolidated financial reporting process.

Auditors' 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 auditors' 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 the 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continue)

- 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 auditors' 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 auditors' 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.

- 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.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group 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.

BDO Limited
Certified Public Accountants
The engagement partner on the audit resulting in this auditors' report is Amy Yau Shuk Yuen

Hong Kong, September 4, 2019

NOVOHEART HOLDINGS INC.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Notes		June 30, 2019		June 30, 2018
ASSETS					
Current					
Cash and bank balances	**7**	**$**	**23,173,717**	$	1,595,094
Accounts and other receivables	**10**		**165,979**		615,332
Prepaid expenses and deposits	**11**		**421,569**		312,161
			23,761,265		2,522,587
Property and equipment, net	**12**		**803,412**		1,245,981
Intangible assets, net	**13**		**187,727**		277,948
Goodwill	**9**		**8,806,998**		-
		$	**33,559,402**	$	4,046,516
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Accounts payable and accrued liabilities		**$**	**1,646,733**	$	1,357,713
Loans	**14**		**1,676,000**		-
Contract liabilities	**21**		**35,902**		-
Due to related parties	**18**		**44,202**		60,684
			3,402,837		1,418,397
Deferred government grants	**15**		**19,529**		40,648
Long-term license payable	**13**		**38,967**		75,424
			3,461,333		1,534,469
Shareholders' Equity					
Share capital	**16**		**52,149,493**		17,426,693
Contributed surplus			**1,942,532**		1,493,175
Accumulated other comprehensive income			**373,646**		303,261
Accumulated deficit			**(24,367,602)**		(16,711,082)
			30,098,069		2,512,047
		$	**33,559,402**	$	4,046,516

Commitments (Note 24)

Subsequent events (Note 28)

APPROVED BY

"James Topham"
Director of the Company

"Allen Ma"
Director of the Company

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

NOVOHEART HOLDINGS INC.

Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended June 30, 2019 and 2018
(Expressed in Canadian dollars, except number of common shares)

	Notes		2019		2018
Revenue	**21**	**$**	**165,031**	$	95,124
Cost of sales	**21**		**75,487**		38,208
			89,544		56,916
OPERATING EXPENSES	**22**				
Research and development	**23**		**2,177,271**		1,647,270
Intellectual property and patent			**236,933**		420,399
General and administrative			**3,093,687**		3,440,000
Marketing			**782,379**		166,690
Share-based compensation	**17**		**1,367,157**		1,172,403
Depreciation and amortization			**669,632**		399,018
			8,327,059		7,245,780
LOSS FROM OPERATIONS			**(8,237,515)**		(7,188,864)
Government grants	**15**		**617,267**		63,383
Other income			**66**		118,303
(Finance expense) / interest income			**(9,869)**		31,926
Foreign exchange gain / (loss)			**3,069**		(274,195)
Non-cash loss on completion of reverse takeover	**8**		**-**		(5,213,597)
			610,533		(5,274,180)
NET LOSS FOR THE YEAR BEFORE TAX		**$**	**(7,626,982)**	**$**	(12,463,044)
Tax expense	**26**		**29,538**		-
NET LOSS FOR THE YEAR AFTER TAX		**$**	**(7,656,520)**	**$**	(12,463,044)
OTHER COMPREHENSIVE INCOME					
Foreign currency translation adjustment			**70,385**		172,795
COMPREHENSIVE LOSS FOR THE YEAR		**$**	**(7,586,135)**	**$**	(12,290,249)
Loss per share – Basic and Diluted	**27**	**$**	**(0.08)**	**$**	(0.17)
Weighted average number of shares outstanding – basic and diluted	**27**		**94,727,746**		72,616,534

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

NOVOHEART HOLDINGS INC.

Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars, except number of common shares)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total equity
		$	$	$	$	$
BALANCE, JUNE 30, 2017	**7,072,829**	**5,819,874**	**-**	**130,466**	**(4,248,038)**	**1,702,302**
Loss for the year	-	-	-	-	(12,463,044)	(12,463,044)
Exercise of warrants (note 16)	1,052,178	-	-	-	-	-
Share capital issued (note 8)	68,634,800	4,062,500	-	-	-	4,062,500
Reverse takeover (note 8)						
Share capital issued for finders of RTO (note 8)	2,402,218	1,201,109	-	-	-	1,201,109
Share capital issued – subscription offering (note 16)	14,300,000	7,150,000	-	-	-	7,150,000
Cash share issuance cost to broker (note 16)	-	(486,018)	-	-	-	(486,018)
Warrants issued to broker - subscription offering (note 16)	-	(320,772)	320,772	-	-	-
Share-based compensation (note 17)	-	-	1,172,403	-	-	1,172,403
Foreign currency translation adjustment	-	-	-	172,795	-	172,795
BALANCE, JUNE 30, 2018	**93,462,025**	**17,426,693**	**1,493,175**	**303,261**	**(16,711,082)**	**2,512,047**
Loss for the year	-	-	-	-	(7,656,520)	(7,656,520)
Share-based compensation (note 17)	-	-	1,367,157	-	-	1,367,157
Share capital issued from RSUs (note 17)	2,080,000	917,800	(917,800)	-	-	-
Share capital issued for acquisition (note 9)	67,268,214	24,451,634	-	-	-	24,451,634
Pre-paid warrants issued for acquisition (note 9)	25,731,786	9,353,366	-	-	-	9,353,366
Foreign currency translation adjustment	-	-	-	70,385	-	70,385
BALANCE, JUNE 30, 2019	**188,542,025**	**52,149,493**	**1,942,532**	**373,646**	**(24,367,602)**	**30,098,069**

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

NOVOHEART HOLDINGS INC.

Consolidated Statements of Cash Flows
For the years ended June 30, 2019 and 2018
(Expressed in Canadian dollars)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year after tax		**$ (7,656,520)**	$ (12,463,044)
Items not affecting cash:			
Non-cash loss on completion of reverse takeover	**8**	**-**	5,213,597
Share-based compensation	**17**	**1,367,157**	1,172,403
Depreciation and amortization		**669,632**	399,018
		(5,619,731)	(5,678,026)
Changes in non-cash working capital items:			
Decrease / (increase) in accounts and other receivables		**469,525**	(5,504)
Increase in prepaid expenses		**(120,841)**	(212,245)
Increase in accounts payable and accrued liabilities		**257,552**	793,432
(Decrease) / increase in due to related parties		**(33,268)**	270,812
(Decrease) / increase in other long-term liabilities		**(39,256)**	75,474
Decrease in deferred government grants		**(22,639)**	(21,763)
Increase in contract liabilities		**2,231,110**	-
		2,742,183	900,206
Net cash used in operating activities		**(2,877,548)**	(4,777,820)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash acquired from acquisition of a subsidiary	**9**	**22,692,695**	-
Acquisition of equipment and payment of leasehold improvements	**12**	**(81,611)**	(1,374,690)
Increase in pledged bank deposit	**7**	**(5,028,000)**	-
Acquisition of intangible assets	**13**	**-**	(339,630)
Net cash generated from / (used) in investing activities		**17,583,084**	(1,714,320)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan	**14**	**1,688,417**	-
Proceeds from share issuance, net	**16**	**-**	6,663,982
Cash acquired in RTO	**8**	**-**	112,662
Net cash generated from financing activities		**1,688,417**	6,776,644
Changes in cash and cash equivalents during the year		**16,393,953**	284,504
Effect of exchange rate changes on cash held in a foreign currency		**156,670**	(9,158)
Cash and cash equivalents, beginning of year		**1,595,094**	1,319,748
Cash and cash equivalents, end of year	**7**	**$ 18,145,717**	$ 1,595,094

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

1. CORPORATE INFORMATION

Reverse takeover
On September 27, 2017, Novoheart Holdings Limited completed its reverse takeover transaction (the "Transaction" or "RTO") of Woodrose Ventures Corporation ("Woodrose"), pursuant to which Woodrose acquired all of the issued and outstanding shares of Novoheart Holdings Limited in exchange for the issuance of 5,200 Woodrose shares for each share of Novoheart Holdings Limited. Woodrose did not have any significant operations at the time of the Transaction. Following the closing of the Transaction, Woodrose changed its name to Novoheart Holdings Inc. ("Novoheart" or the "Company"). The Company reconstituted its board of directors and senior management team at that time. The Company's common shares are listed on the Toronto Stock Exchange's venture exchange ("TSX-V") under the symbol "NVH".

Upon completion of the Transaction, Novoheart Holdings Limited became a wholly-owned subsidiary of Novoheart. Novoheart Holdings Limited has two wholly-owned subsidiaries, Novoheart Limited and Novoheart U.S. Corp. Novoheart Holdings Inc. is a global stem cell biotechnology company which focuses on engineering prototypes of bio-artificial human heart tissues and chambers for drug discovery, cardiotoxicity screening, disease modeling and future therapeutic applications.

Business combination
On June 28, 2019, the Company completed an acquisition (the "Acquisition") (Note 9) of all of the shares of Xellera Therapeutics Limited ("XT"). Upon completion of the Acquisition, XT became a wholly-owned subsidiary of Novoheart Holdings Limited. The Acquisition is a significant milestone in achieving the Company's long-term goal of developing clinical grade cell- and gene-based therapies for heart diseases.

The Company's office and principal place of business is located at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3.

2. BASIS OF PRESENTATION

Statement of compliance
These consolidated financial statements of the Company and its subsidiaries are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issue by the directors of the Company on September 3, 2019.

Certain immaterial amounts of the prior period related to research and development and general and administrative expenses have been reclassified to conform with the presentation adopted in the current year.

2. BASIS OF PRESENTATION (continued)

Functional and presentation currency

As a result of the Transaction (see Note 1), Novoheart Holdings Inc. became the parent entity of Novoheart Holdings Limited. Novoheart's functional currency is Canadian dollars and the presentation currency of these consolidated financial statements is Canadian dollars. Novoheart Holdings Limited's functional currency changed from U.S. dollars to Canadian dollars as a result of the Transaction since Novoheart Holdings Limited expects future financings to be in Canadian dollars. The change in functional currency has been accounted for prospectively. The change in presentation currency represents a voluntary change that is accounted for retrospectively. The consolidated financial statements of the Company for the periods before July 1, 2017 which were based on a U.S. dollar presentation currency have been translated into a Canadian dollar presentation as follows: assets and liabilities using the exchange rates prevailing at the balance sheet date; shareholders' equity using the applicable historical exchange rates prevailing at the dates of transactions; and revenue, expenses and cash flows using average exchange rates for the relevant period. The change in the presentation currency has resulted in changes to the previously reported foreign currency translation adjustment account which is included as a component of accumulated other comprehensive income.

Novoheart Holdings Limited's three wholly-owned subsidiaries, Novoheart Limited, XT and Novoheart U.S. Corp, whereby the former two subsidiaries have functional currencies of Hong Kong dollar and the latter subsidiary has functional currency of U.S. dollar respectively.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Use of estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments and estimates and form assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the periods reported. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be relevant. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, and may change if new information becomes available. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The accounting policies set out below have been applied consistently to both years presented in the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations
The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as the identifiable net assets are acquired. Any goodwill that arises is assessed annually for impairment. Any gain on bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred except, if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation is to pay contingent consideration that meets the definition of a financial instrument which is classified as equity, then it is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with corresponding gain or loss being recognized in profit or loss.

Principles of consolidation
These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as at June 30, 2019 and 2018.

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All significant inter-company balances and transactions between the Company and its wholly-owned subsidiaries have been eliminated in preparing the consolidated financial statements.

Translation of foreign currencies
Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of the Company and its subsidiary at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in other than the functional currency are translated at the exchange rates in effect at the financial position date. Non-monetary assets and liabilities denominated in other than the functional currency that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in other than the functional currency are translated using the exchange rate at the date of transaction. The foreign currency gains and losses arising from settlement of foreign currency transactions are recognized on a net basis in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Translation of foreign currencies (continued)

Foreign operations translation

For consolidation purposes, the assets and liabilities of foreign operations are translated to the presentation currency using the exchange rate prevailing at the financial position date. The income and expenses of foreign operations are translated to the presentation currency using the average rates of exchange during the year. All resulting exchange differences are recorded as other comprehensive income (loss) and accumulated in a separate component of shareholders' equity, described as foreign currency translation adjustment.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Classification and measurement

At initial recognition, financial instruments are classified into the following categories depending on the purposes for which the instruments were acquired:

Upon adopting IFRS 9 on July 1, 2018

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity instrument; or fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (known as "SPPI criterion").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized costs or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Company's financial assets as follows:

Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains or losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Debt investment at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains or losses are recognized in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investment at FVOCI	These assets are subsequently measured at fair value. Dividend are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains or losses are recognized in OCI and are never reclassified to profit or loss.

<u>Impairment of financial assets</u>

The Company recognizes a loss allowance for expected credit loss ("ECL") on financial assets which are subject to impairment under IFRS 9 (including accounts and other receivables, cash and bank balances and due from related parties). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for accounts receivable are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 365 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". The Company considers this to be Baa3 or higher per Moody's Investors Service or BBB- or higher per Standard & Poor's.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instruments.

12-month ECL are the portion of the ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest of the financial assets.

Credit-impaired financial assets
As each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is "credit-impaired" when one or more event that have a detriments impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on term that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL
Loss allowance for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in other comprehensive income.

Write-off
The gross carrying amount of a financial asset is written of when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amount due.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities
Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative 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 profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Prior to adopting IFRS 9 on July 1, 2018

- Financial assets and liabilities at fair value through profit and loss (“FVTPL”):
  A financial asset or liability is classified as FVTPL if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the statement of income (loss) within other gains and losses in the period in which they arise. Financial assets and liabilities at FVTPL are classified as current except for the portion expected to be realized or paid beyond twelve months of the financial position date, which is classified as non-current.

- Available-for-sale:
  Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost in which case the loss is recognized in the statement of income (loss). They are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period.

- Loans and receivables:
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment They are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

- Held-to-maturity investments:
  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less a provision for impairment. They are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Financial liabilities at amortized cost:

Financial liabilities other than those classified as FVTPL are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, they are measured at amortized cost using the effective interest method. Financial liabilities at amortized costs are classified as current liabilities if payment is due within 12 months after the end of the reporting period. Otherwise, they are presented as non-current liabilities.

Transaction costs associated with financial assets or financial liabilities carried at FVTPL are expensed as incurred while transaction costs associated with all other financial assets or financial liabilities are included in the initial carrying amount of the asset or liabilities.

The Company classifies cash and bank balances, accounts and other receivable, due from related parties as loans and receivables, and accounts payable and accrued liabilities, due to related parties as financial liabilities at amortized cost. The Company does not have any derivative financial instruments.

<u>Impairment of financial assets</u>

Financial assets not carried at FVTPL are assessed for impairment at each reporting date by determining whether there is objective evidence that indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income (loss) and presented in accumulated other comprehensive income (loss) in equity, to net income (loss). The cumulative loss that is removed from accumulated other comprehensive income (loss) and recognized in net income (loss) is the difference between the acquisition costs, net of any principal repayment and amortization, and the current fair value less any impairment loss previously recognized in net income (loss). If subsequently the fair value of any impaired available-for sale financial assets increases, then the impairment loss is reversed with the amount of the reversal recognized in net income (loss).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid instruments that are readily convertible to cash with a maturity of three months or less when initially purchased.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of property and equipment includes the acquisition cost and any direct costs to bring the asset into productive use at its intended location. Depreciation is calculated on a straight-line basis over equipment's estimated useful lives of 60 months. Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

Property and equipment are written down to the net recoverable value when management determines there has been a change in circumstances which indicates its carrying amount may not be recoverable. Any gain or loss on disposal of an item of equipment is recognized in profit or loss within the period of disposal.

Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful life or the initial lease term. Leasehold improvements are currently amortized over the following periods:

	Estimated Useful life
Leasehold improvements	3 years

Intangible Assets

Licenses that are acquired by the Company in an acquisition that have a finite useful life are measured at acquisition cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the license from the date that it is available to the Company. This most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The Company continually evaluates the remaining useful life of its intangible assets being amortized to determine whether events and circumstances warrant a revision to the remaining period of amortization.

Intangible assets with finite lives are currently amortized over the following periods:

	Estimated Useful life
Licenses	2 – 5 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill
Goodwill represents the excess of the cost of an acquired business over the fair value of its underlying net identifiable assets at the time of acquisition. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill impairment is assessed based on a comparison of the fair value of a cash generating unit ("CGU") to the underlying carrying amount of the CGU's net assets, including goodwill. When the carrying amount of the CGU exceeds its fair value, the difference is charged to earnings.

Provisions
Provisions for legal or constructive obligations are recognized when the Company has a present legal or constructive obligation that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Government grants
Government grants are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Company will comply with all attached conditions. Government grants are recognized as follows:

- Grants relating to fixed assets are included in non-current liabilities as deferred government grants and recognized in the statement of profit or loss on a straight-line basis over the expected lives of the related assets.
- Grants that compensate the Company for expenses incurred are deferred and recognized in profit or loss on a systematic basis in the periods in which the intended expenses are recognized.

Impairment of non-financial assets
The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated by reference to the higher of the value in use and fair value less costs to sell. Fair value less costs to sell is defined as the estimated price that would be received on the sale of the asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
An impairment loss is recognized if the carrying amount of an asset or group of assets exceeds the estimated recoverable amount. Impairment losses are recognized in the statement of profit or loss. When impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimated recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Share capital
The Company's ordinary common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, warrants and stock options, net of any tax effects, are recognized as a deduction from equity.

Revenue recognition
Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgment.

The Company generates revenues primarily from drug screening services using its bio-artificial human heart tissues and chambers. On the fixed price drug screening contracts, the customer controls all of the work in progress as the services are being provided; the deliverables are made to a customer's specification and if a contract is terminated by the customer, then the Company is entitled to reimbursement of the costs incurred to date. Revenue from these drug screening contracts and the associated costs are recognized over time on the percentage-of-completion basis as those services are provided, which consists of recognizing revenue on a given contract proportionately with its percentage of completion at any given time. The percentage of completion is determined by dividing the cumulative costs incurred as at the balance sheet date by the sum of incurred and anticipated costs for completing a contract.

The cumulative effect of changes to anticipated revenues and anticipated costs for completing a contract are recognized in the period in which the revisions are identified. In the event that the anticipated costs exceed the anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known.

Share-based compensation
Share-based compensation and other share-based payments, including stock options and restricted share units granted to the Company's directors, executive officers, scientific advisory board members and employees are accounted for using the fair-value based method. Under this method, compensation expense for stock options is measured at fair value at the date of grant using the Black-Scholes valuation model and is expensed over the award's vesting period on a graded basis. Stock options granted to consultants are subject to variable accounting treatment and are re-valued at fair value at each balance sheet date until exercise, expiry or forfeiture.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation (continued)

Compensation expense for restricted share units is measured at fair value at the date of grant, which is the market price of the underlying security, and is expensed over the award's vesting period on a straight-line basis. The Company estimated the forfeiture rate to be nil on restricted share units due to the short vesting period. Management will revise the estimate if actual forfeitures differ and adjust share-based compensation expense accordingly.

Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. No development costs have been capitalized to date.

Research and development costs includes fees paid to contract research organizations and other vendors who conduct certain research and development activities on behalf of the Company. The amount of expenses recognized in a period related to research arrangements with third parties is based on estimates of work performed using an accrual basis of accounting. These estimates are based on services provided, contractual terms and experience with similar contracts. The Company monitors these factors and adjusted the estimates accordingly. Payments made to third parties under these research arrangements in advance of receipt of the related services are recorded as prepaid expenses until the services are rendered.

Income taxes

The Company follows the asset and liability method of accounting for income tax. Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination, nor is it recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Other comprehensive income (loss)

Other comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net income (loss) such as unrealized gains or losses on available-for-sale investments and translation gains or losses on translation of foreign operations to the presentation currency of the Company.

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

4. CRITICAL JUDGMENTS

Critical accounting judgments

The critical judgments that the Company’s management has made in the process of applying the Company’s accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements are as follows:

4. CRITICAL JUDGMENTS (continued)

Critical accounting judgments (continued)

Evaluation of the impairment of goodwill and intangible assets

The Company assesses the impairment of goodwill with indefinite lives on an annual basis and finite life intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors which could trigger an impairment review include significant underperformance relative to plan, a change in the Company's business strategy, or significant negative industry or economic trends. Assessing impairment of goodwill and intangible assets with indefinite lives requires significant judgment including identifying appropriate cash generating units, making estimates with regards to the amounts and timing of future cash flows and the discount rates to be used to value such cash flows.

Determination of functional currency of the Company

The functional currency for each of the Company and its subsidiary is the currency of the primary economic environment in which each entity operates. The determination of each entity's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the management to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency the management analyzed both the primary and secondary factors, including the currency of each entity's operating cash flow, and sources of financing.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

In the current year, the Company has applied IFRS 9 and the related consequential amendments to other IFRS. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) ECLs for financial assets and (3) general hedge accounting.

The Company has applied IFRS 9 in accordance with the transitional provision set out in IFRS 9, i.e. applied the classification and measurement requirements (including the ECL model) retrospectively to instruments that have not been derecognized as at July 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at July 1, 2018. The difference between carrying amounts as at June 30, 2019 and the carrying amounts as at July 1, 2018 are recognized in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under International Accounting Standards ("IAS") 39 Financial Instruments: Recognition and Measurement ("IAS 39").

Accounting policies resulting from application of IFRS 9 are disclosed in Note 3.

(Expressed in Canadian dollars)

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at July 1, 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Carrying amount as at July 1, 2018 under IAS 39	Carrying amount as at July 1, 2018 under IFRS 9
Accounts and other receivables	Loans and receivables	Amortized cost	$ 615,332	$ 615,332
Cash and bank balances	Loans and receivables	Amortized cost	1,595,094	1,595,094

Impairment under ECL Model
The Company applies the IFRS 9 simplified approach to measure ECL, which uses a lifetime ECL for accounts receivable. The ECL on the asset is assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groups.

ECL for other financial assets at amortized cost, including cash and bank balances is assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

Management considers that the measurement of ECL has no material impact to the Company's retained earnings.

Impacts on opening balance
As a result of the changes in the Company's accounting policies above, there is no impact on the opening consolidated statement of financial position.

Transition
The Company has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at June 30, 2018, but recognized in the consolidated statement of financial position on July 1, 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9, if any, are recognized in retained earnings and reserves as at July 1, 2018. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of IFRS 9 (the "DIA").

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

Transition (continued)
If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

6. IFRS STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 16 Leases
IFRS 16, which upon the effective date will supersede IAS 17, Leases, and related interpretations, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will primarily affect the Company’s accounting as a lessee of leases for offices and laboratory which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statements of profit or loss and comprehensive income over the period of the lease.

As at June 30, 2019, the Company’s total future minimum lease payments under non-cancellable operating lease commitment is $375,228 (2018 – $698,342). The interest expense on the lease liability and the depreciation expense on the right-of-use asset under IFRS 16 will replace the rental charge under IAS 17. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Company will recognize a right-of-use asset and a corresponding lease liability in respect of all the leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirement may result in changes in measurement, presentation and disclosure as indicated above. The cumulative effect of applying IFRS 16 will be recognized as an adjustment to the opening retained earnings on July 1, 2019.

(Expressed in Canadian dollars)

7. CASH AND BANK BALANCES

	June 30, 2019	June 30, 2018
Bank balances	$ 18,145,717	$ 1,595,094
Pledged bank deposit	5,028,000	-
	23,173,717	1,595,094
Less: Pledged bank deposit	(5,028,000)	-
Cash and cash equivalents	$ 18,145,717	$ 1,595,094

Pledged bank deposit represents bank deposits pledged to a bank for securing banking facilities issued to a subsidiary of the Company (Note 14).

8. REVERSE TAKEOVER TRANSACTION

As a consequence of the plan of arrangement (Note 1), the shareholders of Novoheart Holdings Limited as a group acquired control over the combined entity. Because Woodrose was an inactive shell company, it did not meet the definition of a business. Therefore the transaction was outside of the scope of IFRS 3 “Business Combinations” and was accounted for as a share-based payment transaction under IFRS 2 “Share-based payments”. Under this basis of accounting, the consolidated financial statements are presented as a continuation of the legal acquiree, Novoheart Holdings Limited, except for the capital structure which is that of Woodrose. In addition, the net identifiable assets of Woodrose are deemed to have been acquired by Novoheart Holdings Limited.

Under the terms of the arrangement, Woodrose acquired all of the issued and outstanding shares of Novoheart Holdings Limited in exchange for Woodrose shares on a 1 to 5,200 basis, for a total of 68,634,800 Woodrose shares. Prior to the closing of the Transaction, Woodrose consolidated its common shares on the basis of 3.56878449 old shares for 1 new share.

For the Company’s consolidated financial statements as at June 30, 2017, the Company had disclosed the ending number of shares to be 13,199 (2016 – 11,834), which was the number of shares of Novoheart Holdings Limited prior to the transaction. The number of shares has been revised to 7,072,829 (2016 – 2,296,693) to reflect the number of shares of the legal acquirer in the reverse takeover, Woodrose.

The consideration paid by Novoheart Holdings Limited to acquire Woodrose was measured on the basis of the fair value of the notional equity instruments deemed to have been issued considering the price per share of the subscription receipt offering closing concurrently with the Transaction. In accordance with IFRS 2, any excess of the fair value of the shares issued by the Company over the value of the net monetary assets of Woodrose is recognized in the consolidated statements of comprehensive loss, as a listing fee. The fair value of the consideration of $4,062,500 has been allocated as follows:

(Expressed in Canadian dollars)

8. REVERSE TAKEOVER TRANSACTION (continued)

Purchase Price		
8,125,000 common shares of Novoheart	$	4,062,500
Total Purchase Price	$	4,062,500
Allocation of Purchase Price		
Cash	$	112,662
Accounts receivable		20,654
Prepaid expenses		3,836
Accounts payable and accrued liabilities		(87,140)
Non-cash loss on completion of reverse takeover		4,012,488
	$	4,062,500

In addition, finder's fee of 2,402,218 common shares, valued at $1,201,109, was issued and has been recorded in share capital and in non-cash loss on completion of reverse takeover.

9. BUSINESS COMBINATION

As a consequence of the Acquisition that occurred on June 28, 2019 (Note 1), the Company acquired control over the combined entity, therefore the Acquisition was prepared using the acquisition method pursuant to IFRS 3 "Business Combinations".

The Company acquired all of the shares of XT for a purchase consideration of $33,805,000, which consisted of the issuance of an aggregate of 93,000,000 common shares and pre-paid common share purchase warrants ("Pre-paid warrants") at fair value of $0.3635 per share.

The common shares and Pre-paid warrants issued, 67,268,214 and 25,731,786 respectively, in connection with the Acquisition are subject to a hold period of four months and one day, expiring on October 29, 2019. No finder's fee was paid in connection with the Acquisition. Pre-paid warrants will automatically convert to common shares upon obtaining clearance from the TSX-V.

Prior to the Acquisition, XT was a related party to the Company. The Company engaged Evans & Evans, Inc. (the "Valuer"), to provide an independent valuation and fairness opinion on the Acquisition. The Valuer determined the fair market value by using an average of the discounted cashflow method ("DCF"), precedent transactions method and net assets method. Furthermore, the Valuer considered qualitative factors including the renowned management team of XT and various synergies related to the Acquisition. As a result, the Valuer concluded that the Acquisition was "fair" as the purchase price was within the calculated value range of XT.

The following table summarizes the fair value of the consideration owing and the fair value assigned to each of the major classes of assets acquired and liabilities assumed.

(Expressed in Canadian dollars)

9. BUSINESS COMBINATION (continued)

Fair value recognized on acquisition date

Assets		
Cash	$	22,692,695
Prepaid expenses and other		2,305,307
		24,998,002
Total identifiable net assets at fair value		24,998,002
Goodwill		8,806,998
Purchase price consideration	$	33,805,000

Goodwill of $8,806,998 arises from the integration of XT with the Company's existing operations, which represents expected synergies, future income and growth and other intangibles that do not qualify for separate recognition. The goodwill arising from the Acquisition is not expected to be deductible for tax purposes.

Net cash inflow on acquisition

Cash paid	$	-
Cash and cash equivalents in the subsidiary acquired		22,692,695
	$	22,692,695

Since the acquisition date, XT contributed $nil to the Company's revenue and profit or loss. If the acquisition had occurred on July 1, 2018, XT would have contributed to the Company's revenue and loss by approximately $nil and $143,388 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indicator of revenue and results of operations of the Company that would have been achieved had the acquisition been completed on July 1, 2018, nor is it intended to be a projection of future performance.

As at June 30, 2019, the management of the Company determines that there is no impairment of goodwill.

The recoverable amount of the single cash generating unit ("CGU") is determined based on value-in-use calculations. These calculations used cash flow projections based on financial forecasts prepared by management covering a five-year period. Cash flows beyond the five-year period are projected using 2.5% growth rates. The cash flows are discounted using discount rate of 3.75%. The discount rate is pre-tax and reflect specific risks relating to the single CGU.

Other key assumptions were used in the calculation including the significant growth of revenue due to the renowned management team of XT and the synergy effects. Management determined these key assumptions based on its past performance and expectation of market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

(Expressed in Canadian dollars)

10. ACCOUNTS AND OTHER RECEIVABLES

		June 30, 2019		June 30, 2018
Receivable for internship and postdoctoral grants (Note 15)	$	155,825	$	41,592
Receivable for ITF Project (Note 23)		-		433,223
Receivable for agreement with Sumocor		-		97,198
Other		30,869		43,319
		186,694		615,332
Less: Allowance for credit losses		(20,715)		-
Accounts and other receivables	$	165,979	$	615,332

As at June 30, 2019, the allowance for credit losses is related to an individually impaired other receivable amount of $20,715 (2018 – $nil). Management considered that such other receivable is not recoverable as it has been aged for more than 365 days. Allowance for credit losses of $20,715 (2018 – $nil) was recognized accordingly.

11. PREPAID EXPENSES AND DEPOSITS

		June 30, 2019		June 30, 2018
Deposits	$	350,821	$	216,387
Prepaid service fees		56,189		83,197
Prepaid patent fees		12,996		12,577
Other		1,563		-
Prepaid expenses and deposits	$	421,569	$	312,161

As at June 30, 2019, deposits of $350,821 included $153,608 of security deposit for the Company's laboratory and office facility in Phase 3 of the Hong Kong Science Park.

(Expressed in Canadian dollars)

12. PROPERTY AND EQUIPMENT

Cost	Computer Equipment	Lab Equipment	Office Equipment	Leasehold Improvements	Total
June 30, 2017	$ 18,565	$ 345,002	$ 11,655	$ -	$ 375,222
Additions	26,191	204,338	40,464	1,103,697	1,374,690
Exchange difference	(487)	(8,853)	(320)	(737)	(10,397)
June 30, 2018	$ 44,269	$ 540,487	$ 51,799	$ 1,102,960	$ 1,739,515
Additions	19,130	59,214	3,267	-	81,611
Exchange difference	1,472	17,558	1,735	36,720	57,485
June 30, 2019	$ 64,871	$ 617,259	$ 56,801	$ 1,139,680	$ 1,878,611

Accumulated Amortization	Computer Equipment	Lab Equipment	Office Equipment	Leasehold Improvements	Total
June 30, 2017	$ 6,154	$ 148,874	$ 5,260	$ -	$ 160,288
Additions	6,158	83,522	6,407	241,434	337,521
Exchange difference	(160)	(3,816)	(137)	(162)	(4,275)
June 30, 2018	$ 12,152	$ 228,580	$ 11,530	$ 241,272	$ 493,534
Additions	11,796	115,734	11,345	430,546	569,421
Exchange difference	318	6,758	301	4,867	12,244
June 30, 2019	$ 24,266	$ 351,072	$ 23,176	$ 676,685	$ 1,075,199

Carrying Amounts	Computer Equipment	Lab Equipment	Office Equipment	Leasehold Improvements	Total
June 30, 2018	$ 32,117	$ 311,907	$ 40,269	$ 861,688	$ 1,245,981
June 30, 2019	$ 40,605	$ 266,187	$ 33,625	$ 462,995	$ 803,412

(Expressed in Canadian dollars)

12. PROPERTY AND EQUIPMENT (continued)

In December 2017, the Company completed the first phase of its expansion into a new lab and office facility in Phase 3 of the Hong Kong Science Park. The deposit previously paid for the lab construction has been capitalized as leasehold improvement and will be amortized over the life of the lease. The lease is for a term of 3 years and will expire on July 30, 2020.

13. INTANGIBLE ASSETS

As at June 30, 2019, the Company had the following intangible asset:

Licenses	Cost	Accumulated Amortization	Net
June 30, 2017	$ -	$ -	$ -
Addition	339,630	-	339,630
Depreciation	-	(61,497)	(61,497)
Exchange difference	(226)	41	(185)
June 30, 2018	$ 339,404	$ (61,456)	$ 277,948
Depreciation	-	(100,211)	(100,211)
Exchange difference	11,299	(1,309)	9,990
June 30, 2019	$ 350,703	$ (162,976)	$ 187,727

The licenses comprise of intellectual properties ("IP") that were licensed-in from universities and organizations. Many of the upfront payments are paid over a period of time, and as at June 30, 2019, $38,967 (June 30, 2018 – $138,276) of these upfront payments have been recorded in accounts payable and accrued liabilities, as well as $38,967 (June 30, 2018 – $75,424) in long-term license payable for payments that are due beyond a 12-month period.

14. LOANS

On April 8, 2019, a subsidiary of the Company entered into a demand revolving credit facility for up to approximately $5 million (HK$30,000,000) (the "Facility") with the Hongkong and Shanghai Banking Corporation. The Facility bears interest at a rate per annum equal to 1, 3, or 6 months Hong Kong Interbank Offered Rate plus 1.20%. The Facility is subject to review at any time and in any event by November 1, 2019.

As at June 30, 2019, the Company has withdrawn $1,676,000 (HK$10,000,000) from the Facility which has been recorded as short-term loan. The Facility is secured by a deposit pledge of approximately $5 million (HK$30,000,000) by one of the Company's wholly-owned subsidiaries, XT (Note 7).

15. GOVERNMENT GRANTS

Technology Start-up Support Scheme for Universities ("TSSSU") grants

The Innovation and Technology Commission of the Government of the Hong Kong Special Administrative Region (the "ITC"), has set up TSSSU to provide funding support to universities to support their students, graduates and academic staff to start up technology business and commercialize their research and development results. The University of Hong Kong ("HKU") has assessed and recommended Novoheart Limited to the ITC for financial assistance under the TSSSU and the ITC has agreed to provide such assistance to the Company through HKU. Accordingly, the Company and HKU entered into the following funding arrangements under the TSSSU (collectively referred as "TSSSU grants"):

- On December 23, 2014, the Company entered into an agreement with HKU to receive a TSSSU grant of $113,547 (HK$750,000) from the ITC through HKU ("2014 TSSSU grant"). The purpose of the grant is to compensate the Company for its operating costs incurred and lab equipment purchased during the period from December 2014 to June 2015. The grant was received on January 19, 2015.

- On May 28, 2015, the Company entered into an agreement with HKU to receive a TSSSU grant of $60,558 (HK$400,000) from the ITC through HKU ("2015 TSSSU grant"). The purpose of the grant is to compensate the Company for its operating costs incurred and lab equipment purchased during the period from May 2015 to March 2016. The 2015 TSSSU grant was received through two installment payments of $30,279 on June 8, 2015 and $34,201 on December 11, 2015.

  In April 2017, the Company received notification that certain expenditures submitted for reimbursement were rejected for the 2015 TSSSU Grant. The rejection was for expenses the Company incurred beyond the grant period due to the delay in the commencement of the research project with the Pfizer. As a result, the Company has paid back $4,436 in August 2017. The amount was included in the accounts payable and accrued liabilities as of June 30, 2017. At June 30, 2017, $3,705 has been recognized as an adjustment to the deferred government grant balance and $931 has been recognized as an expense for the year then ended.

(Expressed in Canadian dollars)

15. GOVERNMENT GRANTS (continued)

Technology Start-up Support Scheme for Universities ("TSSSU") grants (continued)

The recognition of the TSSSU grants is summarized as below:

	2014 TSSSU Grant	2015 TSSSU Grant	Total TSSSU Grants
Deferred government grants - June 30, 2017	48,813	15,200	64,013
Government grant income recognized	(17,393)	(4,370)	(21,763)
Exchange difference	(1,221)	(381)	(1,602)
Deferred government grants - June 30, 2018	$ 30,199	$ 10,449	$ 40,648
Government grant income recognized	(18,093)	(4,545)	(22,638)
Exchange difference	1,138	381	1,519
Deferred government grants - June 30, 2019	$ 13,244	$ 6,285	$ 19,529

Government grant income

During the year ended June 30, 2019, $617,267 (2018 – $63,383) of government grant income was recognized, of which $427,328 relates to a cash rebate received from the ITF project noted below (2018 – $nil). The remaining government grant income related to the two internship grants and two postdoctoral grants awarded to the Companyt by the ITC. The two internship grants, awarded in September 2017 and February 2018 respectively and totaling approximately $142,540, were provided to support the recruitment of local graduates over a period of 24 months each. The two postdoctoral grants, awarded in October and November 2018 respectively and totaling approximately $149,686, were provided to support engagement of postdoctoral talent for supporting the Enterprise Support Scheme research project, due to be completed in November 2019.

On January 12, 2015, the Company entered into an agreement with the Government of Hong Kong Special Administrative Region ("the Government") and HKU to carry out a research and development project titled "Establishing an Internationally Competitive Stem Cell Biotech Cluster in HK: Bio-artificial Human Heart" (the "ITF Project" or the "Project"). The ITF project was completed in January 2017. As such, the Company made no cash contributions nor incurred any research and development expenses pertaining to the ITF Project for the year ended June 30, 2019. During the year ended June 30, 2019, the Company received a total refund of $406,819 (HK$2,335,354) from HKU since the expenses incurred for the ITF Project were lower than expected. Upon receiving the refund, the Company received a cash rebate of $427,328 (HK$2,530,937) from the ITF project.

15. GOVERNMENT GRANTS (continued)

Enterprise Support Scheme ("ESS")

Effective June 1, 2018 the Company entered into an agreement with the ITC to receive funding under the ESS as part of its Innovative and Technology Fund. This grant was awarded to the Company to further enhance the drug screening capabilities of its proprietary human ventricular cardiac tissue strip.

The ESS provides funding support on a matching basis for conducting research and development. The project is estimated to have a total cost of $775,640 (HK$4,782,000). Under the agreement, the ITC will contribute up to a maximum of $387,820 (HK$2,391,000) and the Company will be responsible for the remaining costs.

Payment from the ITC is subject to performance of the agreement by the Company to the satisfaction of the ITC and subject to the terms and condition of the agreement. No grant income from the ESS grant has been recognized for the year ended June 30, 2019 (2018 – $nil).

16. SHARE CAPITAL

Authorized:

Unlimited number of preferred and common shares.

(Expressed in Canadian dollars)

16. SHARE CAPITAL (continued)

The reconciliation of issued share capital as follows:

	Number of shares		Amount
Balance, June 30, 2017	7,072,829	$	5,819,874
Exercise of warrants	1,052,178		-
Share capital issued	68,634,800		4,062,500
Share capital issued for finders of RTO	2,402,218		1,201,109
Share capital issued – subscription offering	14,300,000		7,150,000
	93,462,025		18,233,483
Less:			
Cash share issuance cost to broker	-		(486,018)
Warrants issued to broker – Subscription offering	-		(320,772)
Balance, June 30, 2018 and July 1, 2019	93,462,025		17,426,693
Share capital issued from RSUs	2,080,000		917,800
Share capital issued for Acquisition	67,268,214		24,451,634
Pre-paid warrants issued for Acquisition	25,731,786		9,353,366
Balance, June 30, 2019	188,542,025	$	52,149,493

All of the common shares and Pre-paid warrants issued, in connection with the Acquisition are subject to a hold period of four months and one day, expiring on October 29, 2019. No finder’s fee was paid in connection with the Acquisition. Pre-paid warrants will automatically convert to common shares upon obtaining clearance from the TSX-V.

Issued Common Shares and Warrants:
On July 19, 2016, Woodrose completed a non-brokered private placement of 2,914,157 units on a consolidated basis (prior to consolidation - 10,400,000 units). Each unit consisted of one common share and one share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share until July 19, 2017. Prior to the reverse takeover transaction, 1,052,178 and 1,861,979 warrants were exercised by the holder during the year ended June 30, 2018 and 2017 respectively.

During the year ended June 30, 2017, Novoheart Holdings Limited issued 1,365 shares for total proceeds of $2,111,050. 1,365 shares are not reflected in the statement of change in equity as the number of shares has been revised to reflect the number of shares of Woodrose (Note 8).

(Expressed in Canadian dollars)

16. SHARE CAPITAL (continued)

Issued Common Shares and Warrants (continued):
Concurrent with the reverse takeover transaction, the Company announced the closing of a subscription receipt financing on September 21, 2017. The subscription receipt financing was a non-brokered private placement offering pursuant to which the Company sold an aggregate of 14,300,000 subscription receipts at a price of $0.50 subscription receipt for gross proceeds of $7,150,000.

Each subscription receipt was automatically converted into one post-consolidation share.

In connection with the subscription receipt offering, a finders' fee of $486,018 was paid and was recorded as share issuance cost, in share capital.

In addition, 972,037 finders' warrants were issued with a fair value of $320,772 recorded as share issuance cost, in share capital. Each finder's warrant is exercisable at a price of $0.50 into one Novoheart share for 24 months following completion of the transaction. The following table reflects the continuity of warrants for the year ended June 30, 2019:

	2019		2018	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding as at July 1,	972,037	$0.50	-	-
Issued	-	-	972,037	$0.50
June 30,	972,037	$0.50	972,037	$0.50

The following is a summary of the warrants outstanding as at June 30, 2019:

Grant Date	Expiry date	Warrants outstanding	Exercise Price	Weighted average remaining contractual life (in years)
September 27, 2017	September 27, 2019	972,037	$0.50	0.75
		972,037	**$0.50**	**0.75**

(Expressed in Canadian dollars)

16. SHARE CAPITAL (continued)

Issued Common Shares and Warrants (continued):

The fair values of warrants issued by the Company in fiscal year 2018 were measured using the Black-Scholes option pricing model. Expected volatility was determined based on comparable publicly listed companies. The inputs used in the measurement of the fair values at the grant dates were as follows:

Risk-free interest rate	1.53%
Expected life of warrants	2 years
Expected volatility	132.04%
Expected dividend rate	0%

17. SHARE-BASED COMPENSATION

Stock options

The Company has an equity incentive plan that enables it to grant stock options and restricted share units to its directors, employees, consultants and members of the Company's Scientific Advisory Board up to a 10% of the issued and outstanding common shares. In general, stock options vest over 3 years and expires after 5 years. The following table reflects the continuity of stock options for year ended June 30, 2019:

	2019		2018	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Balance as at July 1,	4,897,098	$0.50	-	-
Granted	1,768,031	$0.34	4,897,098	$0.50
Forfeited	(500,756)	$0.50	-	-
Balance as at Jun 30,	6,164,373	$0.45	4,897,098	$0.50

At June 30, 2019, stock options granted to directors, officers, employees and consultants in were outstanding as follows:

(Expressed in Canadian dollars)

17. SHARE-BASED COMPENSATION (continued)

Stock options (continued)

Date of Grant	Number of Options	Number of Options Exercisable	Exercise Price	Expiry Date
September 27, 2017	3,171,234	1,268,494	$0.50	September 27, 2022
September 27, 2017	408,000	192,000	$0.50	September 27, 2022
September 27, 2017	175,000	175,000	$0.50	September 27, 2019
February 23, 2018	520,000	208,000	$0.50	September 27, 2022
February 23, 2018	122,108	48,843	$0.50	February 23, 2023
December 6, 2018	420,613	-	$0.32	December 6, 2023
March 6, 2019	1,233,251	-	$0.34	March 6, 2024
May 9, 2019	114,167	-	$0.40	May 9, 2024
Total	6,164,373	1,892,337		

The weighted average contractual life remaining of all stock options as at June 30, 2019 is 3.69 years. During the year ended June 30, 2019, the Company recorded share-based compensation expense of $717,896 (2018 – $877,182).

The fair values of options granted during the year ended June 30, 2019 were measured using the Black-Scholes option pricing model. Expected volatility was determined based on comparable publicly listed companies. The inputs used in the measurement of the fair values at the grant dates and reporting dates (in the case of options issued to non-employees) for the year ended June 30, 2019 were as follows:

	2019	**2018**
Risk-free interest rate	1.46 – 2.00%	1.68 – 1.97%
Expected life of options	0.25 – 3.5 years	1.0 – 3.5 years
Expected volatility	104.50%-139.82%	103.38% - 139.98%
Expected dividend rate	0%	0%

Restricted share unit plan

The Company has a treasury-based restricted share unit plan (the “RSU Plan”) to provide long-term incentives to certain executives, scientific advisory board members and other key employees and to support the objective of employee share ownership through the granting of restricted share units (“RSUs”). There is no exercise price and no monetary payment is required from the employees to the Company upon grant of the RSUs or upon the subsequent issuance of shares to settle the award. The vested RSUs are settled through the issuance of common shares from treasury. Vesting of RSUs is conditional upon the expiry of a time-based vesting period. The duration of the vesting period and other vesting terms applicable to the grant of the RSUs are determined at the time of the grant. Generally, RSUs vest monthly over one year or over three years from the date of grant.

(Expressed in Canadian dollars)

17. SHARE-BASED COMPENSATION (continued)

Restricted share unit plan (continued)

The following table reflects the continuity of RSUs for year ended June 30, 2019:

	2019			2018	
	Number of RSUs		Weighted Average Grant Date Fair Value	Number of RSUs	Weighted Average Grant Date Fair Value
Balance as at July 1,	2,080,000	$	0.47	-	-
Granted	275,000		0.30	2,080,000	0.47
Share capital issued	(2,080,000)		0.47	-	-
Balance as at June 30	275,000		0.30	2,080,000	0.47
Vested not released, June 30	-	$	-	130,000	0.51

The Company granted 2,355,000 RSUs of which 2,080,000 RSUs were released and common shares of 2,080,000 were issued and no RSUs were vested and not released as at June 30, 2019. For the year June 30, 2019, share-based compensation expense related to RSUs of $649,261 (2018 – $295,221) was recorded.

Compensation expense for RSUs is measured at fair value at the date of grant, which is the market price of the underlying security, and is expensed over the award's vesting period on a straight-line basis.

18. RELATED PARTY TRANSACTIONS

The related party transactions are in the normal course of operations and have been valued in these consolidated financial statements at the fair value. Related party transactions not disclosed elsewhere in these consolidated financial statements are listed below.

		2019		2018
Due to related parties	$	44,202	$	60,684

The amounts due to related parties are a result of consulting fees payable in accordance with management's contracts with the Company or are advances and expenses incurred by the officers and directors on behalf of the Company. Amounts due to related parties are unsecured, non-interest bearing, and due on demand with no specific terms of repayment.

(Expressed in Canadian dollars)

18. RELATED PARTY TRANSACTIONS (continued)

Key management compensation
Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has identified its directors and key officers, including our Chief Executive Officer, Chief Operating Officer, Chief Scientific Officer, Chief Research and Development Officer and Chief Financial Officer, as its key management personnel. Compensation awarded to key management amounted to $1,350,635 for the year ended June 30, 2019 (2018 – $1,331,255). Compensation includes bonus provision of $317,470 (2018 – $504,117). Share-based payments awarded to key management amounted to $975,505 (2018 – $678,165).

19. FINANCIAL INSTRUMENTS

The following table summarizes the carrying values of the Company's financial instruments:

	June 30, 2019 $	June 30, 2018 $
Financial Assets		
Financial assets at amortized cost:		
Cash and bank balances	23,173,717	1,595,094
Accounts and other receivables	165,979	615,332
Financial Liabilities		
Other financial liabilities at amortized cost:		
Accounts payable and accrued liabilities	1,646,733	1,357,713
Loans	1,676,000	-
Due to related parties	44,202	60,684

Fair value of financial instruments
Financial instruments recorded at fair value are measured using a three-level fair value hierarchy:

Level 1 Fair value is determined by reference to quoted prices in active markets for identical assets and liabilities.

Level 2 Fair value is determined based on inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly.

Level 3 Fair value is determined based on inputs that are unobservable and significant to the overall fair value measurement.

The carrying value of cash and bank balances, accounts and other receivables, due from related parties, accounts payable and accrued liabilities and due to related parties approximates the fair value because of the short-term nature of these instruments.

(Expressed in Canadian dollars)

19. FINANCIAL INSTRUMENTS (continued)

Financial risk management

The risks associated with financial instruments and the policies on how to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash and bank balances as well as accounts and other receivables are subject to credit risk for a maximum of the amount shown on the consolidated statements of financial position. The Company limits its exposure to credit risk on cash and bank balances by depositing only with reputable financial institutions, and limits its exposure to credit risk on accounts and other receivables by only working with large and well-funded organizations. Management believes that the Company is subject to minimal credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The purpose of liquidity risk management is to maintain a sufficient amount of cash and bank balances to meet its liquidity requirements at any point in time. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company maintaining sufficient cash on hand through equity and debt financing. Significant commitments in years subsequent to June 30, 2019 are as follows:

	Carrying value	Contractual Cash flows	Within 1 year	1 – 3 Years
	$	$	$	$
Accounts payable and accrued liabilities	1,646,733	1,646,733	1,646,733	-
Loans	1,676,000	1,676,000	1,676,000	
Total	3,322,733	3,322,733	3,322,733	-

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is only subject to interest rate risk on its cash balance in the bank and there is unlikely to be a material impact on net income (loss) as the bank deposits are short term.

19. FINANCIAL INSTRUMENTS (continued)

Financial risk management (continued)

Currency risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's functional and reporting currency is Canadian dollars. The Company is exposed to currency risk through the financial assets and liabilities denominated in currencies other than Canadian Dollars. The Company currently does not use derivative instruments to hedge its exposure to the currency risk. As at June 30, 2019, the exposure of the Company's financial assets and financial liabilities to currency risk is summarized as follows:

(Presented in Canadian dollars)	Denominated in USD	Denominated in HKD
Financial Assets		
Cash and bank balances	26,232	23,074,608
Accounts and other receivables	-	164,837
Financial Liabilities		
Accounts payable and accrued liabilities	220,489	884,591
Loans	-	1,676,000
Due to related parties	-	44,202

A 1% strengthening (weakening) of the Canadian dollars against the Hong Kong dollars, with other variables unchanged, would have decreased (increased) the net loss by approximately $206,347.

A 1% strengthening (weakening) of the Canadian dollars against the US dollars, with other variables unchanged, would have increased (decreased) the net loss by approximately $1,943.

20. CAPITAL RISK MANAGEMENT

The Company's primary objective when managing capital is to maintain sufficient resources and raise funding to support current and long-term operating needs. The ability to continue as a going concern is essential to the Company's goal of providing returns to shareholders and other stakeholders. The capital structure of the Company consists of shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the level of funds available to the Company to manage its operations. The Company balances its overall capital through new share issuances or by undertaking other activities as deemed appropriate in the circumstances. The Company is not subject to externally imposed capital requirements. There have been no significant changes in the Company's approach to capital management during the year. These objectives and strategies are reviewed on a continuous basis.

(Expressed in Canadian dollars)

21. REVENUE

The Company's operations and main revenue streams are the same as those described in Note 3. The Company's revenue is derived from contracts with customers.

For the year June 30, 2019, the Company recorded revenue of $165,031 (2018 - $95,124) and cost of sales of $75,487 (2018 – $38,208). The revenue was from a contract with one of the top-15 pharmaceutical companies (the "Global Pharma Partner") in the United States. The contract requires the Company to design and fabricate reliable multi-well plates for high-throughput generation, culture and contractility measurements of miniature engineered human cardiac tissue strips. The Company will have exclusive rights to the generated intellectual property and expects to be able to market this technology to the broader pharmaceutical, biotech and academic markets.

Phase 1 of the contract commenced in December 2018 and was completed in July 2019. Cost of sales included labour costs and material costs.

Revenue recognized in the period pertains to a fixed price contract. The timing of revenue recognition on this contract was over time as the services were transferred to the customer. Revenue recognized in the period all pertains to one operating segment.

Contract liabilities

Balance as at July 1, 2018	$	-
Increase as a result of receiving forward service fees		2,231,110
Decrease as a result of the Acquisition (note 9)		(2,178,000)
Exchange difference		(17,208)
Balance as at June 30, 2019	$	35,902

As at June 30, 2019, contract liabilities include $35,902 of services to be rendered to the Global Pharma Partner. The contract liabilities balance is expected to be recognized as revenue within 12 months.

(Expressed in Canadian dollars)

22. EXPENSES BY NATURE

		2019		2018
Research and development, excluding personnel costs	**$**	**495,552**	$	386,483
IP and patent		**236,933**		420,399
Personnel costs		**3,633,140**		2,812,606
Professional and regulatory fees		**923,577**		1,045,815
Occupancy costs		**404,615**		293,679
Travelling expenses		**235,483**		374,795
Marketing		**117,191**		108,228
Stock based compensation expenses		**1,367,157**		1,172,404
Office and administrative expenses		**243,779**		232,353
Depreciation and amortization		**669,632**		399,018
	$	**8,327,059**	$	7,245,780

23. RESEARCH AGREEMENTS

ESS

On June 1, 2018, the Company entered into an agreement with ITC to conduct a research and development project under ESS, with 1:1 matched funding between the ITC and the Company. The project is titled “Next-generation human ventricular cardiac tissue strip: an efficient and sensitive drug screening platform” (the “ESS Project”), with the aim of developing next-generation hardware and software for the human ventricular Cardiac Tissue Strip (hvCTS), part of the Company’s MyHeart™ Platform of human bioengineered heart tissues. The deliverables of the project are expected to improve the efficiency and accuracy of the hvCTS as a tool for drug discovery and disease modeling. The approved budget for the ESS Project was $775,640 (HK$4,782,000), for a duration of 18 months. No grant income has been recognized for the year ended June 30, 2019 (2018 – $nil).

Study Agreement with AstraZeneca

The Company entered into a study agreement with Sweden-based global pharmaceutical company AstraZeneca, in an effort to develop the world’s first human-specific in vitro, functional model of heart failure with preserved ejection fraction (HFpEF), a common condition especially among the elderly and in women. The HFpEF models currently available on the market have limited ability to mimic the clinical symptoms seen in HFpEF patients. The study will utilize the Company’s proprietary human ventricular Cardiac Organoid Chamber (hvCOC), or “human heart-in-a-jar” technology, to provide a unique, clinically relevant model for HFpEF. Pursuant to the study agreement, Novoheart will exclusively own the intellectual property rights to the newly developed HFpEF hvCOC model.

23. RESEARCH AGREEMENTS (continued)

Sponsored Research Agreement with the University of California

Effective November 15, 2018, the Company entered into a sponsored research agreement with the Regents of the University of California, for a research project conducted on its Irvine campus ("UC Irvine" or "UCI"). Pursuant to the agreement, the Company agrees to reimburse UCI in the conduct of sponsored research with respect to "Thin Film Strain Sensors for the Force Sensing of Contractile Motion by Human Cardiac Tissue Models", in an amount totaling $69,865 (US$52,677). The project deliverables are anticipated to be applicable for the measurement of contractile forces, a key parameter of cardiac function, in the Company's MyHeart™ Platform of human bioengineered heart tissues. It is expected that the project will yield co-inventions by Company and UCI inventors, the rights to which will be jointly owned by the Company and UCI. During the year ended June 30, 2019, the Company has contributed the full amount of $69,865 (US$52,677), while a no-cost extension has been executed to allow the project to continue until September 1, 2019 for completion of the research milestones.

Innovation and Technology Fund Agreement

On January 12, 2015, the Company entered into an agreement with the Government and HKU to carry out the ITF Project. The ITF Project was completed in January 2017. As such, the Company made no cash contributions nor incurred any research and development expenses for the year ended June 30, 2018. No in-kind contributions from the Company was recognized and approved by the Government during the year ended June 30, 2018. As of June 30, 2018, $433,223 (HK$2,670,921) has been included in accounts and other receivables as a refund that the Company expects to receive from HKU since the expenses incurred for the ITF Project were lower than expected. HKU completed its audit of the ITF Project expenses in March 2019, in which the amount of refund due to the Company was revised to $406,819 (HK$2,335,353). The Company received the full amount of the refund from HKU in March 2019. Under the R&D Cash Rebate Scheme of the ITF, the Company also received a cash rebate from the Government in June 2019 amounting to 40% of the Company's financial (cash and in-kind) contributions to the ITF Project, or $421,823 (HK$2,530,937).

Research agreement with Pfizer

The Company entered into research agreement with Pfizer on December 23, 2015 to build diseased cardiac tissues and chambers for Friedreich's ataxia. Pursuant to the agreement, the Company conducts research activities in accordance with an agreed upon research plan in exchange for payments of up to $481,571 (US$363,000) to reimburse portion of the associated costs incurred. The agreement was completed on December 17, 2017 and as such, the Company recognized $111,214 as other income for the year-ended June 30, 2018. Intellectual property arising from the agreement has been protected through patent application, and is solely owned by the Company.

(Expressed in Canadian dollars)

24. COMMITMENTS

Leases

On August 21, 2017, the Company entered into a leasing agreement with Hong Kong Science and Technology Park to expand its lab and office facilities. Concurrently, the Company extended its previous leases with Hong Kong Science and Technology Park. Future minimum lease payments for the lease for each of the fiscal years ending June 30 are as follows:

2020	346,364
2021	28,864
Total	$ 375,228

IP Licensing Agreements

The Company has IP licensing agreements with the University of California, Irvine Campus, the Icahn School of Medicine at Mount Sinai, GE Healthcare, the Wisconsin Alumni Research Foundation, and iPS Academia Japan. The commitments under these agreements include upfront payments (paid over twelve or more months), maintenance fees, and minimum royalties. Future minimum payments for each of the fiscal years ending June 30 are as follows: 2020 – $104,576; 2021 – $114,504; 2022 – $ 74,791; 2023 and thereafter - $149,583.

25. SEGMENT DISCLOSURES

The Company operates in one reporting segment. During the year ended June 30, 2019, the Company had customers located in the United States which accounted for 100% of total revenue and all of the Company's capital assets are located in Hong Kong as at June 30, 2019.

26. INCOME TAX

The following table reconciles the expected tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of loss and comprehensive loss for the years ended June 30, 2019 and 2018:

(Expressed in Canadian dollars)

26. INCOME TAX (continued)

	2019	2018
Net loss before tax	$ (7,626,982)	$ (12,463,044)
Statutory tax rate	26.5%	26.5%
Expected tax recovery	(2,021,150)	(3,302,707)
Share-based compensation	362,296	310,687
Non-cash loss on completion of reverse takeover	-	1,381,603
Non-deductible expenses	39,094	61,047
Foreign tax rate difference	605,473	482,316
Other	(12,126)	1,355
Change in deferred tax assets not recognized	1,055,951	1,065,699
Total tax expense	$ 29,538	$ -

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. Deferred tax assets (liabilities) at June 30, 2019 and 2018 are comprised of the following:

	2019	2018
Tax losses	$ -	$ 12,773
Equipment	-	(12,773)
	$ -	$ -

(Expressed in Canadian dollars)

26. INCOME TAX (continued)

The unrecognized deductible temporary differences are as follows:

	2019	2018
Tax losses	$ 15,108,962	$ 9,186,014
Issuance costs	-	388,814
Unrecognized deductible temporary differences	$ 15,108,962	$ 9,574,828

As at June 30, 2019, the Company has not recognized a deferred tax asset in respect of tax losses which may be carried forward to apply against future year income tax for Hong Kong profit tax purposes, Canadian tax purposes, and U.S. tax purposes, subject to the final determination by taxation authorities. Losses in Hong Kong may be carried forward indefinitely, and the Canadian and U.S. tax losses expire beginning in 2038.

	2019	2018
Tax losses carried forward – Hong Kong	$ 12,496,471	$ 7,461,369
Tax losses carried forward – Canada	2,612,491	1,337,453
Tax losses carried forward – U.S.	-	358,020

27. LOSS PER SHARE

The following is a reconciliation of basic and diluted loss per share:

	June 30, 2019	June 30, 2018
Net loss for the year after tax	$ (7,656,520)	$ (12,463,044)
Weighted average number of common shares outstanding	94,727,746	72,616,534
Basic and diluted loss per share	($0.08)	($0.17)

Diluted loss per share is the same as basic share since the issuance of any shares in connection with the exercise of stock options, pre-paid warrants and RSUs would be anti-dilutive.

28. SUBSEQUENT EVENT

On August 13, 2019, ITC confirmed that the Company has met some of the performances of the ESS funding pursuant to the agreement (Note 15). As a result, the ITC has granted a disbursement of \$132,117 (HK\$782,500), which was received on August 23, 2019. This is a non-adjusting event as the performance was met subsequent to the reporting period.