

**VITALITY PRODUCTS INC.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Expressed in Canadian Dollars)**

**FOR THE THREE MONTHS ENDED APRIL 30, 2017 AND 2016**

# VITALITY PRODUCTS INC.

## NOTICE TO READER

The condensed interim statements of financial position of Vitality Products Inc. as at April 30, 2017 and 2016 and the condensed interim statements of loss and comprehensive loss, changes in equity and cash flows for the three months then ended have not been reviewed by an auditor. These condensed interim financial statements are the responsibility of the Company's management. These condensed interim financial statements have been prepared by management of the Company in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

# VITALITY PRODUCTS INC.

## CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (Unaudited) (Expressed in Canadian Dollars)

<b>Assets</b>	April 30, 2017	January 31, 2017
Current:		
Cash and cash equivalents	\$ 56,409	\$ 58,832
Accounts receivable (Note 5)	20,679	21,657
Inventories (Note 6)	65,577	81,548
Prepaid expenses	6,162	2,872
	148,827	164,909
Land and equipment (Note 7)	239,910	239,966
	\$ 388,737	\$ 404,875
<b>Liabilities</b>		
Current:		
Accounts payable and accrued liabilities (Note 8)	\$ 1,602,451	\$ 1,579,382
	1,602,451	1,579,382
<b>Shareholders' Deficiency</b>		
Common shares, net of share issuance cost (Note 9)	10,919,524	10,919,524
Preferred shares, net of share issuance cost (Note 9)	294,200	294,200
Reserves - warrants (Note 9)	368,337	368,337
Reserves - equity settled employee benefits (Note 9)	463,794	463,794
Deficit	(13,259,569)	(13,220,362)
	(1,213,714)	(1,174,507)
Nature of Operations and Going Concern (Note 1)	\$ 388,737	\$ 404,875

Approved and authorized by the Board on June 29, 2017

\_\_\_\_\_, Director  
"W. Douglas Grant" (signed)

\_\_\_\_\_, Director  
"Cheryl A. Grant" (signed)

- See accompanying Notes to the condensed interim financial statements -

# VITALITY PRODUCTS INC.

## CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (Unaudited) (Expressed in Canadian Dollars)

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016
Sales	\$ 72,432	\$ 32,975
Cost of sales	18,954	11,402
Gross income before general and administrative expenses	53,478	21,573
General and administrative expenses:		
Consulting fees (Note 10)	27,969	17,082
Depreciation	56	63
Filing and transfer agent fees	3,898	3,647
Foreign exchange loss (gain)	1,040	(2,521)
Office	3,657	2,742
Professional fees	6,634	6,000
Promotion	12,903	4,987
Rent and administration (Note 10)	1,962	1,860
Telephone	328	358
Travel	1,670	790
Wages and salary (Note 10)	32,568	26,390
	92,685	61,398
Net loss and comprehensive loss	39,207	39,825
Deficit, beginning	13,220,362	13,076,801
Deficit, ending	\$ 13,259,569	\$ 13,116,626
Loss per share		
Basic and diluted	\$ 0.00	\$ 0.00
Weighted average number of common shares outstanding		
Basic and diluted	25,867,285	25,867,285

- See accompanying Notes to the condensed interim financial statements -

## VITALITY PRODUCTS INC.

### CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (Unaudited) (Expressed in Canadian Dollars)

	<u>Common Shares</u>		<u>Preferred Shares</u>		Reserves \$	Deficit \$	Total \$
	Number	Amount \$	Number	Amount \$			
Balance at January 31, 2016	25,867,285	10,919,524	29,420	294,200	832,131	(13,076,801)	(1,030,946)
Net loss	-	-	-	-	-	(39,825)	(39,825)
Balance at April 30, 2016	25,867,285	10,919,524	29,420	294,200	832,131	(13,116,626)	(1,070,771)
Net loss	-	-	-	-	-	(103,736)	(103,736)
Balance at January 31, 2017	25,867,285	10,919,524	29,420	294,200	832,131	(13,220,362)	(1,174,507)
Net loss	-	-	-	-	-	(39,207)	(39,207)
Balance at April 30, 2017	25,867,285	10,919,524	29,420	294,200	832,131	(13,259,569)	(1,213,714)

- See accompanying Notes to the condensed interim financial statements -

# VITALITY PRODUCTS INC.

## CONDENSED INTERIM STATEMENTS OF CASH FLOWS (Unaudited) (Expressed in Canadian Dollars)

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016
Operating activities:		
Net loss	\$ (39,207)	\$ (39,825)
Adjustment for non-cash item:		
Depreciation	56	63
Changes in non-cash operating working capital:		
Decrease (Increase) in accounts receivable	978	260
Decrease (Increase) in inventories	15,971	10,405
(Increase) Decrease in prepaid expenses	(3,290)	(8,010)
Increase (Decrease) in accounts payable and accrued liabilities	23,069	38,206
Cash flows (used in) provided by operating activities	(2,423)	1,099
Net (decrease) increase in cash and cash equivalents	(2,423)	1,099
Cash and cash equivalents, beginning	58,832	21,092
Cash and cash equivalents, ending	\$ 56,409	\$ 22,191
Supplemental disclosure of cash and non-cash activities:		
Property tax on land paid by a related party in exchange for the first right of purchase of land	\$ 1,026	\$ 982

- See accompanying Notes to the condensed interim financial statements -

# VITALITY PRODUCTS INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED APRIL 30, 2017 AND 2016

(Unaudited)

(Expressed in Canadian Dollars)

### 1. Nature of Operations and Going Concern:

Vitality Products Inc. (the "Company") is a publicly traded company that was incorporated under the Province of British Columbia on February 29, 1984. The head office of the Company is located at #304 - 837 West Hastings Street, Vancouver, BC, Canada, V6C 3N6. The Company is listed on the TSX Venture Exchange (TSX-V) and trades under the symbol "VPI".

The Company is in the business of manufacturing, marketing, and distributing natural health products, including vitamins, minerals and nutritional supplements.

These condensed interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the periods ended April 30, 2017 and 2016, the Company experienced operating losses. The operations of the Company have been primarily funded by the issuance of share capital and through advances by related parties. Continued operations are dependent on the Company's ability to generate profitable operations in the future or obtain continued financial support from related parties or equity, neither of which is certain.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events and conditions that may cast a significant doubt upon the Company's ability to continue as a going concern as described above, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These financial statements do not include any adjustments relating to the realization of assets and liquidation of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

	As at April 30, 2017	As at January 31, 2017
Deficit	\$ 13,259,569	\$ 13,220,362
Working capital (deficit)	(1,453,624)	(1,414,473)

### 2. Statement of Compliance:

These condensed interim financial statements are unaudited and have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, certain information and disclosure normally included in annual financial statements prepared using accounting policies consistent with IFRS as issued by the IASB and interpretations of the IFRIC have been omitted or condensed.

These condensed interim financial statements have been prepared using the same accounting policies and methods as those used in the financial statements of the Company for the years ended January 31, 2017 and 2016. These condensed interim financial statements should be read in conjunction with the financial statements of the Company for the years ended January 31, 2017 and 2016.

## 2. Statement of Compliance: (Continued)

The condensed interim financial statements of the Company for the three months ended April 30, 2017 and 2016 have been prepared by management, reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on June 29, 2017. Shortly thereafter, the financial statements are made available to shareholders and others through filing on the System for Electronic Document Analysis and Retrieval (“SEDAR”).

## 3. Significant Accounting Policies:

These condensed interim financial statements have been prepared in accordance with IAS 34 using accounting policies consistent with IFRS as issued by the IASB and interpretations of the IFRIC.

### a) Cash and Cash Equivalents –

Cash and cash equivalents include cash on hand and balances with banks.

### b) Inventories –

Inventories consist of finished goods and raw materials. Inventories are valued at the lower of cost and net realizable value. Cost for finished goods is determined on a first-in, first-out basis and cost of raw materials is determined using the average cost method. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of previously written down inventory is reversed.

### c) Land and Equipment –

The following assets are recorded at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is charged to the statement of comprehensive loss so as to write-off the cost of assets using the diminishing balance basis at the following annual rates:

Computer equipment	30%
Land improvements	10%
Office furniture and equipment	20%

The estimated depreciation rates and depreciation methods are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

The carrying values of the land and equipment are reviewed at each date of the statement of financial position for impairment when events or changes in circumstances indicate the carrying values may not be recoverable.

### d) Income Taxes –

Income tax expense (recovery) represents the sum of tax currently payable (recoverable) and changes to deferred tax assets and liabilities as a result of operations during the period.

#### *Current income taxes*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

### 3. Significant Accounting Policies: (Continued)

#### d) Income Taxes – (Continued)

##### *Deferred income taxes*

Deferred income tax is provided using the statement of financial position liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are recognized for all taxable temporary differences with the exception of the following circumstances:

- Where the deferred income tax asset and liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- Deferred tax liabilities in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

### 3. Significant Accounting Policies: (Continued)

#### e) Revenue Recognition –

Revenue is recognized from various sources as follows:

- i) Income generated from the sale of products is recognized when the significant risks and rewards of ownership pass to the purchaser (including delivery of the product), no significant uncertainties remain regarding the recovery of the consideration due or associated costs, the amount of revenue can be measured reliably, and there is no continuing management involvement with the products;
- ii) Certain license fee income and royalty fee income generated from distribution agreements are comprised of up-front fees and milestone payments. Up-front fees are recognized over the estimated term during which the Company maintains substantive obligations. Milestone payments are recognized as revenue when the milestone is achieved, customer acceptance is obtained and the customer is obligated to make performance payments; and
- iii) Interest income generated from cash and cash equivalents is recognized on an accrual basis and is recorded on a monthly basis as it is earned.

Reasonableness of collection is considered when recording the revenue from various sources above.

Revenue from the sale of products is measured at the fair value of the consideration received or receivable from the products sold, net of returns, allowances, discounts, volume rebates and applicable taxes.

#### f) Capital Stock –

The Company records proceeds from share issuances as net of share issuance costs.

#### g) Reserves - Warrants –

Warrants issued in conjunction with the issuance of common shares are recorded at the fair value of the warrants as estimated using the Black-Scholes option pricing model. Cash received on exercise of warrants is credited to the then issued and outstanding capital stock of the Company, with an offsetting debit to reserves - warrants.

#### h) Share-Based Compensation –

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. An expense is recognized over their vesting period. The expense is charged to share-based compensation and the offset is credited to reserves - equity settled employee benefits. Cash received on exercise of incentive stock options is credited to the then issued and outstanding capital stock of the Company, with an offsetting debit to reserves - equity settled employee benefits.

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimates and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

### 3. Significant Accounting Policies: (Continued)

i) Government Assistance –

The Company periodically applies for financial assistance under available government programs. Government assistance is accounted for using the cost reduction method, whereby the benefit is recognized as a reduction in the cost of the related expenditure in the reporting period the qualifying expenditure is made. The benefit is only recognized if there is reasonable assurance that it will be realized.

j) Loss per Common Share –

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that weighted average common shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

k) Foreign Currency Transactions –

Foreign currency transactions are accounted for as follows:

- i) monetary items are translated at the rates of exchange prevailing at the period end date;
- ii) non-monetary items are translated at historic exchange rates; and
- iii) revenue and expenses are translated at rates of when revenues are invoiced and expenses are incurred.

The resulting gains or losses are credited or charged to earnings.

l) Financial Instruments –

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

The following is a summary of the Company's classification of financial assets and liabilities:

<i>Financial asset or liability</i>	<i>Classification</i>
Cash and cash equivalents	Financial asset at fair value through profit or loss
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities

Financial assets at fair value through profit or loss are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading. They are measured at fair value at the period end date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in profit or loss.

Loans and receivables are accounted for at amortized cost using the effective interest method.

### 3. Significant Accounting Policies: (Continued)

#### l) Financial Instruments – (Continued)

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Transaction costs related to financial assets at fair value through profit or loss are expensed as incurred. Transaction costs related to loans and receivables and other liabilities are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

#### m) Impairment of Financial Assets –

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

##### *Financial assets carried at amortized cost*

If there is objective evidence that an impairment loss on an asset carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to receivables, a provision for impairment is made and an impairment loss is recognized in income when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

#### n) Impairment of Non-financial Assets –

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

### 3. Significant Accounting Policies: (Continued)

#### n) Impairment of Non-financial Assets – (Continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

#### o) Critical Accounting Policies, Key Judgments and Estimates –

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual outcomes could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and estimates that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

##### *Ability to continue as a going concern*

Management assesses the Company's ability to continue as a going concern at each reporting date, using all quantitative and qualitative information available. This assessment, by its nature, relies on estimates of future cash flows and other future events (as discussed in Note 1), whose subsequent changes could materially impact the validity of such an assessment.

##### *Income taxes*

The Company calculates deferred income taxes based upon temporary differences between the assets and liabilities that are reported in its financial statements and their tax bases as determined under applicable tax legislation. The future realization of deferred tax assets can be affected by many factors, including current and future economic conditions and net realizable sale prices, and can either be increased or decreased where, in the view of management, such change is warranted. In determining whether a deferred tax asset is probable, management reviews the timing of expected reversals of taxable temporary differences, the estimates of future taxable income and prudent and feasible tax planning that could be implemented. Refer to Note 11 of the financial statements of the Company for the years ended January 31, 2017 and 2016 for further details.

### 3. Significant Accounting Policies: (Continued)

#### o) Critical Accounting Policies, Key Judgments and Estimates – (Continued)

##### *Assessment and impairment of land and equipment*

Management reviews the depreciation rates and methods of depreciation for equipment annually and assesses the carrying amounts of land and equipment at each date of the statement of financial position for impairment. As of April 30, 2017 and January 31, 2017, management determined that depreciation rates and methods of depreciation were appropriate and there has been no impairment.

##### *Valuation of share-based compensation*

The fair value of stock options issued is subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty estimates used by management in the assumptions. The Black-Scholes option pricing model requires the input of highly subjective assumptions such as future volatility of the stock price. Changes in these assumptions can materially affect the fair value estimate.

### 4. Adoption of New and Revised Standards and Interpretations:

The IASB issued a number of new and revised International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), amendments and related interpretations.

Effective February 1, 2016, the Company adopted the following new and revised IFRS that were issued by the IASB.

##### *IAS 1, "Presentation of Financial Statements"*

The IASB amended IAS 1 in December 2014 to clarify the existing presentation and disclosure requirements and provide guidance to assist in determining what to disclose and how that information should be presented in the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016. The application of these amendments to IAS 1 did not have a material impact on the Company's financial statements.

##### *IAS 16, "Property, Plant and Equipment" and IAS 38, "Intangible Assets"*

In May 2014, the IASB issued amendments to these sections to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted. The application of these amendments to IAS 16 and IAS 38 did not have a material impact on the Company's financial statements.

At the date of authorization of these financial statements, the IASB and IFRIC have issued the following new and revised standards and interpretations, which could be applicable to the Company and are not yet effective for the relevant reporting periods.

#### 4. Adoption of New and Revised Standards and Interpretations: (Continued)

##### *IFRS 9, "Financial Instruments"*

In July 2014, the IASB issued the final version IFRS 9 that supersedes the requirements of earlier versions of the standard. The new standard will replace both *IAS 39, "Financial Instruments: Recognition and Measurement"* and *IFRIC 9, "Reassessment of Embedded Derivatives"*. The standard will retain the classification and measurements requirements and new hedge accounting model introduced by the previous versions while introducing a single forward-looking expected credit loss impairment model. The final version of this new standard is effective for annual periods beginning on or after January 1, 2018. However, an entity may elect to apply the earlier versions of this new standard to annual periods beginning before January 1, 2018 if, and only if, its initial application date is before February 1, 2015.

##### *IFRS 15, "Revenue from Contracts with Customers"*

In May 2014, the IASB issued this new standard which will supersede the requirements of *IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue - Barter Transactions Involving Advertising Services*.

The standard will apply a core principal in that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It will follow a five-step analysis of transactions to determine when and how much revenue is to be recognized. In September 2015, the IASB deferred the effective date of this standard to annual reporting periods beginning on or after January 1, 2018.

##### *IFRS 16, "Leases"*

In January 2016, the IASB issued IFRS 16, replacing IAS 17, "Leases". IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its balance sheet, providing the reader with greater transparency of an entity's lease obligation. This standard is effective for reporting periods beginning on or after January 1, 2019, with early adoption permitted.

The Company has not early adopted these standards, amendments and interpretations; however, the Company is currently assessing what impact the application of these standards or amendments will have on the financial statements of the Company. These standards and interpretations will be first applied in the financial report of the Company that relates to the annual reporting period beginning on or after the effective date of each pronouncement.

#### 5. Receivables:

	As at April 30, 2017 \$	As at January 31, 2017 \$
Current		
Accounts receivable from related parties (see Note 10)	-	103
Accounts receivable from other third parties	20,017	17,610
Government assistance program receivable	-	3,282
GST/HST receivable	662	662
<b>Total receivables</b>	<b>20,679</b>	<b>21,657</b>

## 6. Inventories:

The total carrying value of inventories by classification:

	As at April 30, 2017 \$	As at January 31, 2017 \$
Finished goods	59,167	77,200
Raw materials	6,410	4,348
<b>Total inventories</b>	<b>65,577</b>	<b>81,548</b>

An amount of \$18,954 (2016 - \$11,402) was recognized as an expense in the period (included in cost of sales).

## 7. Land and Equipment:

	Land \$	Improvements to Land \$	Computer Equipment \$	Office Furniture and Equipment \$	Total \$
<b>Cost</b>					
As at January 31, 2016	237,750	6,910	9,726	6,300	260,686
Additions	-	-	-	-	-
Disposals	-	-	-	(300)	(300)
As at January 31, 2017	237,750	6,910	9,726	6,000	260,386
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
<b>As at April 30, 2017</b>	<b>237,750</b>	<b>6,910</b>	<b>9,726</b>	<b>6,000</b>	<b>260,386</b>
<b>Accumulated Depreciation</b>					
As at January 31, 2016	-	4,485	9,722	6,262	20,469
Depreciation	-	243	1	7	251
Disposals	-	-	-	(300)	(300)
As at January 31, 2017	-	4,728	9,723	5,969	20,420
Depreciation	-	54	-	2	56
Disposals	-	-	-	-	-
<b>As at April 30, 2017</b>	<b>-</b>	<b>4,782</b>	<b>9,723</b>	<b>5,971</b>	<b>20,476</b>
<b>Net Book Value</b>					
As at January 31, 2016	237,750	2,425	4	38	240,217
As at January 31, 2017	237,750	2,182	3	31	239,966
<b>As at April 30, 2017</b>	<b>237,750</b>	<b>2,128</b>	<b>3</b>	<b>29</b>	<b>239,910</b>

The land located in Whatcom County, Washington State was purchased by the Company on September 12, 2002 with a historical cost of US\$150,000.00.

## 8. Accounts Payable and Accrued Liabilities:

	As at April 30, 2017 \$	As at January 31, 2017 \$
Accounts payable to related parties (see Note 10)	1,250,130	1,212,730
Accounts payable to third parties	23,665	50,365
Accrued liabilities to related parties (see Note 10)	295,450	287,950
Accrued liabilities to third parties	33,206	28,337
<b>Total accounts payable and accrued liabilities</b>	<b>1,602,451</b>	<b>1,579,382</b>

## 9. Capital Stock and Reserves:

### a) Authorized:

No maximum number of Common shares without par value.

No maximum number of Class "A" Preferred shares with a par value of \$10 each:

27,100 Preferred shares, Series 1, non-voting, non-participating, with a 6% cumulative dividend accruing from October 1, 1992, redeemable at the option of the Company at \$10 per share plus all unpaid dividends accrued thereon to the date of redemption. Cumulative undeclared dividends in the amount of \$36,871 (2016 - \$35,371) have accrued on these shares.

39,500 Preferred shares, Series 3, non-voting, non-participating, with a 6% cumulative dividend accruing from February 1, 2002, redeemable at the option of the Company at \$10 per share plus all unpaid dividends accrued thereon to the date of redemption. Cumulative undeclared dividends in the amount of \$246,218 (2016 - \$230,066) have accrued on these shares.

No maximum number of Class "B" Preferred shares with a par value of \$50 each.

### b) Issued and Fully Paid:

Common shares:

	Number of Shares	Share Capital	Reserves - Warrants	Reserves - Equity Settled Employee Benefits
<b>Balance, January 31, 2016</b>	<b>25,867,285</b>	<b>\$ 10,919,524</b>	<b>\$ 368,337</b>	<b>\$ 463,794</b>
	-	-	-	-
<b>Balance, January 31, 2017</b>	<b>25,867,285</b>	<b>\$ 10,919,524</b>	<b>\$ 368,337</b>	<b>\$ 463,794</b>
	-	-	-	-
<b>Balance, April 30, 2017</b>	<b>25,867,285</b>	<b>\$ 10,919,524</b>	<b>\$ 368,337</b>	<b>\$ 463,794</b>

Class "A" Preferred shares:

	Number of Shares	Share Capital
<b>Balances, January 31, 2016</b>		
Series 1 preferred shares	2,500	25,000
Series 3 preferred shares	26,920	269,200
	<b>29,420</b>	<b>\$ 294,200</b>
<b>Balances, January 31, 2017</b>		
Series 1 preferred shares	2,500	25,000
Series 3 preferred shares	26,920	269,200
	<b>29,420</b>	<b>\$ 294,200</b>
<b>Balances, April 30, 2017</b>		
Series 1 preferred shares	2,500	25,000
Series 3 preferred shares	26,920	269,200
	<b>29,420</b>	<b>\$ 294,200</b>

## 9. Capital Stock and Reserves: (Continued)

### c) Options:

The Company has adopted a rolling stock option plan under the rules of the TSX Venture Exchange. The Company's shareholders ratified and approved the continuance of the plan at the annual and special general meeting that was held on July 19, 2016. Under the plan, the Company is authorized to grant options to directors, officers, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option is set by the board of directors at the time such option is allocated under the plan, and cannot be less than the discounted market price. The options can be exercisable for a maximum term of 5 years and generally vest 33.33% in specified increments unless otherwise specified by the board of directors. No individual may hold options to purchase common shares of the Company exceeding 5% of the total number of common shares outstanding from time to time. Pursuant to the policies of the TSX Venture Exchange, shares issued on the exercise of options are restricted from trading during the four-month period subsequent to the date of grant.

For stock options granted to directors, officers, employees and consultants, the Company recognizes share-based compensation expense based on the estimated fair value of stock options granted as calculated using the Black-Scholes option-pricing model on the date of the grant.

During the three months ended April 30, 2017, the Company granted no stock options.

During the year ended January 31, 2017, the Company granted no stock options.

A summary of changes in outstanding stock options is as follows:

	Number	Weighted Average Exercise Price
Balance, January 31, 2016	880,000	\$ 0.10
Granted	-	-
Expired	(25,000)	0.10
Balance, January 31, 2017	855,000	\$ 0.10
Granted	-	-
Expired	-	-
<b>Balance, April 30, 2017</b>	<b>855,000</b>	<b>\$ 0.10</b>

255,000 stock options outstanding as at April 30, 2017 expire on July 16, 2018.

400,000 stock options outstanding as at April 30, 2017 expire on July 21, 2020.

200,000 stock options outstanding as at April 30, 2017 expire on January 8, 2021.

### d) Reserves - Warrants:

During the three months ended April 30, 2017, the Company issued no warrants.

During the year ended January 31, 2017, the Company issued no warrants.

## 10. Related Party Transactions:

The Company has incurred transactions with key management personnel, individuals related to a director and companies managed by a common director. Transactions for the period and balances outstanding at the period-end are as follows:

	<b>Three Months Ended April 30, 2017</b>	Three Months Ended April 30, 2016
Key management personnel compensation:		
Consulting fees accrued and payable to officers and directors	<b>\$ 7,500</b>	\$ 7,500
Wages and salary paid to officers and directors	<b>18,000</b>	18,000
Sales earned from directors and an individual related to a director	-	47
Rent and administration payable to a company managed by a common director	<b>1,500</b>	1,500

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

In addition to the above:

Included in accounts payable and accrued liabilities as at April 30, 2017 is \$1,240,593 (2016 - \$1,097,161) due to companies managed by a common director and \$304,987 (2016 - \$269,255) due to directors and officers for a total of \$1,545,580 (2016 - \$1,366,416). These amounts are unsecured, non-interest bearing, and due on demand with no specific terms of repayment.

## 11. Financial Instruments:

### a) Fair Values –

IFRS 13 requires disclosure of a three-level hierarchy for fair value measurements based upon transparency of inputs to the valuation of an asset or liability as of measurement date. The three levels of the fair value hierarchy are:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs that are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); and
- Level 3 - valuation techniques with unobservable market inputs (involves assumptions and estimates by management of how market participants would price the assets or liabilities).

## 11. Financial Instruments: (Continued)

### a) Fair Values – (Continued)

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at April 30, 2017 and January 31, 2017:

	Classification <sup>(1)</sup>	Fair Value Hierarchy	April 30, 2017 Fair Value \$	January 31, 2017 Fair Value \$
<b>Financial Assets:</b>				
Cash and cash equivalents	FVTPL	1	56,409	58,832
Accounts receivable	LR		20,679	21,657
<b>Financial Liabilities:</b>				
Accounts payable and accrued liabilities	OL		1,602,451	1,579,382

<sup>(1)</sup> FVTPL = Financial asset at fair value through profit or loss;  
 LR = Loans and receivables;  
 OL = Other liabilities

Cash and cash equivalents are measured at fair value on a recurring basis. The Company does not have any non-recurring fair value measurements. There were no transfers between Level 1, 2 and 3 in the period.

The fair values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities as at April 30, 2017 and January 31, 2017 approximate their carrying values due to the short-term maturity of these instruments.

### b) Currency Risk –

Currency risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign currencies. The Company is exposed to currency risk primarily arising from accounts payable balances denominated in U.S. dollars. The Company does not use derivative instruments to hedge its exposure to this risk.

The statements of financial position include the following amounts expressed in Canadian dollars with respect to financial assets and liabilities for which cash flows are denominated in the following currencies:

	April 30, 2017 US\$	January 31, 2017 US\$
Accounts payable	(22,492)	(21,452)
Net exposure	(22,492)	(21,452)

A 10% strengthening (weakening) of the U.S. dollar against the Canadian currency would have increased (decreased) the Company's net loss from these account balances by \$2,249 (January 31, 2017 - \$2,145).

## **11. Financial Instruments: (Continued)**

### c) Liquidity Risk –

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity by managing adequate cash and cash equivalents balances and by raising equity or debt financing. The Company has no assurance that such financing will be available on favourable terms. As at April 30, 2017, the Company has a working capital deficit which exposes it to liquidity risk. In general, the Company attempts to avoid exposure to liquidity risk by obtaining corporate financing through the issuance of common shares. All of the Company's financial liabilities have a maturity of less than one year.

### d) Credit Risk –

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause a financial loss. The financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable. The maximum amount of credit risk exposure is limited to the carrying amount of the balances in the financial statements.

The Company mitigates the risk associated with cash and cash equivalents by dealing only with large financial institutions with good credit ratings. The Company views the credit risk associated with accounts receivable as minimal as the balance consists of GST/HST rebates, government assistance program claims due from the Government of Canada and accounts receivable due from customers, primarily distributors, with no history of defaults.

## **12. Capital Management:**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue its operation. Therefore, the Company monitors the level of risk incurred in its operation relative to its capital structure.

The Company considers its capital structure to include working capital and equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favourable terms.

The Company's investment policy is to hold cash in interest-bearing bank accounts and highly liquid short-term interest-bearing investments with maturities of one year or less which can be liquidated at any time without penalties. The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the period ended April 30, 2017.