**PACGEN LIFE SCIENCE CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
*As of February 27, 2017*

**FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2016**

*This management discussion and analysis ("MD&A") is provided to enable the reader to assess material changes in financial position and results of operations of Pacgen Life Science Corporation ("Pacgen" or the "Company") for the three and nine months ended December 31, 2016, in comparison to the same period in the preceding year. This analysis is performed by management using information available as of February 27, 2017 and should be read in conjunction with our unaudited condensed consolidated interim financial statements and notes thereto for the three and nine months ended December 31, 2016 (the "Interim Financial Statements"), as well as audited consolidated financial statements and notes thereto for the year ended March 31, 2016 (the "Annual Financial Statements"). The Company's Interim Financial Statements and Annual Financial Statements are prepared in accordance with International Financial Reporting Standards. All amounts are expressed in Canadian dollars unless otherwise indicated. Additional information relating to Pacgen can be obtained from SEDAR at www.sedar.com, on our corporate website at www.pacgenlife.com, or by requesting further information from our head office in Vancouver, B.C.*

*The forward-looking statements in this MD&A regarding our expectations of our future performance, liquidity and capital resources and other non-historical statements include numerous risks and uncertainties. The words "anticipates", "believes", "estimates", "expects", "intends", "may", "could", "plans", "projects", "will", "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, level of activity, performance or achievements to be materially different from those implied by such statements. Such factors include, among others, our stage of development, our limited revenue and lack of product sales, our additional capital requirements, our risks associated with product development and regulatory approval processes, our going concern assumption, our dependence on collaborative and license partners, our ability to protect our intellectual properties, our ability to stay competitive in a rapidly changing industry environment, and our ability to raise new capital. We undertake no obligation to revise or update forward-looking statements in this discussion whether as a result of new information, future events or otherwise. Accordingly, readers should not place undue reliance on our forward-looking statements in this MD&A.*

## OVERVIEW

Pacgen is a life science company focused on the commercialization of innovative life sciences products. The Company has an exclusive worldwide license to develop and commercialize a novel antifungal named P113, also called PAC-113. The Company has sublicensed its P113 right to its major shareholder, General Biologicals Corporation ("GBC"), who has then launched non-prescription over-the-counter ("OTC") products containing P113 in Taiwan. In accordance with the sublicense arrangement, Pacgen is entitled to royalties based on product sales by GBC.

## P113

P113 is a 12 amino-acid antimicrobial peptide derived from a naturally occurring histatin protein found in human saliva. Histatin proteins play important roles in the human body's natural defence against oral diseases including oral cavity, oral candidiasis and esophagus infection among others. P113, invented by Professor Frank Oppenheim at the Boston University, has been tested in research studies for its antimicrobial activity against a number of fungal and bacterial strains. For both bacteria and fungi, the compound has been shown to kill cells as opposed to simply

inhibiting their growth. Demegen, Inc ("Demegen") licensed the P113 technology from the Boston University and evaluated the P113 peptide in Phase 1 and Phase II clinical studies for the treatment of gingivitis. Data from Demegen's clinical studies suggested that P113 was safe and effective in the treatment of gingivitis. The Company obtained its right to P113 through a license arrangement with Demegen in February 2005.

Pursuant to the original license agreement and subsequent amendment agreements between Pacgen and Demegen (the "Head License"), the Company has an exclusive worldwide right to develop and commercialize prescription and non-prescription pharmaceutical products containing P113 or one or more related peptides for the treatment of any oral condition (excluding transitional skin-mucous membrane areas), as well as vaginal, dermatological and ophthalmic conditions. The Company developed P113 as a mouth rinse formulation for the topical treatment of oral candidiasis until 2008. Oral candidiasis, or thrush, is usually seen as a secondary consequence arising from one of a number of primary or underlying medical conditions including HIV/AIDS, cancer, diabetes, asthma and xerostomia (abnormal dryness of the mouth). The Company completed formulation optimization studies, a Phase I/II proof of concept clinical study, as well as a Phase IIb dose-ranging study. Data from Pacgen's clinical studies demonstrated that P113 was effective in the treatment of oral candidiasis. The data also suggested that P113 compared favourably to the efficacy demonstrated by Nystatin, one of standard of treatments for oral candidiasis.

On January 23, 2014, Pacgen and GBC entered into a sublicense agreement (the "P113 Sublicense"). Pursuant to this agreement, Pacgen granted GBC its worldwide exclusive right to P113. In exchange, GBC paid Pacgen an upfront payment of US$250,000 and assumed Pacgen's licensing obligations of US$105,000 under the Head License. In addition, GBC is obligated to pay Pacgen milestone payments and royalty payments based on marketing approvals and product sales performance, respectively. Royalty payment from GBC is subject to a minimum amount of US$50,000 annually. GBC is further obligated to reimburse Pacgen all future license fees required under the Head License.

In the fourth quarter of 2015, GBC formally launched non-prescription OTC products including mouth rinse solution, oral mouth spray, feminine cleansing wash, feminine soothing spray, as well as anti-bacterial hand cream to the market. These non-prescription OTC products, primarily for mouth care and feminine hygiene care, can be purchased at local pharmacies in Taiwan or online at www.p113lab.com. GBC is expanding its distribution channels and developing additional P113 products including products specifically targeted at the relief of dry mouth symptoms. On January 24, 2017, the Company announced that GBC has added new markets for P113 products and has signed an agreement with state-owned Dongguan Biotech Industrial Development Co. ("Dongguan Biotech") based in Guangdong Province, China to distribute its oral hygiene and hepatitis testing products.

Mouth care is a relatively niche category but it is increasingly important due to the aging population and the increased incidence of chronic diseases. Most notably, the prevalence of dry mouth (xerostomia) is on the rise. The most common causes of dry mouth are side effects of certain medicines, long period of medication, and medical treatments such as radiations and chemotherapies. According to the report "*Passport – Consumer Health in the US"* published by Euromonitor International in December 2015, the adult mouth care market in the US alone is estimated at US$261 million in 2015, and is projected to reach US$284 million in 2020. While sales of vaginal antifungals targeted at feminine hygiene care is projected to remain relatively flat at US$297 million and $308 million in 2015 and 2020, respectively, according to the same report.

In addition to the launch of OTC products, GBC continues to develop second generation compounds for therapeutic product potential. Two new compounds called P113Du and P113Tri have been identified as the next generation P113 antimicrobial peptides. Based on a research study conducted by Institute of Molecular and Cellular Biology and Department of Life Sciences of National Tsing Hua University, Taiwan (the "Tsing Hua University") in collaboration with GBC, P113Du and P113Tri contained significant fractions of α-helix conformation and were less sensitive to high salt and low pH than P113. These new antimicrobial compounds exhibited increased antifungal activity against planktonic, biofilm cells and clinical isolates of *C.albicans* and non-*albicans Candida* spp. The study results suggest that P113Du and P113Tri are promising candidates for development as novel antifungal agents.

## RECENT CORPORATE DEVELOPMENT

Following the P113 Sublicense, the Company has focused its operations in facilitating knowledge transfer to GBC and seeking for new business opportunities. Key operational activities since the most recently completed fiscal year include:

- On August 16, 2016, the Company announced that GBC has made significant progress on P113. GBC has added new skin care products into its P113 product portfolio, and received positive research results for second generation P113 compounds. A manuscript titled "*The antimicrobial peptides P-113Du and P-113Tri function against Candida albican*" has been accepted for publication by the Antimicrobial Agents and Chemotherapy of the American Society of Microbiology. Additionally, a new international patent application has been filed in China under the Patent Cooperation Treaty and regional applications have been filed in the United States and Taiwan.

- On November 18, 2016, the Company announced the grant of incentive stock options to executive officers, directors and consultants of the Company for the right to purchase up to an aggregate of 3,025,000 common shares of the Company. These stock options are vested immediately and exercisable at a price of $0.08 per share, for a term of five years from November 8, 2016. The terms of these stock options are in accordance with the Company's Stock Option Plan.

- On January 24, 2017, the Company announced that GBC has added new markets for P113 products. Subject to regulatory approval, P113 mouth rinse and mouth sprays will be made available in Southern China in addition to their existing markets in Taiwan. GBC has signed an agreement with state-owned Dongguan Biotech based in Guangdong Province, China to distribute its oral hygiene and hepatitis testing products. As part of the distribution deal, GBC has granted Dongguan Biotech exclusive right to distribute its products in the Guangdong Province. In exchange for the regional distribution right, GBC will receive up to 4.5 million yuan of milestone payments for the first year. The Company is entitled to royalties based on sales of P113 products in accordance with its licensing agreement with GBC.

- The Company has met with a handful of companies and continued to evaluate potential business opportunities.

## OUTLOOK

GBC plans to expand its P113 product distributions to mainland China and North America and is investigating different regulatory pathways to achieve these commercial milestones. GBC is also developing new P113 OTC products including products specifically targeted at the relief of dry mouth symptoms. The Company intends to assist GBC in its commercialization efforts in North America. The Company also plans to continue its business development efforts and raise capital to finance new business opportunities.

## OVERALL PERFORMANCE

Since its inception, Pacgen has accumulated a deficit of $16,707,418 as at December 31, 2016. The Company has generated limited revenue from its P113 Sublicense. Given its limited revenue stream, Pacgen will need to raise additional funding to secure and develop new business opportunities. The Company has funded its operations primarily by equity financings in the past. If P113 products are not widely accepted in the consumer market, Pacgen's business development does not progress positively as planned, or capital market conditions, in general or with respect to development stage companies such as Pacgen, are unfavorable, the Company's ability to obtain additional funding will be adversely affected.

## RESULTS OF OPERATIONS

For the three months ended December 31, 2016 ("Q3 2017"), Pacgen recorded a net loss of $159,948 ($0.00 per common share), compared to $2,996 ($0.00 per common share) for the same period in the preceding year ("Q3 2016"). On a year-to-date basis, net loss for the nine months ended December 31, 2016 ("YTD 2017") was $175,925 ($0.00 per common share), compared to a net income of $6,597 ($0.00 per common share) for the same period in the preceding year ("YTD 2016"). The variances of $156,952 and $182,522 in Q3 2017 and YTD 2017, respectively, were primarily due to share-based payments of $139,906 recognized in relation to the incentive stock options granted and vested in Q3 2017. This is in addition to higher operating expenses as the Company expands its operations to support its business development activities.

| | For the Three Months Ended December 31, | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **$** | **$** | **$** | **$** |
| Revenue | 16,674 | 16,691 | 49,095 | 48,425 |
| Expenses | 181,244 | 21,945 | 231,402 | 46,258 |
| Other income | 4,622 | 2,258 | 6,382 | 4,430 |
| **Net income (loss)** | **(159,948)** | **(2,996)** | **(175,925)** | **6,597** |

### *Revenue*

Pacgen generated licensing revenue of $16,674 (US$18,750) and $49,095 (US$37,500) from its P113 Sublicense in Q3 2017 and YTD 2017, respectively. These amounts were comparable to $16,691 (US$18,750) and $48,425 (US$37,500) reported in Q3 2016 and YTD 2016, respectively. The variances in licensing revenue were primarily due to fluctuation of foreign exchange rates. Royalty revenue is expected to remain at the current level until GBC expands its distribution networks.

### *Expenses*

Operating expenditures increased to $181,244 in Q3 2017, compared to $21,945 in Q3 2016. On a year-to-date basis, expenses increased to $231,402 in YTD 2017, compared to $46,258 in YTD 2016. The increases in operating expenditures were primarily due to share-based payments of $139,906 recognized in relation to the incentive stock options granted and vested in Q3 2017. This is in addition to higher office expenses and higher professional and consulting fees as the Company expands its operations to support its business development activities including assessment of different business opportunities and different avenues of bringing P113 OTC products to the North American markets. Other operating expenditures were relatively the same in the current reporting periods as compared to the same periods in the preceding year.

### *Other Income*

Other income increased to $4,622 in Q3 2017 from $2,258 in Q3 2016. On a year-to-date basis, Pacgen had other income of $6,382 in YTD 2017 as compared to $4,430 in YTD 2016. The net changes in the current reporting periods as compared to the same periods in the preceding year were primarily due to favourable variances in foreign exchange income from transactions requiring US dollar settlement and translation of US dollar denominated accounts as a result of strengthened US dollar against the Canadian dollar. Pacgen earns licensing revenue denominated in US dollar, and this licensing revenue from P113 Sublicense provides a partial hedge against its US dollar denominated license obligations under the Head License.

## SUMMARY OF QUARTERLY RESULTS

Set forth below is the selected consolidated financial data for each of the last eight quarters:

| | 3rd Quarter Ended Dec 31, 2016 ("Q3 2017") | 2nd Quarter Ended Sep 30, 2016 ("Q2 2017") | 1st Quarter Ended Jun 30, 2016 ("Q1 2017") | 4th Quarter Ended Mar 31, 2016 ("Q4 2016") |
|---|---|---|---|---|
| Revenue | $16,674 | $16,314 | $16,107 | $17,186 |
| Sub-licensing reimbursements | 8,338 | 8,157 | 8,053 | 8,593 |
| Expenses, excluding reimbursements | (189,582) | (38,481) | (27,887) | (36,796) |
| Other income (loss) | 4,622 | 2,468 | (708) | (9,879) |
| Net income (loss) for the period | (159,948) | (11,542) | (4,435) | (20,896) |
| Basic and diluted income (loss) per common share | ($0.00) | ($0.00) | ($0.00) | ($0.00) |

| | 3rd Quarter Ended Dec 31, 2015 ("Q3 2016") | 2nd Quarter Ended Sep 30, 2015 ("Q2 2016") | 1st Quarter Ended Jun 30, 2015 ("Q1 2016") | 4th Quarter Ended Mar 31, 2015 ("Q4 2015") |
|---|---|---|---|---|
| Revenue | $16,691 | $16,366 | $15,368 | $15,514 |
| Sub-licensing reimbursements | 8,345 | 8,003 | 7,864 | 7,757 |
| Expenses, excluding reimbursements | (30,290) | (17,936) | (22,244) | (42,120) |
| Other income (loss) | 2,258 | 3,436 | (1,264) | 6,289 |
| Net income (loss) for the period | (2,996) | 9,869 | (276) | (12,560) |
| Basic and diluted income (loss) per common share | ($0.00) | $0.00 | ($0.00) | ($0.00) |

Variations in the Company's net income (losses) for the above periods resulted primarily from the following factors:

- Variances in revenue were due to fluctuation of foreign exchanges rates.

- Operating expenses were comprised of license fees under the Head License, net of sub-licensing reimbursements from GBC, general administration, depreciation of property and equipment, and share-based payments. General administration in Q3 2017, Q2 2017 and Q1 2017 includes higher office expenses and higher professional and consulting fees as the Company expands its operations to support its business development activities. The Company incurred product samples expenses in Q3 2017, Q1 2017 and Q4 2016 as part of its business development efforts. The Company also incurred write-off of property and equipment in Q4 2016. The Company granted incentive stock options which vested immediately to its executive officers, directors and consultants and recorded share-based payments in Q3 2017. Other operating expenditures fluctuated as they were related to the timing of corporate transactions and annual corporate events such as AGM and year-end audit.

- Other income (loss) fluctuated primarily due to the foreign exchange gain (loss) associated with US dollar denominated liabilities and amounts receivable. P113 Sublicense receivables denominated in US dollar provide partial hedging against US dollar denominated license obligations under the Head License.

## LIQUIDITY AND CAPITAL RESOURCES

***History of Loss and Reliance on Financing***

Pacgen has a history of operating losses. The Company has funded its operations primarily from equity financing. As of December 31, 2016, the Company had $504,843 of cash and cash equivalents on hand (March 31, 2016 – $562,636) and $323,815 of working capital (March 31, 2016 – $359,834). The contractual maturities of the Company's financial liabilities as of December 31, 2016 were as follows:

| | Contractual Maturities | | |
|---|---|---|---|
| | **Within One Year** | **Other** | **Total** |
| | **$** | **$** | **$** |
| Accounts payable and accrued liabilities | 44,431 | — | 44,431 |
| Sublicense payable | 93,989 | — | 93,989 |
| Contingent payments | — | 134,270 | 134,270 |
| **Total** | **138,420** | **134,270** | **272,690** |

Of the accounts payable and accrued liabilities due within one year, $27,249 (US$20,294) was license obligations owing to Demegen and $17,182 was other trade accounts payable not related to the Head License. The total outstanding amount owing to Demegen was recoverable from GBC. Also included in the Company's financial liabilities were contingent payments of $134,270 (US$100,000) which are due only upon successful completion of certain business development milestones. Based on these contractual obligations and the Company's current cash on hand, management believes that Pacgen has sufficient capital resources to cover its working capital requirements for at least the next twelve months and continue as a going concern.

Pacgen's ability to finance its business development and continue as a going concern in the longer term is dependent upon its ability to obtain additional financing and the prospect of its royalty income stream. The Company plans to continue its financing efforts. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future.

***Sources and Uses of Cash***

| | For the Nine Months Ended December 31, | |
|---|---|---|
| | **2016** | **2015** |
| | **$** | **$** |
| Cash provided by (used in) operating activities | (70,762) | 10,871 |
| Cash used in financing activities | — | (3,157) |
| **Net increase (decrease) in cash** | **(70,762)** | **7,714** |

Cash generated from operating activities was comprised of net income, add-backs or adjustments not involving cash, and net change in non-cash working capital items. Cash used in operating activities was $70,762 in YTD 2017, compared to cash provided by operating activities of $10,871 in YTD 2016. The decrease of $81,633 in cash provided by operating activities was primarily due to the Company's increased net payments of trade accounts as well as the higher net loss in YTD 2017.

The Company had no cash provided by financing activities in YTD 2017, compared to cash used in financing activities of $3,157 in YTD 2016.

No cash was used in investing activities in the current reporting period as well as the same period in the preceding year.

*Capital Risk Management*

Pacgen's objectives when managing capital are to ensure its ability to continue as a going concern in order to pursue corporate development. The Company attempts to maximize return to shareholders by minimizing shareholder dilution and utilizing non-dilutive funding arrangements where possible. Pacgen includes equity comprised of issued share capital, contributed surplus and deficit in the definition of capital. Pacgen has financed its operations and capital requirements primarily through share issuances.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company may issue new shares or raise debt. Pacgen is not subject to any externally imposed capital requirements and the overall strategy with respect to capital management remains unchanged from the preceding fiscal year.

## OUTSTANDING SHARE CAPITAL

As of February 27, 2017, there are (i) 52,515,969 common shares issued and outstanding, (ii) 2,650,000 common share purchase warrants outstanding exercisable into common shares at a price of $0.08 per share until February 1, 2018, and (iii) 3,075,000 incentive stock options outstanding at a weighted average exercise price of $0.08.

## OFF-BALANCE SHEET ARRANGMENTS

The Company has no off-balance sheet arrangements.

## PROPOSED TRANSACTIONS

There are at present no transactions outstanding that have been proposed but not approved by either the Company or regulatory authorities.

## CRITICAL JUDGMENTS AND SIGNIFICANT ESTIMATES

The preparation of the Interim Financial Statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the Interim Financial Statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These Interim Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Interim Financial Statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical Judgments*

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the Interim Financial Statements:

i. Management is required to assess the functional currency of each entity of the Company. In concluding that the Canadian dollar is the functional currency of the parent and its subsidiaries, management considered the currency that mainly influences the revenue and operating expenditures in each jurisdiction in which the Company operates.

ii. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

iii. Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future including the availability of financing and revenue projection, as well as current working capital balance and future commitments of the Company.

***Estimation Uncertainty***

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next reporting period:

i. The fair value of accrued liabilities, contingent payments and license obligations at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

The significant accounting policies that are most critical in fully understanding and evaluating the reported results in this MD&A are included in notes 1 to 3 to the Company's Annual Financial Statements. Some of these notes are also included and updated as necessary in notes 1 and 2 in the Interim Financial Statements.

## FINANCIAL INSTRUMENTS

The Company's financial instruments consist of the following:

| | **December 31, 2016** $ | **March 31, 2016** $ |
|---|---|---|
| ***Financial assets*** | | |
| Cash and cash equivalents | 504,843 | 562,636 |
| Amounts receivable | 84,641 | 104,975 |
| ***Financial Liabilities*** | | |
| Accounts payable and accrued liabilities | 44,431 | 93,065 |
| Sublicense payable | 93,989 | 90,909 |
| Contingent payments | 134,270 | 129,870 |

The Company has designated its cash and cash equivalents and short-term investments as fair value through profit or loss ("FVTPL"), which is measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, amounts payable to related parties, accrued liabilities, sublicense payable and contingent payments are classified as other financial liabilities, which are measured at amortized cost.

***Fair Value***

The fair value of the Company's financial instruments is approximated by their carrying value due to their short-term nature.

IFRS 7 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3 – inputs for the asset or liability that are not based upon observable market data.

The fair value of cash is based on Level 1 inputs of the fair value hierarchy.

***Credit Risk***

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises for the Company from its cash on deposits with banks, and from time to time due to its holdings of short-term investments. The Company has investment policies to mitigate against the deterioration of principal, to enhance the Company's ability to meet its liquidity needs, and to optimize yields within those parameters. These investment policies limit the investing of excess funds to liquid term deposits with banks and government guaranteed securities with maturities of two years or less. As of December 31, 2016, the Company had $68,752 (March 31, 2016 – $562,636) of cash on deposits, and $436,091 (March 31, 2016 – $nil) of cash equivalents consisting of highly liquid financial instruments with maturity dates of 90 days or less at the time of investment.

The maximum credit exposure of the Company at period end is the carrying value of its cash and cash equivalents, short-term investments, and amounts receivable. The Company holds its cash and cash equivalents and short-term investments with major banks in Canada. Amounts receivable consist of amounts due from GBC and goods and services tax due from the Federal Government of Canada.

***Liquidity Risk***

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. A discussion on the Company's liquidity is provided in *"Liquidity and Capital Resources"* section of this MD&A.

***Interest Rate Risk***

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company is exposed to interest rate risk on its cash on deposits with banks and, from time to time, on its holdings of short-term investments. As of December 31, 2016, the Company had $68,752 (March 31, 2016 – $562,636) of cash on deposits, and $436,091 (March 31, 2016 – $nil) of investments in highly liquid financial instruments with maturity dates of 90 days or less at the time of investment. Given the limited level of cash held in bank deposits and short-investments during the three and nine months ended December 31, 2016 and 2015, fluctuation in the market interest rates had no significant impact on its interest income.

***Currency Risk***

The Company is exposed to the financial risk related to the fluctuation of foreign exchanges rates. The Company has a portion of its operating expenses in US dollars. The Company has not entered into foreign exchange derivative contracts. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations, financial position or cash flows.

The Company had the following assets and liabilities denominated in US dollars:

| | December 31, 2016 US$ | March 31, 2016 US$ |
|---|---|---|
| Cash and cash equivalents | **271,657** | 246,165 |
| Amounts receivable, prepaid expenses and other | **61,250** | 80,000 |
| Accounts payable and accrued liabilities | **(20,546)** | (49,344) |
| Sublicense payable | **(70,000)** | (70,000) |
| Contingent payments | **(100,000)** | (100,000) |
| Total | **142,361** | 106,821 |

Based on the above net exposures as at December 31, 2016 and March 31, 2016, and assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the US dollar would result in an increase or decrease of $9,557 (March 31, 2016 – $6,936) in the Company's net income and comprehensive income.

## RELATED PARTY TRANSACTIONS

### *Transactions with Related Parties*

During the period ended December 31, 2016, the Company recorded licensing revenue of $49,095 (US$37,500) [2016 – $48,425 (US$37,500)] and sub-licensing reimbursements of $24,548 (US$18,750) [2016 – $24,212 (US$18,750)] from GBC pursuant to the P113 Sublicense. GBC is a major shareholder of the Company and has two directors in common with the Company. These transactions were incurred in the normal course of business and recorded at their exchange amounts at fair values.

As at December 31, 2016, included in amounts receivable was $82,240 (US$61,250) [March 31, 2016 – $103,896 (US$80,000)] in connection to the P113 Sublicense and $964 (March 31, 2016 – $nil) in connection to other business development activities, receivable from GBC.

### *Amounts Due to Related Parties*

As of December 31, 2016, the Company had amounts payable to directors and officers of $2,959 (March 31, 2016 – $812) in connection to business expense reimbursements.

### *Key Management Compensation*

During the period ended December 31, 2016, the Company granted 1,425,000 (2016 – nil) incentive stock options which vested immediately to its key management and recorded share-based payments of $65,906 (2016 – $nil). There was no cash compensation paid.