



**Consolidated Financial Statements**  
2016 First Quarter  
For the Quarter Ended May 31, 2015

# Inspira Financial Inc.

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## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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**Inspira Financial Inc.**  
**Consolidated statements of financial position (Unaudited)**  
(in Canadian Dollars)

| As at                                         | May 31, 2015         | February 28, 2015   |
|-----------------------------------------------|----------------------|---------------------|
| <b>Assets</b>                                 |                      |                     |
| <b>Current</b>                                |                      |                     |
| Cash and cash equivalents                     | \$ 23,610,986        | \$ 9,095,829        |
| Prepaid expenses                              | 82,995               | 84,786              |
| Credit Receivables (Note 4)                   | 4,196,975            | 639,271             |
|                                               | <b>27,890,956</b>    | <b>9,819,886</b>    |
| <b>Liabilities</b>                            |                      |                     |
| <b>Current</b>                                |                      |                     |
| Accounts payable and accrued liabilities      | 128,721              | 1,244,216           |
| Subscription receipts (Note 9)                | 1,993,201            | 1,993,201           |
|                                               | <b>2,121,922</b>     | <b>3,237,417</b>    |
| <b>Long Term</b>                              |                      |                     |
| Debenture Notes                               | 1,566,093            | -                   |
|                                               | <b>1,566,093</b>     | <b>-</b>            |
| <b>Shareholders' Equity</b>                   |                      |                     |
| <b>Share capital</b>                          | <b>24,691,782</b>    | <b>7,238,479</b>    |
| Warrant reserve                               | 211,694              | 103,416             |
| Warrant reserve - Broker                      | 378,122              | 136,684             |
| <b>Accumulated other comprehensive income</b> | <b>26,335</b>        | <b>26,139</b>       |
| <b>Deficit</b>                                | <b>(1,104,992)</b>   | <b>(922,249)</b>    |
|                                               | <b>24,202,941</b>    | <b>6,582,469</b>    |
|                                               | <b>\$ 27,890,956</b> | <b>\$ 9,819,886</b> |

Approved on behalf of the Board

[signed] "Robert Munro"

Director

[signed] "Gary Mintz"

Director

**Inspira Financial Inc.**  
**Consolidated statement of changes in shareholders' equity (Unaudited)**  
(In Canadian Dollars)

**As of May 31, 2015**

|                                     | Share Capital      |                   |                            |                                        |                                                      |                    |                                 |
|-------------------------------------|--------------------|-------------------|----------------------------|----------------------------------------|------------------------------------------------------|--------------------|---------------------------------|
|                                     | Common<br>Shares   | Amount<br>(\$)    | Warrant<br>Reserve<br>(\$) | Warrant<br>Reserve -<br>Broker<br>(\$) | Accumulated Other<br>Comprehensive<br>Income<br>(\$) | Deficit<br>(\$)    | Shareholders'<br>Equity<br>(\$) |
| Balance at incorporation            | -                  | -                 | -                          | -                                      | -                                                    | -                  | -                               |
| Common shares issued                | 150,675,524        | 8,379,178         | -                          | -                                      | -                                                    | -                  | 8,379,178                       |
| Share issuance costs                | -                  | (1,140,699)       | -                          | -                                      | -                                                    | -                  | (1,140,699)                     |
| Warrants issued                     | -                  | -                 | 103,416                    | -                                      | -                                                    | -                  | 103,416                         |
| Warrants issued - broker            | -                  | -                 | -                          | 136,684                                | -                                                    | -                  | 136,684                         |
| Unrealized foreign exchange<br>gain | -                  | -                 | -                          | -                                      | 26,139                                               | -                  | 26,139                          |
| Net loss                            | -                  | -                 | -                          | -                                      | -                                                    | (922,249)          | (922,249)                       |
| <b>Balance - February 28, 2015</b>  | <b>150,675,524</b> | <b>7,238,479</b>  | <b>103,416</b>             | <b>136,684</b>                         | <b>26,139</b>                                        | <b>(922,249)</b>   | <b>6,582,469</b>                |
| Common shares issued                | 132,078,624        | 18,038,696        | -                          | -                                      | -                                                    | -                  | 18,038,696                      |
| Share issuance costs                | -                  | (585,393)         | -                          | -                                      | -                                                    | -                  | (585,393)                       |
| Warrants issued                     | -                  | -                 | 108,278                    | -                                      | -                                                    | -                  | 108,278                         |
| Warrants issued - broker            | -                  | -                 | -                          | 241,438                                | -                                                    | -                  | 241,438                         |
| Unrealized foreign exchange<br>gain | -                  | -                 | -                          | -                                      | 196                                                  | -                  | 196                             |
| Net loss                            | -                  | -                 | -                          | -                                      | -                                                    | (182,743)          | (182,743)                       |
| <b>Balance - May 31, 2015</b>       | <b>282,754,148</b> | <b>24,691,782</b> | <b>211,694</b>             | <b>378,122</b>                         | <b>26,335</b>                                        | <b>(1,104,992)</b> | <b>24,202,941</b>               |

**Inspira Financial Inc.**  
**Consolidated statements of operations and comprehensive loss (Unaudited)**  
(In Canadian Dollars)

|                                                               | Quarter Ended<br>May 31, 2015 | Year Ended<br>February 28, 2015 |
|---------------------------------------------------------------|-------------------------------|---------------------------------|
| <b>Revenue</b>                                                |                               |                                 |
| Interest and fees income                                      | \$ 84,897                     | \$ 19,562                       |
| Consulting income                                             | -                             | 339,450                         |
|                                                               | <b>84,897</b>                 | <b>359,012</b>                  |
| <b>Expenses</b>                                               |                               |                                 |
| Share based payments                                          | 70,460                        | 1,036,300                       |
| Professional fees                                             | 27,555                        | 366,015                         |
| General and administrative                                    | 65,487                        | 82,975                          |
| Salaries, wages and benefits                                  | 98,421                        | 26,279                          |
| Foreign exchange gain (loss)                                  | 5,717                         | (230,308)                       |
|                                                               | <b>267,640</b>                | <b>1,281,261</b>                |
| <b>Net loss</b>                                               | <b>(182,743)</b>              | <b>(922,249)</b>                |
| <b>Unrealized gain on translation of foreign subsidiaries</b> | <b>196</b>                    | <b>26,138</b>                   |
| <b>Comprehensive loss</b>                                     | <b>\$ (182,547)</b>           | <b>\$ (896,111)</b>             |
| <b>Net Loss per share</b>                                     |                               |                                 |
| Basic and diluted                                             | <b>(0.001)</b>                | <b>(0.01)</b>                   |
| <b>Weighted average number of common shares outstanding</b>   |                               |                                 |
| Basic and diluted                                             | <b>216,741,836</b>            | <b>73,704,510</b>               |

**Inspira Financial Inc.**  
**Consolidated statements of cash flows (Unaudited)**  
(In Canadian Dollars)

| As at                                           | May 31, 2015         | February 28, 2015   |
|-------------------------------------------------|----------------------|---------------------|
| <b>Operating activities</b>                     |                      |                     |
| Net loss                                        | \$ (182,743)         | \$ (922,249)        |
| Share based payments                            | 70,460               | 1,036,300           |
|                                                 | (112,283)            | 114,051             |
| Changes in working capital accounts             |                      |                     |
| Prepaid expenses                                | 1,791                | 84,786              |
| Accounts payable and accrued liabilities        | (1,115,495)          | 1,244,216           |
|                                                 | (1,113,704)          | 1,443,053           |
| <b>Investing activities</b>                     |                      |                     |
| Increase in credit receivables                  | (3,557,704)          | (639,231)           |
|                                                 | (3,557,704)          | (639,231)           |
| <b>Financing activities</b>                     |                      |                     |
| Proceeds from issuance of common shares         | 17,732,559           | 6,202,179           |
| Proceeds from issuance of subscription receipts | -                    | 1,993,201           |
| Proceeds from Debenture Notes                   | 1,566,093            | -                   |
|                                                 | 19,298,652           | 8,195,380           |
| <b>Increase in cash resources</b>               | <b>14,514,961</b>    | <b>8,999,202</b>    |
| <b>Cash, beginning of period</b>                | <b>9,095,829</b>     | <b>-</b>            |
| <b>Effect of foreign exchange rates on cash</b> | <b>196</b>           | <b>96,627</b>       |
| <b>Cash, end of period</b>                      | <b>\$ 23,610,986</b> | <b>\$ 9,095,829</b> |

## 1. Description of the business

Inspira Financial Inc. ("Inspira" or the "Company") is a private company, incorporated on May 14, 2014 pursuant to the provisions of the *Business Corporations Act* (British Columbia). Inspira, directly and through its subsidiaries, is focused on providing financial services to healthcare providers and their patients across the United States.

The Company's head office is at 1711 Almond Avenue, Walnut Creek, California, United States.

## 2. Unreserved statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. These interim financial statements do not include all the disclosures required in annual consolidated financial statements and should be read in conjunction with the annual financial statements for the fiscal year ended February 28, 2015, prepared in accordance with IFRS.

The unaudited interim consolidated financial statements are prepared following the same accounting policies used in the Company's most recent annual financial statements,

The unaudited condensed consolidated interim financial statements have been authorized for issuance by the Board of Directors on July 29, 2015.

The consolidated financial statements, which are presented in Canadian dollars, have been prepared under the historical cost convention, as modified by the measurement at fair values of certain financial assets and financial liabilities.

## 3. Significant accounting policies

### a) Basis of consolidation

These statements consolidate the accounts of the Company and its wholly owned subsidiaries, namely, Inspira Financial Company ("IFC") and Healthcare Receivable Lenders Inc. ("HRL") in the United States. The Company exercises 100% control over each of its subsidiaries. The accounting policies of the Company's subsidiaries are aligned with IFRS. Intercompany balances and transactions are eliminated upon consolidation.



**b) Revenue recognition**

Revenue principally comprises interest and fees from the Company's recourse and non-recourse revolving line of credit businesses and is measured at the fair value of the consideration received. Interest charged on credit receivables and to clients is recognized as revenue using the effective interest rate method. Fees related to receivables are considered an integral part of the yield earned on the debtor balance and are accounted for using the effective interest rate method.

Other revenue, such as management fees, banking fees, and standby fees, is recognized as revenue when earned.

**c) Credit receivables**

The Company provides asset-based revolving line of credit to its clients, secured by their receivables, either directly via single lockbox mechanism in the case of insurance and patient pay or via a double lockbox mechanism in the case of government receivables. Credit receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Credit receivables to clients are initially measured at fair value plus incremental direct transaction costs and subsequently measured at amortized cost using the effective interest rate method.

**d) Allowances for losses**

The Company currently does not maintain allowances for losses on its credit receivables. At each reporting date, the Company assesses whether there is objective evidence that the credit receivables are impaired. A credit receivable or a group of credit receivables is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of these assets, and that the loss event has an effect on the future cash flows resulting from the credit receivables that can be estimated reliably.

The Company maintains these allowances for losses at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations, including current economic trends, condition of the loan and customer receivable portfolios and typical industry loss experience.

The Company considers evidence of impairment for credit receivables at both a specific asset and collective level. All credit receivables are first assessed for specific impairment and, if found not to be specifically impaired, they are then collectively assessed for any impairment that has been incurred but not yet identified.

Losses on credit receivables will be charged to the allowance for losses account when

collectability becomes questionable and the underlying collateral is considered insufficient to secure the line of credit balance. Recoveries from previously written-off accounts are credited to the respective allowance for losses account once collected. The allowance for losses on credit receivables is recorded at amortized cost.

**e) Capital assets**

Capital assets are stated at cost. Depreciation is provided annually over the estimated useful lives of the assets as follows:

| Asset                   | Basis             | Rate |
|-------------------------|-------------------|------|
| Furniture and equipment | Declining balance | 20%  |
| Computer equipment      | Declining balance | 30%  |

Upon retirement or sale of an asset, its cost and related accumulated depreciation are removed from the accounts and any gain or loss is recorded in income or expense. The Company reviews capital assets on a regular basis to determine that their carrying values have not been impaired.

**f) Income taxes**

The Company follows the balance sheet liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized based on temporary differences between the tax and accounting bases of assets and liabilities, as well as losses available to be carried forward to future years for income tax purposes.

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized through the statement of earnings except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, as well as the available losses carried forward to future years for income tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they

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. Deferred tax liabilities are recognized in respect of taxes payable in the future based on taxable temporary differences and are mainly related to the Company's intangible assets and assets held for sale balances.

Income taxes receivable and payable, and deferred tax assets and liabilities, are offset if there is a legally enforceable right of set off, they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis, or their tax assets and liabilities will be realized simultaneously.

**g) Foreign subsidiaries**

The Company's foreign subsidiaries functional currencies are U.S. dollars and their functional currencies and assets and liabilities are translated into Canadian dollars at the exchange rate prevailing at the statements of financial position date. Revenue and expenses are translated into Canadian dollars at the average monthly exchange rate then prevailing. Resulting translation gains and losses are credited or charged to other comprehensive income or loss and presented in the accumulated other comprehensive income or loss component of equity.

**h) Foreign currency translation**

Monetary assets and liabilities denominated in currencies other than the Canadian dollar for the parent company are translated into Canadian dollars at the exchange rate prevailing at the statements of financial position date. Any non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates. Revenue and expenses are translated into Canadian dollars at the prevailing average monthly exchange rate. Translation gains and losses are credited or charged to earnings.

**i) Financial assets and liabilities**

Financial assets and liabilities are recorded at amortized cost, with the exception of cash, which is recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly manner between participants in an active (or in its absence, the most advantageous) market to which the Company has access at the transaction date.

The Company initially recognizes credit receivables on the date that they are originated. All other financial assets are recognized initially on the transaction date on which the Company becomes a party to the contractual provisions.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

j) **Financial instruments – disclosures**

The financial instruments presented on the consolidated statements of financial position at fair value are further classified according to a fair-value hierarchy that prioritizes the quality and reliability of information used in estimating fair value. The fair values for each of the three levels are based on:

- Level 1 - quoted prices in active markets;
- Level 2 - models using observable inputs other than quoted market prices included within Level 1; and
- Level 3 - models using inputs that are not based on observable market data.

k) **Future accounting policies**

IFRS 9, Financial Instruments, will replace the guidance provided in IAS 39, Financial Instruments Recognition and Measurements, in regards to the classification and measurement of financial assets. This change will be completed and implemented in three separate phases: (i) classification and measurement of financial assets and liabilities; (ii) impairment of financial assets; and (iii) hedge accounting. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of IFRS 9 has not yet been determined.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), will replace the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers, with the exception of revenue earned from contracts in the scope of other standards, such as

financial instruments, insurance contracts and leases. The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenues and cash flows arising from transactions with customers. IFRS 15 is effective for the fiscal year beginning January 1, 2018. The extent of the impact of adoption of IFRS 15 has not yet been determined.

**1) Use of estimates and judgment**

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Management reviews accounts receivable in detail at each reporting period and provides for specific accounts that are deemed to not be collectible. The amortization recorded on property and equipment is based on the estimated useful life of the assets based on management's judgment.

The Company determines the functional currency for each entity by performing an assessment of the primary economic environment in which each entity operates. The determination of functional currency affects how the Company translates foreign currency balances and transactions. The Company considered the currency that primarily influences or determines the selling price of its services and the cost of providing those services to be United States dollars IFC and HRL. As an investment holding company, management of Inspira reviewed the secondary indicators of functional currency including its issuance of shares, incurring of costs and cash holdings, all of which are in Canadian dollars. Management thus concluded that the functional currency of Inspira was Canadian dollars.

The Company measures share based payments to employees and contractors by reference to the fair value of the equity instruments at the date on which they are granted or committed. The fair value of shares is based on recent transactions with arm's length parties. The fair value of options and warrants requires an estimation of fair value based on a valuation model, which is dependent on the terms and conditions of the instrument. This estimate also requires the determination of the most appropriate inputs to the valuation including the expected life of the share option, volatility, dividend yield and the likelihood and pricing of a liquidation event. The assumptions and models used for estimating fair value of share based payments and warrants are disclosed in Note 8.

The Company is subject to income taxes in multiple jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes as there are certain transactions and calculations for which the ultimate tax determination is uncertain.

**Inspira Financial Inc.**  
**Notes to the Consolidated Financial Statements (Unaudited)**  
Quarter Ended May 31, 2015  
(in Canadian Dollars)

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Changes in tax law or interpretations, including changes to statutory tax rates, may also impact the Company's effective tax rate and tax provision.

#### 4. Credit receivables

|                                             | May 31, 2015        |
|---------------------------------------------|---------------------|
| Revolving line of credit receivables, gross | \$ 4,389,250        |
| Discount on credit receivables              | (192,275)           |
|                                             | <u>\$ 4,196,975</u> |

The Company's did not record an allowance for losses on credit receivables at May 31, 2015.

The nature of the Company's business involves funding or assuming the credit risk on receivables offered to it by its clients. These transactions are conducted on terms that are usual and customary to the Company's revolving line of credit activities. The Company controls the credit risk associated with its credit receivables in a variety of ways.

Interest income earned on credit receivables totaled \$60,129.

#### 5. Segmented information

The Company operates and manages its business in one dominant industry segment – providing asset-based financial services to healthcare providers in the United States.

Period from March 1, 2015 to May 31, 2015:

|                                             | United States | Canada       | Total         |
|---------------------------------------------|---------------|--------------|---------------|
| Identifiable assets at May 31, 2015         | \$ 24,899,670 | \$ 2,991,285 | \$ 27,890,955 |
| Revenue                                     | 84,776        | 121          | 84,897        |
| Expenses                                    |               |              |               |
| Salaries, wages and benefits                | 96,297        | 2,124        | 98,421        |
| General and administrative                  | 62,684        | 2,803        | 65,487        |
| Professional fees                           | 27,555        | 0            | 27,555        |
| Business development – share based payments | 4,760         | 65,700       | 70,460        |
| Exchange loss / (gain)                      | -             | 5,717        | 5,717         |
| Unrealized foreign loss / (gain)            | (196)         |              | (196)         |
| Net Income/(Loss)                           | \$ (106,324)  | \$ (76,223)  | \$ (182,547)  |

## 6. Income taxes

The Company is subject to tax in Canada and the United States of America. During the quarter ended May 31, 2015, the statutory rate in these jurisdictions was 26.5% and 39% respectively. The Company's income tax expense is as follows:

|                                     | May 31, 2015 |
|-------------------------------------|--------------|
| Net loss before tax expense         | \$ 182,547   |
| Expected recovery                   | ( 51,607)    |
| Difference due to foreign tax rates | -            |
| Non-deductible expenses             | -            |
| Other                               | -            |
| Change in benefit not recognized    | 51,607       |
| Income tax expense                  | \$ -         |

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

|                                            | 2015        |
|--------------------------------------------|-------------|
| Deferred tax assets                        |             |
| Share Issue Costs                          | \$ 247,415  |
| Non-capital losses carried forward- Canada | 1,019,813   |
| Non-capital losses carried forward- US     | 9,347       |
| Deferred tax asset not recognized          | (1,276,575) |
|                                            | \$ -        |

The future benefit of US non-capital losses carried forward may be limited on an annual basis and in total under Section 382 of the US Internal Revenue Code as a result of prior and future ownership changes. The Company has not yet recognized deferred tax assets related to these amounts as it is not yet probable that these carryforward losses and temporary differences will be utilized in the foreseeable future. The losses expire in 20 years.

## 7. Accumulated other comprehensive income

Accumulated other comprehensive income ("AOCI") solely comprises the unrealized foreign exchange gain (commonly referred to as cumulative translation adjustment) arising on translation of the assets and liabilities of the Company's foreign subsidiaries which report in U.S. dollars and are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Changes in the AOCI balance during 2015 are set out in the consolidated statement of changes in shareholders' equity.



**Inspira Financial Inc.**  
**Notes to the Consolidated Financial Statements (Unaudited)**  
Quarter Ended May 31, 2015  
(in Canadian Dollars)

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## 8. Share capital

### Authorized

Unlimited voting common shares without par value

### Changes to share capital:

|                                                              | Number of Shares   | Amount (\$)       |
|--------------------------------------------------------------|--------------------|-------------------|
| Issued at incorporation (i)                                  | 62,725,000         | 1,102             |
| Shares issued through private placement, net of costs (ii)   | 3,537,524          | 176,876           |
| Shares issued through private placement, net of costs (iii)  | 1,700,000          | 170,000           |
| Shares issued through private placements, net of costs (iv)  | 72,350,000         | 6,094,301         |
| Shares issued to third parties in exchange for services (v)  | 10,363,000         | 1,036,300         |
| Share capital allocated to warrants (iii) & (iv)             | -                  | (103,417)         |
| Share capital allocated to broker warrants (iv)              | -                  | (136,684)         |
| Shares issued through private placement, net of costs (vi)   | 36,423,750         | 3,642,375         |
| Shares issued through private placement, net of costs (vii)  | 19,729,322         | 2,960,591         |
| Shares issued through private placement, net of costs (viii) | 75,925,552         | 11,199,548        |
| Share capital allocated to warrants (vi), (vii) & (viii)     | -                  | (108,272)         |
| Share capital allocated to broker warrants (iv)              | -                  | (241,438)         |
| <b>As at May 31, 2015</b>                                    | <b>282,754,148</b> | <b>24,691,282</b> |

- (i) From the period from incorporation (May 14, 2014) to February 28, 2015, the Company issued 62,725,000 voting common shares for proceeds of \$1,102.
- (ii) On July 10, 2014, the Company issued 3,537,524 voting common shares for gross proceeds \$176,876. Costs directly attributable to the issuances amounted to \$nil.
- (iii) On August 19, 2014, the Company issued 1,700,000 voting common shares for gross proceeds of \$170,000. In conjunction with the offering, the Company issued 850,000 warrants with an exercise price of \$0.15 expiring 90 days following a liquidity event. The warrants were valued at \$129. Costs directly attributable to the issuances amounted to \$nil.
- (iv) From the period from incorporation (May 14, 2014) to February 28, 2015, the Company issued 72,350,000 voting common shares for gross proceeds of \$7,235,000. In conjunction with the offering, the Company issued 35,175,000 warrants with an exercise price of \$0.15 expiring 90 days following a liquidity event and 35,175,000 warrants with an exercise price of \$0.15 expiring 12 months following a liquidity event. The warrants were valued at \$5,322 and \$96,020 respectively. The Company



also issued 5,194,000 broker warrants with an exercise price of \$0.10 expiring two years following a liquidity event. The broker warrants were valued at \$105,734. Costs directly attributable to the issuance amounted to \$115,603.

- (v) From the period from incorporation (May 14, 2014) to February 28, 2015, the Company issued 10,363,000 voting common shares in exchange for services rendered in support of business development. The fair value of these shares was determined by reference to the Company's equity value at the time of the grant \$0.10.
- (vi) Between March 2, 2015 and April 13, 2015 the Company issued 36,423,750 common shares at \$0.10 per share of Inspira for aggregate gross proceeds of \$3,642,375. In conjunction with the offering, the Company issued 24,086,875 warrants with an exercise price of \$0.15 expiring 90 days following a liquidity event and 24,086,875 warrants with an exercise price of \$0.15 expiring 12 months following a liquidity event. The warrants were valued at \$3,645 and \$65,752 respectively. The Company also issued 630,000 broker warrants with an exercise price of \$0.10 expiring two years following a liquidity event. The broker warrants were valued at \$12,825. Transaction costs of \$218,543, along with the fair value of warrants and broker warrants, have been applied against the proceeds of the issuance of the securities.
- (vii) Between April 14, 2015 and May 11, 2015, the Company issued 19,729,322 common shares at \$0.15 per share of Inspira for aggregate gross proceeds of \$2,960,591. In conjunction with the offering, the Company issued 15,014,647 warrants with an exercise price of \$0.30 expiring 12 months following a liquidity event. The warrants were valued at \$10,576. The Company also issued 1,364,819 broker warrants with an exercise price of \$0.15 expiring two years following a liquidity event. The broker warrants were valued at \$41,675. Transaction costs of \$177,564, along with the fair value of warrants and broker warrants, have been applied against the proceeds of the issuance of the securities.
- (viii) Between April 14, 2015 and May 11, 2015, the Company issued 75,925,552 common shares at \$0.15 per share of Inspira for aggregate gross proceeds of \$11,199,548. In conjunction with the offering, the Company issued 39,943,142 warrants with an exercise price of \$0.30 expiring 12 months following a liquidity event. The warrants were valued at \$28,134. The Company also issued 6,122,035 broker warrants with an exercise price of \$0.15 expiring two years following a liquidity event. The broker warrants were valued at \$24,926. Transaction costs of \$189,286, along with the fair value of warrants and broker warrants, have been applied against the proceeds of the issuance of the securities.

**Inspira Financial Inc.**  
**Notes to the Consolidated Financial Statements (Unaudited)**  
Quarter Ended May 31, 2015  
(in Canadian Dollars)

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Warrants to acquire voting common shares outstanding, exercisable and in escrow at May 31, 2015 were as follows:

| <b>Date Issued</b>     | <b>Weighted average exercise price \$</b> | <b>Weighted average remaining contractual life in years</b> | <b>Outstanding and exercisable</b> |
|------------------------|-------------------------------------------|-------------------------------------------------------------|------------------------------------|
| August 19, 2014        | \$0.15                                    | 90 Days post liquidity event                                | 850,000                            |
| November 12, 2014      | \$0.15                                    | 90 Days post liquidity event                                | 1,000,000                          |
| Nov / Dec 2014         | \$0.15                                    | 90 Days post liquidity event                                | 10,860,000                         |
| Nov / Dec 2014         | \$0.30                                    | 1 year post liquidity event                                 | 10,860,000                         |
| Jan / Feb 2015         | \$0.15                                    | 90 Days post liquidity event                                | 35,175,000                         |
| Jan / Feb 2015         | \$0.15                                    | 1 year post liquidity event                                 | 35,175,000                         |
| Mar / Apr 2015         | \$0.15                                    | 1 year post liquidity event                                 | 24,086,875                         |
| Mar / Apr 2015         | \$0.15                                    | 1 year post liquidity event                                 | 24,086,875                         |
| Apr / May 2015         | \$0.30                                    | 1 year post liquidity event                                 | 54,957,789                         |
| 2014 and 2015 - broker | \$0.10                                    | 2 years post liquidity event                                | 7,344,400                          |
| 2014 and 2015 - broker | \$0.15                                    | 2 years post liquidity event                                | 7,486,854                          |
|                        | <b>\$0.19</b>                             |                                                             | <b>214,111,543</b>                 |

No warrants were exercised or expired during the period.

The fair value of each warrant issued to shareholders and in escrow was estimated using the Black Scholes model with the following significant assumptions:

|                         |                                                                 |                                                                 |
|-------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------|
| Expected option life    | Contractual life following a liquidity event, 90 days or 1 year | Contractual life following a liquidity event, 90 days or 1 year |
| Expected volatility     | 35%                                                             | 35%                                                             |
| Risk-free interest rate | 1%                                                              | 1%                                                              |
| Dividend                | Nil                                                             | Nil                                                             |
| Underlying share price  | \$0.15                                                          | \$0.15                                                          |
| Strike price            | \$0.15                                                          | \$0.30                                                          |

Expected volatility was estimated by reference to comparable listed entities including those on which the Company's share price was based. The expected volatility additionally includes consideration for the likelihood that a liquidity event does not occur prior to the contractual life of the warrants expiring.

The fair value of the broker warrants issued in conjunction with the above offering was estimated using the Black Scholes model with the following significant assumptions:

|                         |           |           |
|-------------------------|-----------|-----------|
| Expected option life    | 24 months | 24 months |
| Expected volatility     | 35%       | 35%       |
| Risk-free interest rate | 1%        | 1%        |
| Dividend                | Nil       | Nil       |
| Underlying share price  | \$0.10    | \$0.15    |
| Strike price            | \$0.10    | \$0.15    |

## 9. Subscription receipts

Prior to February 28, 2015, the Company issued subscription receipts for the issuance of 21,720,000 voting common shares for gross proceeds of \$2,172,000. The subscription receipts are automatically convertible into common shares of the Company on completion of a liquidity event. Proceeds related to the subscription receipts are refundable if a liquidity event is not completed by December 31, 2015.

In conjunction with the offering, the Company issued 10,860,000 warrants with an exercise price of \$0.15 expiring 90 days following a liquidity event and 10,860,000 warrants with an exercise price of \$0.30 expiring 12 months following a liquidity event. The warrants were valued at \$151 and \$1,643 respectively. The Company also issued 1,520,400 broker warrants with an exercise price of \$0.10 expiring two years following a liquidity event. The broker warrants were valued at \$30,951. Costs directly attributable to the issuance amounted to \$178,799.

## 10. Senior debentures

On May 4, 2015, the Company issued non-convertible unsecured senior debentures with a 4% coupon, payable quarterly in arrears, for gross proceeds of \$2,228,750. In conjunction with the offering, the Company issued 2,228,750 warrants with an exercise price of \$0.40 expiring 12 months following a liquidity event. The warrants were valued at a nominal value.

## 11. Financial risk management

The Company is exposed to credit, liquidity and market risks related to the use of financial instruments in its operations. The Board has overall responsibility for the establishment and oversight of the Company's risk management framework through its Audit Committee. In this respect, the Audit Committee meets with management and the Company's Risk Management Committee at least quarterly. The Company's risk management policies are established to identify, analyze, limit, control and monitor the risks faced by the Company.

Risk management policies and systems are reviewed regularly to reflect changes in the risk environment faced by the Company.

**a) Credit risk**

Credit risk is the risk of financial loss to the Company if a client fails to meet its contractual obligations. In the Company's case, credit risk arises with respect to its lines of credit to clients and any other financial transaction with a counterparty that the Company deals with. The carrying amount of these lines of credit represents the Company's maximum credit exposure and is the most significant measurable risk that it faces. The nature of the Company's asset-based lending business involves funding the receivables offered to it by its clients. Typically, the Company files a lien against the pledged receivables and requires either a single or double lockbox arrangement. The Company does not lend on an unsecured basis.

Credit is evaluated by financial underwriters and is authorized by supervisory personnel, management and, in the case of credit in excess of \$1.0 million, the Company's President and the Chairman of its Board. The Company monitors and controls its risks and exposures through financial, credit, legal and technology based systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers.

The Company's clients have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from the invoice date. Clients' receivables generally become "ineligible" for lending purposes when they reach a certain predetermined age, usually above 90 or 120 days from invoice date.

The Company employs a 5-step client approval process to assess credit risk, which reviews, amongst other things, the financial strength of each client and the Company's underlying security. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of the highest quality, that being due from the U.S. Government healthcare programs such as Medicare and Medicaid. The Company does not lend against any inventory, equipment or any other tangible asset.

The Company also minimizes credit risk by limiting the maximum amount that it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables and making receivables ineligible for lending purposes as they become older. The Company generally mandates the use of a single or double lockbox system, where the clients' receivables are flowed through bank accounts controlled by the Company, thereby allowing it to quickly identify problems as and when they arise and act promptly

to minimize credit losses.

The Company's credit exposure relating to its credit receivables at May 31, 2015 was as follows:

|                          | May 31, 2015 |
|--------------------------|--------------|
| Gross credit receivables | \$ 4,389,250 |

**b) 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's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its accounts payable and other liabilities.

At May 31, 2015, the Company had short-term assets in excess of \$23.6 million, which substantially exceeded its total liabilities of \$2.1 million.

All assets and liabilities, other than capital assets are expected to be settled within 12 months at the values stated in the consolidated statements of financial position.

**c) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its financial instruments. The objective of managing market risk is to control market risk exposures within acceptable parameters, while optimizing the return on risk.

**d) Currency risk**

The Company is exposed to currency risk primarily in its foreign operations which operate in U.S. dollars, to the full extent of the foreign operations net assets of approximately U.S. \$20 Million at May 31, 2015. The Company's investment in its foreign operations is not hedged as it is long-term in nature. Unrealized foreign exchange gains or losses arise on translation of the assets and liabilities of the Company's foreign operations into Canadian dollars each period end. Resulting foreign exchange gains or losses are credited or charged to other comprehensive income or loss with a corresponding entry to the AOCI component of equity. The Company is also subject to foreign currency risk on the earnings of its foreign operations which report in U.S. dollars and are unhedged. A change in the U.S. dollar against the Canadian dollar would change the Company's annual net earnings. It would also change other comprehensive income or loss and the AOCI component of equity.

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally cash. These assets are not hedged.

e) **Interest rate risk**

Interest rate risk pertains to the risk of loss due to the volatility of interest rates. The Company's lending and borrowing rates are usually based on bank prime rates of interest or LIBOR and are typically variable. The Company actively manages its interest rate exposure, where possible.

**12. Related party transactions**

During the three months ended May 31, 2015, the Corporation did not expense any related party transactions.

**13. Fair value of financial assets and liabilities**

Any financial assets or liabilities recorded at cost are short term in nature and, therefore, their carrying values approximate fair values. Under the fair value hierarchy, finance receivables and loans are classified as Level 3.

**14. Capital disclosure**

The Company's current capital structure includes equity. The Company considers the share capital to represent the amount of equity available to be used to provide RLOCs to clients. The Company's objectives when managing capital are to: (a) maintain financial flexibility in order to preserve its ability to meet financial obligations and continue as a going concern; (b) maintain a capital structure that allows the Company to finance its growth using internally generated cash flow and debt capacity; and (c) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. 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. To maintain or adjust its capital structure, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay other debt.



## 15. Amalgamation

On April 29, 2015, Chrysalis Capital IX Corporation ("Chrysalis IX") provided further details of its proposed merger (the "Amalgamation") with the Company. Pursuant to the Amalgamation, Chrysalis IX and the Company will combine their businesses by means of a three-cornered amalgamation.

Following the qualifying transaction, the current shareholders of Chrysalis IX will hold approximately 2.1% of the Resulting Issuer Shares, the current shareholders of Inspira will hold approximately 70.2% of the Resulting Issuer Shares, current holders of the previously issued Inspira subscription receipts will hold approximately 7.4% of the Resulting Issuer Shares, and subscribers in the Concurrent Financing will hold approximately 20.4% of the Resulting Issuer Shares.

## 16. Subsequent events

On June 26, 2015 the Company announced the execution of an amalgamation agreement dated June 24, 2015 (the "Amalgamation Agreement") between Chrysalis IX, Inspira Financial Inc. ("Inspira") and a wholly owned subsidiary of Chrysalis IX in connection with its proposed Qualifying Transaction with Inspira, previously announced on April 29, 2015. The Company also announced that it had received conditional approval from the TSX Venture Exchange ("TSXV") for the proposed Qualifying Transaction and has filed its Filing Statement on SEDAR ([www.sedar.com](http://www.sedar.com)) pursuant to TSXV requirements in connection with the proposed Qualifying Transaction.

On July 8, the Company announced the closing of its previously announced Qualifying Transaction with Inspira Financial Inc. ("Inspira"). As a result of the transactions completed in connection with the Qualifying Transaction, Chrysalis IX is now a British Columbia corporation called "Inspira Financial Inc." (the "Resulting Issuer").

On July 14, the Company announced that it had commenced trading on the TSX Venture Exchange under the trading symbol LND.