

Hemostemix Inc.

Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian Dollars)

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December 31, 2016 and 2015

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Independent Auditors' Report

To the Shareholders of Hemostemix Inc.

We have audited the accompanying consolidated financial statements of Hemostemix Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the statements of loss and comprehensive loss, changes in deficiency, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audits opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hemostemix Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Hemostemix Inc.'s ability to continue as a going concern.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
May 1, 2017

MNP

Hemostemix Inc.

Consolidated Statements of Financial Position (Expressed in Canadian Dollars)

	December 31, 2016	December 31, 2015
Assets		
Current		
Cash and cash equivalents	\$ 34,834	\$ 506,581
HST receivable	16,012	18,912
Other receivables and prepaid expenses (note 4)	74,427	79,696
	125,273	605,189
Other receivables and prepaid expenses - non-current (note 4)	-	52,757
Equipment, net (note 5)	101,837	138,861
Intangible assets, net (note 6)	1	1
	\$ 227,111	\$ 796,808
Liabilities		
Current		
Accounts payable and accrued expenses (notes 7 and 15)	\$ 1,518,040	\$ 615,532
Income taxes payable	4,805	7,197
Demand notes payable (note [8a])	500,000	-
Convertible promissory notes payable (note [8b])	578,508	-
Derivative liability (note [8c])	775,325	-
	3,376,678	622,729
Convertible debenture payable (note [8c])	312,659	-
	3,689,337	622,729
Deficiency		
Share capital (note 9)	22,097,981	21,952,821
Contributed surplus (note 11)	848,697	917,857
Equity portion of convertible debt (note 12)	72,207	-
Deficit	(26,481,111)	(22,696,599)
	(3,462,226)	174,079
	\$ 227,111	\$ 796,808

Going concern (note 1)

Commitments and contingencies (note 14)

Subsequent events (note 17)

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

Approved by the Board

Signed: "David Wood"

Director, David Wood

Signed: "Angus Jenkins"

Director, Angus Jenkins

Hemostemix Inc.

Consolidated Statements of Loss and Comprehensive Loss

for the years ended December 31

(Expressed in Canadian Dollars)

	2016	2015
Expenses		
Research and development salaries and related benefits	\$ 649,940	\$ 660,029
Research and development consulting fees (note 4)	178,643	639,227
Research and development expenses (note 4)	-	191,605
Consultant fees (note 14)	1,348,725	1,135,095
Lease and office maintenance	463,649	604,954
Professional fees	918,019	562,828
Travel expenses	39,295	151,088
Depreciation (note 5)	38,556	36,877
Accretion expense (note [8b] and [8c])	74,439	-
Foreign exchange loss (gain)	34,976	(22,949)
Finance expenses	2,275	3,565
Change in fair value of derivative (note [8c])	46,290	-
Net loss and comprehensive loss for the year before income tax expense	(3,794,807)	(3,962,319)
Income tax (recovery) expense (note 13)	(10,295)	22,749
Net loss and comprehensive loss for the year	\$ (3,784,512)	\$ (3,985,068)
Loss per share – basic and diluted	\$ (0.06)	\$ (0.06)
Weighted average number of common shares outstanding		
- Basic and diluted	67,409,376	65,723,465

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

Hemostemix Inc.

Consolidated Statements of Changes in Deficiency

for the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Contributed Surplus	Equity Portion of Convertible Debt	Deficit	Total
Balance, December 31, 2014	65,178,839	\$ 21,140,085	\$ 961,082	\$ -	\$ (18,711,531)	\$ 3,389,636
Proceeds from private placement	1,261,000	819,650	-	-	-	819,650
Shares issued as agent's fees	35,000	-	-	-	-	-
Shares issue costs	-	(171,779)	-	-	-	(171,779)
Exercise of share options	475,000	90,725	(43,225)	-	-	47,500
Exercise of warrants	148,280	74,140	-	-	-	74,140
Net loss and comprehensive loss for the year	-	-	-	-	(3,985,068)	(3,985,068)
Balance, December 31, 2015	67,098,119	\$ 21,952,821	\$ 917,857	\$ -	\$ (22,696,599)	\$ 174,079
Exercise of share options	760,000	145,160	(69,160)	-	-	76,000
Equity component of convertible promissory notes, net of deferred tax recovery	-	-	-	72,207	-	72,207
Net loss and comprehensive loss for the year	-	-	-	-	(3,784,512)	(3,784,512)
Balance, December 31, 2016	67,858,119	\$ 22,097,981	\$ 848,697	\$ 72,207	\$ (26,481,111)	\$ (3,462,226)

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

Hemostemix Inc.

Consolidated Statements of Cash Flows

for the years ended December 31

(Expressed in Canadian Dollars)

	2016	2015
Cash flow from operating activities		
Net loss for the year	\$ (3,784,512)	\$ (3,985,068)
Items not affecting cash:		
Depreciation expense	38,556	36,877
Accretion expense	74,439	-
Change in fair value of derivative	46,290	-
Deferred income tax recovery	(26,030)	-
Non-cash working capital items:		
Other receivables and prepaid expenses	58,026	100,693
HST receivable	2,900	231,350
Accounts payable and accrued expenses	902,508	97,791
Income taxes payable	(2,392)	(26,765)
	(2,690,215)	(3,545,122)
Cash flow from investing activity		
Purchase of equipment	(1,532)	(23,295)
Cash flow from financing activities		
Proceeds from the issuance of demand notes	500,000	-
Proceeds from the issuance of promissory notes	644,000	-
Proceeds from the issuance of debenture	1,000,000	-
Proceeds from private placement, net	-	647,871
Exercise of share options	76,000	47,500
Exercise of warrants	-	74,140
	2,220,000	769,511
Decrease in cash and cash equivalents	(471,747)	(2,798,906)
Cash and cash equivalents, beginning of year	506,581	3,305,487
Cash and cash equivalents, end of year	\$ 34,834	\$ 506,581

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

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

1. Nature of the Company and Going Concern

Hemostemix Inc. (“The Company”) is a biotechnology company whose principal business is to develop, manufacture and commercialize blood-derived cell therapies for medical conditions not adequately addressed by current treatments. Hemostemix Inc., a new entity under the Business Corporations Act (Alberta) was formed by way of amalgamation of Theravita Inc. (“TVI”) and Technical Ventures RX Corp (“Technical”). The Company’s head office is located at 1015 – 4 Street, Suite 730, Calgary, Alberta.

On November 10, 2014, Technical closed a qualifying transaction with TVI by way of a reverse take-over transaction pursuant to which the parties amalgamated to form Hemostemix Inc. [see note 3]. TVI was originally incorporated under the Canada Business Corporations Act and has two wholly-owned subsidiaries. Kwalata Trading Ltd, incorporated under the laws of Cyprus was established to own intellectual property (“IP”). Hemostemix Ltd, another wholly-owned subsidiary was incorporated under the laws of Israel.

The Company incurred a net loss of \$3,784,512 during the year ended December 31, 2016 (2015 - \$3,985,068) and had an accumulated deficit as of December 31, 2016, was \$26,481,111 (2015 - \$22,696,599). Recurring sources of revenue have not yet proven to be sufficient, as the Company’s biotechnology is at an early stage and the Company has not achieved operational profitability and positive cash flows.

These conditions raise significant doubt about the Company's ability to continue operating as a going concern. The consolidated financial statements do not include any adjustments to reflect any events since December 31, 2016 or the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from this uncertainty.

The Company's ability to continue to operate is dependent upon additional financial support. During 2014 and 2015 the Company completed private placement financings for total of net proceeds of \$6,107,858 and \$647,871. During 2016 the Company raised proceeds of \$2,144,000 from the issuance of debt. Subsequent to the year ended December 31, 2016, on January 25, 2017, the Company converted \$1,184,000 in debt with the issuance of 6,725,000 shares of the Company. The debt conversions included (a) \$644,000 in promissory notes converted at \$0.16 per share resulting in the issuance of 4,025,000 Shares, (b) \$500,000 of demand loans at \$0.20 per share resulting in the issuance of a further 2,500,000 Shares, and (c) \$40,000 owed pursuant to a Right of First Refusal Waiver Agreement resulting in a further issuance of 200,000 Shares.

In addition, on January 25, 2017 the Company secured a demand loan agreement providing \$750,000 in funding at an annual rate of 12% compounded and payable (interest only) monthly.

On April 10, 2017, the Company announced that an agreement has been reached with a private equity investment firm, on a non-brokered senior secured debt financing of \$4,400,000 in one or more tranches with possible conversion privileges. The agreement also contemplates that the Company is to complete a non-brokered or brokered private placement or placements of a minimum of \$4,000,000 up to a maximum of \$8,000,000 on terms substantially similar to the conversion privileges in respect of the Secured Debt Financing above. There can be no assurance that this agreement will be completed at this time.

These consolidated financial statements were approved by the Company’s Board of Directors on April 27, 2017.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Summary of Significant Accounting Policies

Statement of compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Basis of presentation

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

Consolidated financial statements

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Kwalata Trading Ltd. and Hemostemix Ltd. The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is determined when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases.

These consolidated financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by the Company and all subsidiaries. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. Each subsidiary determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the subsidiaries is Canadian dollars. Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences, other than those capitalized to qualifying assets or recorded in equity in hedging transactions, are recognized in profit or loss. Non-monetary assets and liabilities measured at cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

Segment reporting

The Company's CEO is identified as the chief operating decision maker. The CEO evaluates the performance of the Company and allocates resources based on the information provided by the Company's management system. The Company has determined that it only has one operating segment. The Company has current assets of \$67,901 (2015 - \$187,879) and non-current assets of \$Nil (2015 - \$191,619) located in Israel, the remaining assets are located in Canada. The Company has yet to earn revenue.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Summary of Significant Accounting Policies - continued

Use of estimates and judgments

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from estimates made in these consolidated financial statements. Areas where estimates are significant to these consolidated financial statements are as follows;

- i) The estimates used in determine the fair value for the derivative liability, which is composed of estimates made by management in determining the appropriate input variables in the option pricing valuation model as disclosed in Note 8.

Financial instruments

Financial instruments of the Company consist of cash and cash equivalents, other receivables and accounts payable and accrued expenses, demand notes payable, convertible notes payable, derivative liability and convertible debenture payable.

Financial assets

All financial assets are recognized and derecognized on the trade date, where their purchase or sale are under a contract whose terms require delivering the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for financial assets classified at fair value through profit or loss, which are initially measured at fair value. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Company does not currently have any financial assets in the held-to-maturity or available-for-sale categories.

Other receivables having fixed or determinable payments and not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables for which recognizing interest would be immaterial.

The Company assesses financial assets, other than those at FVTPL, for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initially recognizing the financial asset, the investment's estimated future cash flows have been affected. Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments, or it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment is 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. For trade receivables, the carrying amount is reduced through an allowance account.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Summary of Significant Accounting Policies - continued

Financial instruments - continued

Financial liabilities

The Company classifies financial liabilities as either financial liabilities at 'FVTPL' or 'other financial liabilities'. Other financial liabilities, consisting of accounts payable and accrued expenses, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, recognizing interest expense on an effective yield basis.

The Company's financial instruments consist of the following:

Cash and cash equivalents	Loans and receivables
Other receivables	Loans and receivables
Accounts payable and accrued expenses	Other financial liabilities
Demand notes payable	Other financial liabilities
Convertible notes payable	Other financial liabilities
Convertible debenture payable	Other financial liabilities
Derivative liability	Fair value through profit and loss

Financial instruments recorded at fair value in the unaudited statement of financial position are classified according to a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The financial instruments that are measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The derivative liability is classified as level 3 in the fair value hierarchy.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Summary of Significant Accounting Policies - continued

Cash and cash equivalents

Cash and cash equivalents are defined as cash plus highly liquid assets with an original term to maturity of three months or less. As at December 31, 2016, the Company did not have any cash equivalents (2015 - \$Nil).

Research and development costs

The Company expenses amounts paid for intellectual property, development and production expenditures as they are incurred. However, such costs are deferred and recorded in intangible assets when they meet generally accepted criteria, to the extent that their recovery can reasonably be regarded as assured.

The costs must meet the following criteria to be deferred: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; the probability of future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Once those criteria are met, the future costs, such as costs to obtain patent or trademark protection over the developed technologies, will be capitalized. These costs are then amortized over their expected useful lives. To date it has not been demonstrated that these expenditures will generate or be able to be used to generate probable future economic benefits.

Equipment

Equipment is recorded at cost less accumulated depreciation and impairment, if any. These assets are depreciated over their estimated useful lives using the following annual rates and methods:

Computers and equipment	33%	declining balance
Office furniture and equipment	7% - 15%	declining balance

Impairment of non-financial assets

The carrying amount of the Company's non-financial assets (which include equipment and intangibles) is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the period.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Summary of Significant Accounting Policies - continued

Impairment of non-financial assets - continued

The recoverable amount of assets is the greater of an asset's fair value less cost 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 the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount; however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. An impairment loss with respect to goodwill is never reversed.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account risks and uncertainty of cash flow.

Share-based compensation

The Company measures equity-settled share-based payments to employees and others providing similar services at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is calculated using the Black-Scholes option valuation model and is expensed on a graded vesting basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, and credited to contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. When options are exercised, the proceeds together with the amount originally credited to contributed surplus are credited to share capital.

The use of the Black-Scholes model requires inputting a number of assumptions, including expected dividend yield, expected share price volatility, forfeiture rate, expected time until exercise and risk free interest rate. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on conditions outside of the Company's control. If other assumptions were used, share-based compensation could be significantly impacted.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Summary of Significant Accounting Policies - continued

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Tax on income is accrued using the tax rate that would be applicable to expected total annual earnings.

Deferred taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Summary of Significant Accounting Policies - continued

Loss per share

Loss per common share is computed by dividing the net loss by the weighted average number of shares of common stock outstanding during the period. Common stock equivalents are excluded from the computation of diluted loss per share when their effect is anti-dilutive. For the periods presented, the potentially dilutive effect of stock options, warrants and the convertible instruments have proved to be anti-dilutive.

Standards issued and not yet adopted

The following are not expected to be adopted prior to their effective dates, and are being evaluated to determine their impact on the Company.

IFRS 9, Financial Instruments

IFRS 9 – Financial Instruments was issued by the IASB to establish principles for the financial reporting of financial assets and liabilities, including requirements to present certain information relating to the amounts, timing, and uncertainty of the entity’s future cash flows. This standard is mandatorily effective from January 1, 2018, with earlier application permitted. Management intends to adopt IFRS 9 on its effective date and has not yet determined the potential impact on the Company’s consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers is effective for annual periods beginning on or after January 1, 2018, and provides new requirements for recognizing revenue. IFRS 15's core principle is for a company to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 sets out enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. The Company intends to adopt the new Standard on its effective date and has yet to consider the impact on its financial reporting. As the company is not currently earning revenue there is no impact on its financial reporting.

IFRS 16 -Leases

IFRS 16 - Leases sets out a new model for lease accounting, replacing IAS 17. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. IFRS 16 specifies how a reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Early adoption will be permitted, provided the Company has adopted IFRS 15. The Company intends to adopt the new Standard on its effective date and has yet to consider the impact on its financial reporting.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

3. Reverse Take-over Transaction (“RTO”)

During 2014, the Company completed a reverse takeover transaction pursuant to which Technical Ventures RX Corp., a public company closed a qualifying transaction with Theravita Inc. and the two parties amalgamated to form a new entity under the Business Corporations Act (Alberta) called "Hemostemix Inc." (“the Company”). The TSX Venture Exchange accepted the filing of the Company’s Qualifying Transaction effective November 27, 2014, resulting in the shares of the Company beginning to trade on the Exchange under the symbol “HEM”.

Pursuant to the transaction all outstanding Technical Ventures RX Corp. securities were exchanged for securities on the new entity on a one for five basis; and all outstanding Theravita Inc. securities were exchanged on a one for ten basis.

4. Other Receivables and Prepaid Expenses

	December 31, 2016	December 31, 2015
V.A.T. receivable	\$ 2,030	\$ 12,449
Prepaid insurance, rent and security deposit	52,397	100,350
Prepaid research and development expenses	-	19,654
Prepaid legal fees	20,000	-
	74,427	132,453
Less: long-term portion of security deposit	-	52,757
	\$ 74,427	\$ 79,696

During 2014, the Company entered an agreement with Criterium, Inc. ("Criterium"), a multi-national clinical research organization which specialized in administering and managing clinical trials. Criterium managed most aspects of the Company's phase 2 clinical trials. The value of the agreement with Criterium. was approximately US\$3.1 million allocated over the 30-month span of the trial as the expenses are incurred. As at December 31, 2016, the Company had paid Criterium US\$1,368,220 (CAD\$1,833,415). Of the initial payment, US\$150,000 (CAD\$201,233) was required as a deposit for clinical research activities that is maintained and replenished as costs are incurred by Criterium. On June 28, 2016, Criterium notified the Company that it has terminated the agreement and thus placed a hold on enrollment for its phase 2 clinical trials in Canada and South Africa. [see note 14] As a result, at December 31, 2016, given the company had the legal right to offset, the deposit has been applied to invoices and reduced to \$Nil resulting in a net balance payable to Criterium of US\$71,290 (CAD\$90,565).

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

5. Equipment

	Computers and equipment	Office furniture and equipment	Total
Cost			
As at December 31, 2014	\$ 31,762	\$ 207,362	\$ 239,124
Additions	3,095	20,200	23,295
As at December 31, 2015	\$ 34,857	\$ 227,562	\$ 262,419
Additions	1,532	-	1,532
As at December 31, 2016	\$ 36,389	\$ 227,562	\$ 263,951
Accumulated depreciation			
As at December 31, 2014	\$ 9,619	\$ 77,062	\$ 86,681
Depreciation	2,760	34,117	36,877
As at December 31, 2015	\$ 12,379	\$ 111,179	\$ 123,558
Depreciation	3,326	35,230	38,556
As at December 31, 2016	\$ 15,705	\$ 146,409	\$ 162,114
Net book value			
As at December 31, 2015	\$ 22,478	\$ 116,383	\$ 138,861
As at December 31, 2016	\$ 20,684	\$ 81,153	\$ 101,837

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

6. Intangible Assets

Proprietary Protection - The Company's intellectual property is protected by several issued patents grouped together in five patent families, which currently have a carrying value of \$1 (2015 - \$1). Additional provisional patent applications have been filed and patents continue to be prosecuted in additional countries; however, the Company has determined that none of these costs meet their criteria for deferral (2015 - \$Nil).

The five patent families are:

Family Patent	Status	Title
1	Granted in several countries including in the US Pending in Canada	In vitro techniques for use with stem cells
2	Granted in several countries Pending Canada and US	Production from blood of cells of neural lineage
3	Granted in Singapore Pending in Canada and US	Regulating stem cells
4	Granted in several countries including the US Pending in Canada	Regulating stem cells
5	Granted Mexico, Singapore	Automated cell therapy

7. Accounts Payable and Accrued Expenses

	December 31, 2016	December 31, 2015
Accounts payable	\$ 953,403	\$ 409,678
Employee and payroll accruals	139,130	75,388
Accrued expenses	425,507	130,466
	\$ 1,518,040	\$ 615,532

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(Expressed in Canadian dollars)

8. Loans and Borrowings

[a] Demand notes payable consist of the following:	December 31, 2016	December 31, 2015
Demand notes payable	\$ 500,000	\$ -

In October 2016, the Company received total proceeds of \$500,000 from the issuance of notes payable which are repayable on demand. Interest accrues at a rate of 5% per annum, compounded and payable monthly. During the year, the interest on demand notes payable amounted to \$5,531 (2015 - \$Nil).

[b] Convertible promissory notes payable consists of the following:	December 31, 2016	December 31, 2015
Face value of convertible promissory notes upon issuance	\$ 644,000	\$ -
Less: discount	(98,237)	-
Book value of convertible promissory notes on initial recognition	545,763	-
Accretion expense during the year	32,745	-
Convertible promissory notes payable	\$ 578,508	\$ -

On September 2, 2016, the Company closed a private placement offering for gross proceeds of \$1,644,000. The private placement included a \$1,000,000 secured convertible debenture [see note 8c] and \$644,000 convertible promissory notes payable, including \$464,000 advanced from insiders of the Company [see note 15].

The convertible promissory notes payable are unsecured and are convertible into common shares at a price of \$0.16 per common share. The notes bear no interest unless there is a change in control, in which case the interest rate becomes 10%, and are repayable with no penalty within one year from the date of issuance. The convertible promissory notes payable mature on September 2, 2017.

The Company allocated the total proceeds received between the promissory notes payable and equity to account for the conversion feature. The fair value of the promissory notes was deemed to be \$545,763 using a discounted cash flow method and an estimated cost of borrowing of 18%. The residual value of \$98,237 was allocated to equity, net of deferred tax recovery of \$26,030 (note 12). Accretion expense for the year ended December 31, 2016 is \$32,745.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

8. Loans and Borrowings - continued

[c] Convertible debenture payable consists of the following:

	December 31, 2016	December 31, 2015
Face value of convertible debenture upon issuance	\$ 1,000,000	\$ -
Less: Fair value of derivative liability	(729,035)	-
Book value of convertible debenture on initial recognition	270,965	
Accretion expense during the year	41,694	-
Convertible debenture payable	\$ 312,659	\$ -

Pursuant to the private placement that closed on September 2, 2016, (note [8b]) the Company received proceeds of \$1,000,000 from the issuance of a convertible debenture. The debenture is non-interest bearing and due on September 2, 2019. The debenture is secured by a general security agreement and is convertible into units of the Company at a conversion price of \$0.16 per unit. Each unit consists of one common share and one-half common share purchase warrant, each entitling the holder to acquire one additional common share for \$0.30 within 36 months from the date of conversion. The Company may prepay the loan in whole or in part at any time without penalty. The loan contains customary change in control provisions, including acceleration of maturity date and increased interest rate to 10% in the event of change in control. The conversion feature has been recorded as a derivative liability as the exercise price may be adjusted upon the issuance or deemed issuance of additional common shares at a price less than the conversion price contained in the convertible debenture.

The fair value of the derivative liability upon issuance was \$729,035 as valued using an option pricing model with the following assumptions: risk free rate of return of 1.06%, expected share volatility of 68.8%, dividend yield of 0%, expected life of 3 years, the probability of a subsequent equity raise and expected issuance price. The residual value of \$270,965 was allocated to the convertible debenture liability. Accretion expense for the year ended December 31, 2016 was \$41,694.

The derivative liability was re-valued as at December 31, 2016, using an option pricing model with the following assumptions: risk free rate of return of 1.06%, expected share volatility of 68.8%, dividend yield of 0%, expected life of 2.67 years, the probability of a subsequent equity raise and expected issuance price. Change in the fair value of the derivative liability for the year ended December 31, 2016 was \$46,290.

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9. Share Capital

The Company is authorized to issue an unlimited number of shares designated as Common Shares and an unlimited number of shares designated as Preferred Shares.

All share numbers below are represented retroactively after giving effect to the share exchanges completed as part of a Qualifying Transaction on November 10, 2014 as outlined in Note 3.

Common Shares

	Number of Shares #	Amount \$
Balance, December 31, 2014	65,178,839	\$ 21,140,085
Shares issuances (i)	1,261,000	819,650
Shares issued for share issue costs (i)	35,000	-
Share options exercised (ii)	475,000	90,725
Warrants exercised (iii)	148,280	74,140
Share issue costs	-	(171,779)
Balance, December 31, 2015	67,098,119	\$ 21,952,821
Share options exercised (iv)	760,000	145,160
Balance, December 31, 2016	67,858,119	\$ 22,097,981

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian dollars)

9. Share Capital - continued

- (i) On December 2, 2015, the Company entered into share subscription agreements according to which the Company issued 1,261,000 units, at a price of \$0.65 per share, for gross proceeds of \$819,650. Each unit consisted of one common share and a half of one non-transferable common share purchase warrant. The Company issued an additional 35,000 units and 77,780 warrants as a finders' fee to the broker.

The 648,000 non-transferable units are exercisable at \$1.25 a share and the 77,780 agents warrants are exercisable at \$1.25 per share. *[see note 10]*

- (ii) During the year ended December 31, 2015, 475,000 share options were exercised at a price of \$0.10 a share for proceeds of \$47,500. An amount of \$43,225 representing the fair value of the options exercised was transferred from contributed surplus to share capital.
- (iii) During the year ended December 31, 2015, 148,280 warrants were exercised at a price of \$0.50 for proceeds of \$74,140.
- (iv) During the year ended December 31, 2016, 760,000 share options were exercised at a price of \$0.10 a share for proceeds of \$76,000. An amount of \$69,160 representing the fair value of the options exercised was transferred from contributed surplus to share capital.

During the year ended December 31, 2015, the Company incurred cash transaction costs totalling \$171,779 in addition to \$35,000 of costs that were satisfied by the issue of 35,000 units, and \$50,557 of costs that were satisfied by the issue of 77,780 agent warrants at \$0.65.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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10. Warrants

All warrant numbers are represented retroactively after giving effect to the share exchanges completed as part of a Qualifying Transaction on November 10, 2014 as outlined in Note 3.

A summary of the status of the Company's warrants as at December 31, 2016 and 2015 is as follows:

	2016		2015	
	Number of warrants #	Weighted average exercise price \$	Number of warrants #	Weighted average exercise price \$
Balance, beginning of year	1,885,691	0.79	1,522,438	1.68
Granted	-	-	725,780	1.25
Expired	-	-	(214,247)	(9.05)
Exercised	-	-	(148,280)	(0.50)
Balance, end of year	1,885,691	0.79	1,885,691	0.79

In conjunction with a private placement in 2015 the Company issued 648,000 warrants entitling the holder to acquire an additional common share at \$1.25 per share and expiring on December 2, 2017, and 77,780 warrants entitling the holder to acquire an additional common share at \$1.25 and expiring on December 2, 2020.

As well, during 2015, 172,403 warrants at a price of \$9.00, 12,612 warrants at a price of \$10.00 and 29,232 warrants at a price of \$7.50 totalling 214,247 warrants expired, and 148,280 warrants were exercised at a price of \$0.50 for proceeds of \$74,140.

There were no warrants granted or exercised during the year ended December 31, 2016.

The exercise price and expiry date of warrants outstanding as at December 31, 2016 are as follows:

Warrants	Exercise Price	Expiry Date
1,159,911	\$ 0.50	November 27, 2019
648,000	\$ 1.25	December 2, 2017
77,780	\$ 1.25	December 2, 2020
1,885,691		

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(Expressed in Canadian dollars)

11. Share Options

	2016		2015	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Balance, beginning of year	5,305,000	0.11	5,780,000	0.11
Exercised	(760,000)	(0.10)	(475,000)	(0.10)
Expired	(1,875,000)	(0.12)	-	-
Balance, end of year	2,670,000	0.10	5,305,000	0.11

Number of Options #	Exercise Price \$	Weighted average remaining life [years]
2,670,000	0.10	1.81

During 2015, 475,000 share options were exercised at a price of \$0.10 a share for proceeds of \$47,500. An amount of \$43,225 representing the fair value of the options exercised was transferred from contributed surplus to share capital.

During 2016, 760,000 share options were exercised at a price of \$0.10 a share for proceeds of \$76,000. An amount of \$69,160 representing the fair value of the options exercised was transferred from contributed surplus to share capital.

As well, during 2016, 1,775,000 share options at a price of \$0.10 and 100,000 share options at a price of \$0.50 totaling 1,875,000 share options expired.

12. Equity Portion of Convertible Debt

	2016	2015
	\$	\$
Equity component of convertible promissory notes payable	72,207	-
Balance, end of year	72,207	-

During 2016, the Company issued promissory notes totaling \$644,000. The Company bifurcated the equity component from the financial liability component. The value of the financial liability was determined to be \$545,763 and the residual value of \$98,237 was allocated to equity, net of deferred tax recovery of \$26,030. [see note 8b]

Notes to Consolidated Financial Statements

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(Expressed in Canadian dollars)

13. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2015 – 26.5%) to the effective tax rate is as follows:

	2016	2015
Loss before provision for income taxes	\$ (3,794,807)	\$ (3,962,319)
Expected income tax (recovery)	\$ (1,005,624)	\$ (1,050,010)
Adjustments resulting from:		
Difference in foreign tax rates	154,667	191,810
Tax rate changes and other adjustments	(54,516)	(52,580)
Non-deductible expenses	(1,048)	(8,660)
Change in tax benefits not recognized	896,226	942,189
Provision for income taxes (recovery)	\$ (10,295)	\$ 22,749

The Company's income tax expense is allocated as follows:

Current tax expense	\$ 15,735	\$ 22,749
Deferred tax recovery	(26,030)	-
Provision for income taxes (recovery)	\$ (10,295)	\$ 22,749

Notes to Consolidated Financial Statements*December 31, 2016 and 2015*

(Expressed in Canadian dollars)

13. Income taxes - continued

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the 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:

	2016	2015
Equipment	\$ 6,608	\$ 25,500
Share issuance costs	\$ 439,808	\$ 653,160
Cumulative eligible capital	\$ 9,586,618	\$ 9,586,620
Non-capital losses - Canada	\$ 17,008,678	\$ 14,057,300
<u>Intangible assets - Cyprus</u>	<u>\$ 8,681,701</u>	<u>\$ 7,114,460</u>

The Canadian non-capital loss carry forwards expire as noted in the table below. Share issue and financing costs will be fully amortized in 2019. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

2025	\$ 434,530
2026	2,934,190
2027	900,120
2028	642,600
2029	1,340,250
2030	661,800
2031	1,307,720
2032	572,060
2033	2,145,680
2034	279,000
2035	2,948,180
2036	2,842,548
Total	\$ 17,008,678

Notes to Consolidated Financial Statements

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14. Commitments and Contingencies

Lease commitments

The Company and the facility's lessor signed a laboratory and office lease agreement in September 2014. The last leasing period under this agreement expires in 2017.

The minimum lease commitments are as follows:

2017	\$ 109,269
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Contingencies

In 2013, a former CEO and current Director of the Company, sued the Company due to unpaid compensation fees in an amount of \$138,000, with regards to 2008 until 2010 years. On August 16, 2013, the Company filed a statement of defence to the lawsuit. Management does not consider it probable that it must make any cash outflow therefore; the Company has not recorded a provision.

In 2015, the Company was party to a claim made by a former officer and director related to share options held in escrow. While management reached a settlement with this individual for a total of \$120,000, only \$60,000 was paid and then a further claim was made after the settlement regarding options. Management further settled the second claim related to options with a cash settlement of \$120,000 and has included the payments owing in accounts payable in the amount of \$60,000 on December 31, 2016 and the options remain issued and outstanding.

In 2015, the Company was party to a claim made by a former officer related to salary, bonus and options. Management settled the claim on August 12, 2016 in the amount of \$170,000 and subsequent to the end of December 31, 2016, an outstanding balance of \$100,000 was paid in full. \$100,000 of this claim is included in accounts payable on December 31, 2016.

In 2016, the Company was party to a claim made by a former officer and a Company controlled by this officer who have sued based on a historical consulting services agreement. The Company disputes the amounts claimed, but did not have the financial resources available to defend this litigation in the ordinary course of business, and thus, this party has obtained a judgement in the total amount \$345,539. The full amount of this claim is included in accounts payable. The Company is currently negotiating a new form of settlement with this party to try and avoid the possibility that the judgement is enforced, although management maintains that the likelihood of cash outflow is probable.

Consulting Agreement

The Company entered an agreement with Criterium to provide clinical research as described in Note 4. The value of the agreement with Criterium was approximately US\$3.1 million to be allocated over the 30-month span of the trial as the expenses were incurred. As at December 31, 2016, the Company paid Criterium US\$1,368,220 (CAD\$1,833,415). Of the initial payment, US\$150,000 (CAD\$201,232) was required as a deposit for clinical research activities that was to be maintained and replenished as costs were incurred by Criterium.

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14. Commitments and Contingencies - continued

Consulting Agreement -continued

On June 28, 2016, Criterium notified the Company that it had terminated the agreement. As a result, Hemostemix placed a hold on enrollment for its phase 2 clinical trials in Canada and South Africa. As a result, at December 31, 2016, the deposit was applied to invoices and reduced to \$Nil resulting in a net balance payable to Criterium of US\$71,290 (CAD\$90,565). With the termination of this agreement, Criterium is no longer providing any services for the Hemostemix phase 2 clinical trials, including, any further monitoring visits. The Company is evaluating its options as to how it will continue with the clinical trials and ensure patient follow up; however, management has decided to cease enrolling any new patients into the trial until there is assurance these patients can be treated in a timely fashion.

Licensing Agreement

In 2015, the Company announced that it had formed a strategic alliance with Hemostemix Asia, Inc. (“HEMA”), a private, independent company based in Taipei, Taiwan. The agreement covered a manufacturing and commercial license to HEMA of the Company’s ACP-01 technology for treating critical limb ischemia patients in Taiwan, China and South Korea.

On August 29, 2016, the Company announced that it has terminated this agreement with HEMA. Per the agreement, HEMA was supposed to raise US\$5 million toward the implementation of their business plan and contribute up to 20 participants from three to five clinical sites in Taiwan to the ongoing Hemostemix phase-2 clinical trial for treating CLI. The agreement further designated Hemostemix as an equity partner with 35% ownership in HEMA. These obligations were not met as required. HEMA has sued the Company over the termination of this agreement and is seeking \$50,000,000 in damages. The Company disputes the total amounts claimed by HEMA and is currently in discussion and negotiation to have the agreement re-instated subject to certain new conditions and terms, nevertheless, there is no assurance that the Company will be able to re-instate the agreement and have this claim dropped. The Company has not recorded a provision, as negotiations are ongoing and the Company believes that a monetary settlement is not probable.

Management Agreement

Effective December 16, 2016, the Company entered into a Management Contractor Agreement to oversee and manage a reorganization of the Company including the appointment of a new board of directors and management team. The agreement has a term of two years and the contractor will be compensated based on 15% of total operating expenses over the term of the agreement and options to acquire 7% of the Company’s outstanding shares.

Under the terms of this agreement, Kyle Makofka was appointed as Chief Restructuring Officer (“CRO”).

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15. Related Party Balances and Transactions

Related party transactions are conducted on the terms and conditions agreed to by the related parties. It is the Company's policy to conduct all transactions and settle all balances with related parties on market terms and conditions.

The following includes all compensation to key management personnel:

The Company incurred \$495,569 (2015 - \$569,252) in consulting fees to a director, the CFO and former CEO of the Company during the year ended December 31, 2016. As at December 31, 2016, the Company has \$194,698 in accounts payable and accrued liabilities owing to these directors and officers (December 31, 2015 - \$68,260).

Proceeds from directors as part of private placements in 2016 amounted to \$Nil (2015 - \$300,300).

Proceeds of \$76,000 were received from the exercise of 760,000 share options from 2 former directors of the Company in 2016 (2015 - \$37,500 from 375,000 share options).

Proceeds from directors and shareholders in the form of promissory notes payable issued during the 2016 amounted to \$464,000. (2015 - Nil) [see note 8b].

16. Capital and Risk Management

Capital risk management

The Company's objectives when managing capital are:

- ensuring sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- maintaining healthy liquidity reserves and access to capital; and
- minimizing the after-tax cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

To assess its effectiveness in managing capital, management monitors certain key ratios to ensure they are within targeted ranges.

The Company defines its capital as its equity. Its capital management objectives and approach were unchanged during the year.

Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk (including foreign currency and interest rate risk).

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16. Capital and Risk Management - continued

Financial risk management - continued

The Company's financial risk management policies are established to identify and analyze the risks faced by the Company, to set acceptable risk tolerance limits and controls, and to monitor risks and adherence to limits. The financial risk management policies and systems are reviewed regularly to ensure they remain consistent with the objectives and risk tolerance acceptable to the Company and current market trends and conditions. The Company, through its training and management standards and procedures, aims to uphold a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. As at December 31, 2016, the Company has a working capital deficiency of \$3,251,405 (2015 - \$17,540). As at December 31, 2016, the Company has an accumulated deficit of \$26,481,111 (2015 - \$22,696,599) and is not yet generating operating cash flows. The Company believes that it mitigates its liquidity risks to an acceptable level. However, as indicated in note 1, the Company intends on continuing to raise additional funds by way of private placements and through share issuances as part of a publicly traded company, and through the issuance of debt.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. This risk is mitigated by using reputable financial institutions from which management believes the risk of loss to be remote.

Market risk

Interest rate risk arises because of the fluctuation in interest rates. The Company's objective in managing interest rate risk is to minimize the interest expense on liabilities and debt. The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates as the Company does not have any interest-bearing debt.

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17. Subsequent Events

- a) January 25, 2017, the Company converted \$1,184,000 in debt with the issuance of 6,725,000 shares of the Company. The debt conversions included (a) \$644,000 in promissory notes converted at \$0.16 per share resulting in the issuance of 4,025,000 Shares, (b) \$500,000 of demand loans at \$0.20 per share resulting in the issuance of a further 2,500,000 Shares, and (c) \$40,000 owed pursuant to a Right of First Refusal Waiver Agreement resulting in a further issuance of 200,000 Shares. In addition, on January 25, 2017 the Company secured a demand loan agreement providing \$750,000 in funding at an annual rate of 12% compounded and payable (interest only) monthly.

- b) On April 10, 2017, the Company announced that an agreement has been reached with a private equity investment firm, on a non-brokered senior secured debt financing of \$4,400,000 in one or more tranches with possible conversion privileges. The agreement also contemplates that the Company is to complete a non-brokered or brokered private placement or placements of a minimum of \$4,000,000 up to a maximum of \$8,000,000 on terms substantially similar to the conversion privileges in respect of the Secured Debt Financing above.