PIVOTAL THERAPEUTICS INC.

(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

PIVOTAL THERAPEUTICS INC.

(A Development Stage Company)
(Expressed in Canadian Dollars)

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Independent Auditor's Report

To the Shareholders of Pivotal Therapeutics Inc.

We have audited the accompanying consolidated financial statements of Pivotal Therapeutics Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of loss and comprehensive loss, changes in equity (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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pivotal Therapeutics Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

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 Pivotal Therapeutics Inc.'s ability to continue as a going concern.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Canada
April 30, 2015

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash	$ 466,904	$ 487,199
Accounts receivable	56,130	20,107
Government remittances receivable	224,857	130,069
Inventory (Note 3)	282,748	452,294
Production advance (Note 4)	-	165,348
Prepaid expenses and other current assets	58,945	101,429
	1,089,584	1,356,446
Non-current assets		
Equipment (Note 5a)	424,929	74,368
Intangible assets - Intellectual property (Note 5b)	672,429	580,709
	$ 2,186,942	$ 2,011,523
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	$ 448,986	$ 631,283
Government remittances payable	34,051	22,636
Interest payable on convertible promissory note	45,825	-
Current portion of loan payable (Note 6)	-	1,763
	528,862	655,682
Convertible promissory note (Note 7)	5,933,340	-
Loan payable (Note 6)	-	107,526
Advances on convertible promissory notes (Note 7)	-	1,859,767
Conversion option derivative liability (Note 8)	174,866	-
	6,637,068	2,622,975
COMMITMENTS (Note 12)		
DEFICIENCY IN ASSETS		
Share capital (Note 10(a))	8,272,938	7,962,346
Other paid-in capital (Note 10(b))	2,495,812	1,458,518
Warrants (Notes 10(c))	732,645	537,943
Deficit	(15,951,521)	(10,570,259)
	(4,450,126)	(611,452)
	$ 2,186,942	$ 2,011,523

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

SUBSEQUENT EVENT (Note 16)

The accompanying notes form an integral part of these Consolidated Financial Statements.

Approved by the Board of Directors

Signed: *"John Gebhardt"*
John Gebhardt, Director and Chairman of the Audit Committee

Signed: *"Eugenio Bortoluzzi"*
Eugenio Bortoluzzi, CEO and CFO, and Director

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the fiscal years ended December 31, 2014 and 2013

	2014	2013
SALES	$ 306,596	$ 303,530
COST OF SALES	85,610	126,180
GROSS MARGIN	220,986	177,350
EXPENSES		
Selling fees and marketing	1,395,593	1,097,913
Stock-based compensation (Note 10(b))	1,037,294	-
Salaries and benefits	930,781	388,193
Research and development	788,316	454,443
Consulting (Note 11)	708,793	533,339
Office and general	345,223	246,822
Inventory impairment	315,849	271,068
Professional fees	262,481	146,367
Rent and utilities	77,508	51,171
Depreciation of equipment	68,145	23,550
Registration fees	49,830	41,477
Amortization of intangible assets	35,355	32,958
Scientific research refund applied	(19,848)	(184,053)
	5,995,320	3,103,248
LOSS BEFORE OTHER EXPENSES	5,774,334	2,925,898
Accretion expense (Note 7)	1,069,772	68,862
Interest on long-term debt	513,981	-
Financing fees	214,403	-
Gain on change in fair value of conversion option (Note 8)	(2,191,228)	-
LOSS BEFORE INCOME TAX RECOVERY	5,381,262	2,994,760
Income tax recovery (Note 9)	-	33,000
NET LOSS AND COMPREHENSIVE LOSS	$ 5,381,262	$ 2,961,760
LOSS PER SHARE - BASIC AND FULLY DILUTED	$ 0.06	$ 0.04
WEIGHTED AVERAGE NUMBER OF COMMON SHARES - BASIC AND FULLY DILUTED	92,151,238	82,526,520

The accompanying notes form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
For the years ended December 31, 2014 and 2013

	Share Capital	Shares to be Issued	Warrants	Other paid-in capital	Deficit	Total
Balance, December 31, 2012	$ 5,758,480	$ 1,495,250	$ -	$ 1,366,998	$ (7,608,499)	$ 1,012,229
Issuance of common shares (Note 10(a))	2,741,809	(1,495,250)	-	-	-	1,246,559
Issuance of warrants (Note 10(a))	(537,943)	-	537,943	-	-	-
Gain on fair value of advances on convertible promissory notes (Note 7)	-	-	-	124,520	-	124,520
Income tax recovery	-	-	-	(33,000)	-	(33,000)
Net loss for the year	-	-	-	-	(2,961,760)	(2,961,760)
Balance December 31, 2013	7,962,346	-	537,943	1,458,518	(10,570,259)	(611,452)
Issuance of common shares	310,592	-	-	-	-	310,592
Debt issue costs	-	-	194,702	-	-	194,702
Stock-based compensation (Note 10(b))	-	-	-	1,037,294	-	1,037,294
Net loss for the year	-	-	-	-	(5,381,262)	(5,381,262)
Balance December 31, 2014	$ 8,272,938	$ -	$ 732,645	$ 2,495,812	$ (15,951,521)	$ (4,450,126)

The accompanying notes form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the fiscal years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Net loss for the year	$ (5,381,262)	$ (2,961,760)
Items not affecting cash		
Depreciation of equipment	68,145	23,550
Amortization of intangible asset	35,355	32,958
Inventory impairment	315,849	271,068
Stock-based compensation	1,037,294	-
Income tax recovery	-	(33,000)
Accretion expense	1,069,772	68,862
Gain on revaluation of derivative	(2,191,228)	-
Non-cash financing fee	201,635	-
Interest expense	513,981	-
Net change in non-cash working capital items relating to operating activities		
Accounts receivable	(36,021)	906
Government remittances receivable	(94,788)	(16,347)
Inventory	(146,303)	143,003
Prepaid expenses	42,484	(49,789)
Productions advance	165,348	(23,090)
Accounts payable and accrued liabilities	(182,297)	(131,495)
Government remittances payable	11,415	22,636
Cash used in operating activities	(4,570,621)	(2,652,498)
Cash flows from investing activities		
Acquisition of equipment	(418,706)	(13,103)
Additions to intangible assets	(127,076)	(139,167)
Cash used in investing activities	(545,782)	(152,270)
Cash flows from financing activities		
Loan payable	(109,289)	109,289
Note payable	5,828,155	1,915,425
Issue costs	(465,194)	-
Interest paid	(157,564)	-
Proceeds from issuance of shares	-	1,246,559
Cash provided by financing activities	5,096,108	3,271,273
(Decrease) increase in cash during the year	(20,295)	466,505
Cash, beginning of year	487,199	20,694
Cash, end of year	$ 466,904	$ 487,199

The accompanying notes form an integral part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 NATURE OF OPERATIONS AND GOING CONCERN

Pivotal Therapeutics Inc. (the "Company") or ("New Pivotal") was formed on April 7, 2011, as a result of an amalgamation between Media Script Marketing Inc. and Pivotal Therapeutic Inc. ("Old Pivotal") . The Company is a specialty pharmaceutical company dedicated to the rapid discovery, development and marketing of prescription grade pharmaceuticals with proven efficacy and safety. The Company has funded its activities through the issuance of common shares and warrants, and notes and loan payable. Its head office is located at 81 Zenway Blvd., Unit 10, Woodbridge, Ontario, Canada L4H 0S5.

The consolidated financial statements were approved by the Board of Directors on April 28, 2015.

These consolidated financial statements are prepared on the assumption that the Company is a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. The Company has yet to generate substantial revenue and has relied upon the issuance of debt and equity instruments to fund operations. There is no assurance that the Company will be able to continue to raise funds in this manner on acceptable terms, if at all, leading to substantial doubt surrounding the Company's ability to continue as a going concern. Failure to obtain such additional financing could result in delay or indefinite postponement of the Company's strategic goals. These consolidated financial statements do not include any adjustments relative to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies set out below are consistently applied to all years presented. The consolidated financial statements are presented in Canadian dollars and have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, Pivotal Therapeutics (US), Inc., a corporation incorporated in the state of Florida, USA. All significant inter-company transactions and balances are eliminated on consolidation.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations

Business combinations are accounted for using the acquisition method. The consideration for the acquisition is measured at the fair values of the assets transferred, the liabilities assumed and the equity interests issued at the acquisition date. The excess of the consideration over the fair value of the identifiable net assets acquired is recorded as goodwill. Transaction costs that are incurred in connection with a business combination are expensed as incurred. Any costs associated with the issuance of equity securities are recorded as a reduction of share capital. On an acquisition-by-acquisition basis, any non-controlling interest is measured either at fair value of the non-controlling interest or at the fair value of the proportionate share of the net assets acquired.

Any contingent consideration is measured at the fair value on acquisition date and is included as part of the consideration transferred. The fair value of the contingent consideration is re-measured at each reporting date with the corresponding gain or loss being recognized in earnings.

Revenue recognition

The Company measures revenue at the fair value of the consideration received or receivable, reducing revenue for estimated customer returns, rebates and other similar allowances. The Company recognizes revenue from the sale of goods when it satisfies the following conditions:

- it has transferred to the buyer the significant risks and rewards of ownership of the goods;
- it retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- it can measure the amount of revenue reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- it can measure the costs incurred or to be incurred in respect of the transaction reliably.

Specifically, the Company recognizes revenue from sales of prescription grade pharmaceutical products when it ships the products to the customer and collectability is reasonably assured. Ownership transfers at the point of shipment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and investments with an original maturity at the date of purchase of three months or less. At December 31, 2014, the Company held no cash equivalents.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - continued

Inventory
Inventories of packaged and pre-packaged prescription grade pharmaceutical products are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs.

Equipment
Equipment is recorded at cost (including directly applicable taxes, freight-in and installation costs). Depreciation is recognized to write off the cost of assets less their residual value over their estimated useful lives at the following annual rates:

Furniture and equipment	20% per annum
Computers	30% per annum
R&D equipment	20% per annum
Leasehold improvements	5 years straight-line

The Company reviews the estimated useful lives, residual values and depreciation method at each year-end, accounting for the effect of any changes in estimate on a prospective basis.

Intangible assets acquired separately
The Company carries intangible assets with finite useful lives that it acquires separately at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized over their useful lives, on the straight-line basis over 20 years.

The Company reviews the estimated useful life and amortization method at the end of each reporting period, accounting for the effect of any changes in estimate on a prospective basis.

Investment tax credits
The Company is entitled to certain incentives for qualified research and development. The benefit of these investment tax credits is accrued at the time the related expenditures are made if there is reasonable assurance that the credits will be realized. The amount recoverable is deducted from the related expenditures on the statement of loss and comprehensive loss. Any adjustments to investment tax credits are recorded as they become known.

Research and development costs
Research and development costs include direct salaries and benefits, administration, contracting, consulting and professional fees.

The Company recognizes expenditures on research activities as an expense in the period incurred. During the year ended December 31, 2014, $788,316 (2013 - $454,443) was incurred on research activities.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – continued

Research and development costs - continued

The Company recognizes an internally-generated intangible asset arising from development (or from the development phase of an internal project) if, and only if, it has demonstrated all of the following:

- 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;
- how the intangible asset will generate probable 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 measure reliably the expenditure attributable to the intangible asset during its development.

The amount the Company initially recognizes for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets these recognition criteria. Subsequent to initial recognition, the Company reports these assets at cost less accumulated amortization and accumulated impairment losses.

Impairment of long-lived assets

The Company reviews the carrying amounts of its equipment and intellectual property to determine whether any indication exists that any of those assets have suffered an impairment loss. If any such indication exists, the Company estimates the assets' recoverable amount to determine the extent of the impairment loss (if any). Where it is not possible to estimate an individual asset's recoverable amount, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the Company can identify a reasonable and consistent basis of allocation, it also allocates corporate assets to individual cash-generating units, or otherwise allocates them to the smallest group of cash-generating units for which it can identify a reasonable and consistent allocation basis.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company discounts estimated future cash flows to the present value using a pre-tax discount rate. This rate reflects current market assessments of the time value of money and also reflects the risks specific to the asset (unless these risks are reflected in the estimates of future cash flows).

If the Company estimates an asset or cash-generating unit's recoverable amount to be less than its carrying amount, it reduces the carrying amount to the recoverable amount, recognizing an impairment loss immediately in profit or loss. Where an impairment loss subsequently reverses, the Company increases the asset or unit's carrying amount to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have existed if no impairment loss had been recognized in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currency translation

The Canadian dollar is the functional currency of the Company and is also the currency in which it presents these consolidated financial statements. The Company recognizes transactions in currencies other than the Canadian dollar (foreign currencies) at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, the Company retranslates monetary items denominated in foreign currencies at the rates prevailing at that date. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized on monetary items in profit or loss in the period in which they arise.

Loss per share

The Company calculates basic loss per share by dividing the loss for the year by the weighted average number of common shares outstanding during the year. The Company calculates diluted loss per share in a similar manner, except that it increases the weighted average number of common shares outstanding, using the treasury stock method, to include common shares potentially issuable from the assumed exercise of stock options and other instruments, if dilutive. In the Company's case, these potential issuances are "anti-dilutive" as they would decrease the loss per share; consequently, the amounts calculated for basic and diluted loss per share are the same.

Stock-based compensation

The Company measures equity-settled share-based payments to employees and others who provide similar services, issued under the stock option plan described in Note 10, at the fair value of the equity instruments at the grant date. The Company calculates the fair value using the Black-Scholes option valuation model and expenses this amount on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, crediting the amounts to other paid-in capital. Estimates of the number of equity instruments expected to vest are revised at the end of each reporting period, recognizing the impact of revising the original estimates, if any, in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other paid-in capital. When options are exercised, the Company credits the proceeds, together with the amount originally credited to other paid-in capital, to share capital.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – continued

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that is relates to items recognized directly in equity or other comprehensive income.

The Company bases the tax currently payable on its taxable profit for the period. Taxable profit differs from profit as reported in the statement of loss and comprehensive loss because of items of income or expense taxable or deductible in other periods and items that are never taxable or deductible. The Company calculates its liability for current tax using tax rates that have been enacted or substantively enacted by the end of the reporting period.

The Company also recognizes deferred tax on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in computing taxable profit or loss. The Company generally recognizes deferred tax liabilities for all taxable temporary differences, and generally recognizes deferred tax assets for all deductible temporary differences to the extent it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The Company reviews the carrying amount of deferred tax assets at the end of each reporting period and reduces them to the amount it expects to be recovered. Deferred tax assets and liabilities are measured at the tax rates expected to apply in the period when the liability is settled or the assets realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Provisions

The Company recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable it will be required to settle the obligation, and it can make a reliable estimate of its amount. 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 the surrounding risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows, calculated using a pre-tax discount rate reflecting the risks specific to the liability. The Company adjusts the liability at the end of each reporting period for the unwinding of the discount rate and for changes to the discount rate or to the amount or timing of the estimated cash flows underlying the obligation.

Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the lease.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments

The Company recognizes a financial asset or financial liability when it becomes a party to the instrument's contractual provisions. Financial assets and financial liabilities are initially measured at their fair value, adding or deducting directly attributable transaction costs (except for transaction costs directly attributable to acquiring financial assets or financial liabilities at fair value through profit or loss, which are recognized immediately in profit or loss).

The Company's financial instruments and their classifications, described further below, are as follows:

Financial assets:	**Classification:**
Cash	At fair value through profit or loss
Accounts receivable	Loans and receivables

Financial liabilities:	**Classification:**
Conversion option derivative liability	At fair value through profit or loss
Convertible promissory note	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Loan payable	Other financial liabilities
Advances on convertible promissory notes	Other financial liabilities

Financial assets

The Company recognizes and derecognizes all financial assets on the trade date. A financial asset is derecognized only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of its ownership to another entity. The Company classifies financial assets into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification is determined at the time of initial recognition, depending on the nature and purpose of the financial assets. The Company does not currently have any financial assets in the held-to-maturity or available-for-sale categories.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – continued

Financial assets – continued

The Company measures financial assets at FVTPL at fair value, recognizing any gains or losses arising from this measurement in profit or loss. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables for which recognizing interest would be immaterial. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the instrument's expected life (or, where appropriate, a shorter period) to the net carrying amount on initial recognition. The Company assesses financial assets, other than those at FVTPL, for indicators of impairment at the end of each reporting period. For financial assets carried at amortized cost, the amount of any impairment loss is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the financial assets' original effective interest rate.

Financial liabilities

The Company classifies financial liabilities as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The conversion option derivative liability is measured at FVTPL while other financial liabilities are initially measured at their fair value, net of transaction costs, and subsequently at amortized cost using the effective interest method, recognizing interest expense on an effective yield basis.

Fair value hierarchy

The Company classifies and discloses fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;
Level 2 – valuation techniques based on inputs other than quoted prices included in 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 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash and cash equivalents are measured using Level 1 inputs.

Significant judgments, estimates and assumptions

Preparing financial statements in conformity with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets, and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from the estimates that the Company used.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – continued

Significant judgements, estimates and assumptions - continued

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Impairment of assets
When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. No impairments of non-financial assets have been recorded for the year ended December 31, 2014 (2013 – Nil).

Useful life of intangible assets
Intangible assets are amortized over the estimated useful life of the assets. Changes in the estimated useful lives could significantly increase or decrease the amount of amortization recorded during the year. Total amortization recorded for the year ended December 31, 2014 was $35,355 (2013 – $32,958).

Valuation of derivative liability and convertible promissory note
The Company is required to make certain estimates when determining the fair value of the derivative liability each period and the convertible promissory notes on initial recognition. These estimates affect the amount recognized as a conversion options derivative liability and convertible promissory note in the consolidated statement of financial position and the change in fair value of the derivative liability and accretion expense in the consolidated statement of loss and comprehensive loss.

Recent accounting pronouncements

IFRS 9, Financial Instruments ("IFRS 9"):

In October 2010, the IASB issued IFRS 9. IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's annual consolidated financial statements commencing January 1, 2018. The Company intends to adopt the standard on its effective date.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – continued

Recent accounting pronouncements - continued

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15 which clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (i.e. service revenue and contract modifications) and improve guidance for multiple-element arrangements. IFRS 15 is effective for periods beginning on or after January 1, 2017 and is to be applied retrospectively.

Reclassification

Certain prior period comparative figures have been reclassified to conform to the current year's presentation.

NOTE 3 INVENTORY

Inventory consists of raw material amounting to $Nil, work in progress amounting to $267,088 and finished goods amounting to $15,660 as at December 31, 2014 (2013 raw material - $Nil, 2013 work in progress - $371,268, 2013 finished goods - $81,026). During the year ended December 31, 2014 the Company recognized an inventory impairment totalling $ 315,849 (2013 – $271,068) related to slow moving inventory.

NOTE 4 PRODUCTION ADVANCE

During the year ended December 31, 2011, $709,326 (500,000 Euro) was provided as a production advance to a supplier under an Exclusive Supply Agreement. The Company committed under the supply agreement to purchase minimum quantities of raw material each year. The price of the raw material was fixed for the first two years of the contract and was subject to negotiation thereafter. The advance bore interest at a rate of 4% per annum. As at December 31, 2013 the balance of the advance was $165,348 ($112,827 Euro). The minimum purchase quantities were not met during the term of the contract and as a result, during the year ended December 31, 2014, the Company revised the Exclusive Supply Agreement. Under the revised agreement the Company and supplier agreed to offset the December 31, 2013 production advance of $158,387 (112,827 Euro), plus accrued interest, against an outstanding liability of $222,022 (158,158 Euro). The net liability of $58,359 (41,572 Euro) is included in accounts payable and accrued liabilities. As at December 31, 2014, the Company has no further minimum purchase commitments with the supplier.

NOTE 5 EQUIPMENT AND INTANGIBLE ASSET – INTELLECTUAL PROPERTY

(a) Equipment

	December 31, 2014	December 31, 2013
Cost		
Opening balance	$ 131,271	$ 118,168
Additions	418,706	13,103
Ending balance	549,977	131,271
Accumulated depreciation		
Opening balance	56,903	33,353
Depreciation for the year	68,145	23,550
Ending balance	125,048	56,903
Net carrying value	$ 424,929	$ 74,368

(b) Intangible Assets – Intellectual Property

	December 31, 2014	December 31, 2013
Cost		
Opening balance	$ 659,167	$ 520,000
Additions	127,075	139,167
Ending balance	786,242	659,167
Accumulated amortization		
Opening balance	78,458	45,500
Amortization for the year	35,355	32,958
Ending balance	113,813	78,458
Net carrying value	$ 672,429	$ 580,709

NOTE 6 LOAN PAYABLE

	December 31, 2014	December 31, 2013
Non-secured note payable advanced from a minority shareholder bearing interest at 4.69% per annum repayable in equal monthly instalments of principal and interest in the amount of approximately $570, due July 1, 2016	$ -	$ 109,289
Current portion	-	1,763
	$ -	$ 107,526

During the year the loan was fully repaid with proceeds from the convertible promissory notes.

NOTE 7 CONVERTIBLE PROMISSORY NOTES

During the year ended December 31, 2013, the Company completed a debt financing whereby it offered units ("Units") consisting of $1,000 of Convertible Promissory Notes ("Notes") and warrants to purchase 1,200 shares of the common stock of the Company.

As at December 31, 2013 the Company had received advances of $1,915,425 ("Advances") for Units to be issued upon closing of the financing. The carrying amount of the Advances at December 31, 2013 was $1,859,767. Interest on the Advances received was waived until the closing of the financing. Therefore the Company treated the initial Advances as an interest free loan. The market interest rate was estimated to be 18% and resulted in an initial fair value of the liability of $1,790,905 and corresponding gain in other-paid in capital of $124,520.

After initial recognition the Advances were carried at amortized cost and accreted to their face value upon closing of the transaction, on March 4, 2014, using the effective interest rate of 23%. As at December 31, 2014, $1,069,772 (2013 - $68,862) has been recognized as accretion expense related to the Advances.

NOTE 7 CONVERTIBLE PROMISSORY NOTES - continued

On March 4, 2014, the Company closed the financing issuing a total of 7,744 Units for gross proceeds of $7,743,580. The March 4, 2014 Notes were accounted for as a new issuance and an extinguishment of the Advance. The Notes carry an interest rate of 8% per annum with interest payable quarterly in cash or shares at the option of the Company. A total of 9,292,296 warrants were issued as part of the financing. Each warrant may be exercised for a period of 5 years from the date of issuance at an exercise price of $0.30 per common share. The Notes mature two years from the date of issuance and are convertible into common shares at a price of $0.20 (the "Conversion Price"). The Conversion Price is subject to a full ratchet adjustment upon the Company's issuance of common stock, warrants or rights to purchase common stock or securities convertible into common stock for a consideration per share which is less than the then applicable Conversion Price of the Notes (the "Conversion Feature").

The Company incurred financing costs associated with the transaction of $480,533 and issued 1,641,586 agent warrants. The agent warrants were valued at $194,702, carry an exercise price of $0.30 and are exercisable for a period of five years.

The Conversion Feature results in cash flows that vary from the underlying debt component. Accordingly, the Company has applied IAS 39 "financial instruments: recognition and measurement", and determined that the Conversion Feature meets the definition of an embedded derivative that requires separation from the host contract. The Conversion Feature includes an obligation for the Company to deliver a variable number of common shares resulting in the recognition of a derivative liability. The warrants are a separate instrument which result in an obligation for the Company to deliver a fixed number of common shares and therefore were recorded in equity.

In accounting for the Notes, the Company used the residual value method to allocate the proceeds between the debt component, the Conversion feature and the warrants. The fair value of the Conversion Feature was $2,366,094, computed using the binomial model. The fair value of the debt component, was computed as the present value of future cash flows discounted at a rate of 20% per annum representing a market interest rate. The fair value of the debt component amounted to $5,377,486. The residual value of $Nil was allocated to the warrants.

The combined financing costs of $675,235, were prorated based on the fair value of the debt component and Conversion Feature. Financing costs of $458,260 were capitalized to the debt component and $201,635 were allocated to the Conversion Feature and recorded through profit or loss on initial recognition.

NOTE 7 CONVERTIBLE PROMISSORY NOTES – continued

After initial recognition the convertible promissory notes are carried at amortized cost and accreted to their face value on maturity using an effective interest rate of 23%.

Advances on convertible notes	$	1,915,425
Discount recorded to other paid-in capital		(124,520)
Accretion of discount on advances		68,862
Carrying value, December 31, 2013		1,859,767
Accretion of discount to maturity		55,658
Extinguishment of advances on convertible notes		(1,915,425)
Face value of Notes on March 4, 2014		7,743,580
Value allocated to conversion feature		(2,366,094)
Financing costs allocated to Notes		(458,260)
Accretion of discount on debenture		1,014,114
Carrying value, December 31, 2014	**$**	**5,933,340**

As at December 31, 2014, $1,014,114 (2013 - $Nil) has been recognized as accretion expense related to the convertible promissory notes.

NOTE 8 CONVERSION OPTION DERIVATIVE LIABILITY

In connection with the convertible note financing (Note 7), the Company recognized a conversion option derivative liability measured at fair value with subsequent changes in fair value accounted for through the consolidated statements of loss and comprehensive loss.

The fair value of the conversion option derivative liability was initially measured at $2,366,094 using the binomial model with the following assumptions: Term – 2 years, Volatility - 111%, interest rate – 1.06% and a discount rate of 54%.

The conversion option derivative liability is revalued at the end of each reporting period. The conversion option derivative liability as at December 31, 2014 was $174,866. The change in the fair value recognized in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2014 was $2,191,228. There conversion option derivative liability was revalued using the binomial model with the following assumption: Term – 1.18 years, Volatility – 93.57%, interest rate – 1.02% and a discount rate of 54%.

NOTE 9 INCOME TAXES

The reconciliation of the combined Canadian federal and provincial statutory income tax rate on the net loss for the years ended December 31 is as follows:

	2014	2013
Loss before recovery of income taxes	$ (5,381,262)	$ (2,994,760)
Expected income tax recovery	$ (1,426,030)	$ (793,610)
Tax rate changes and other adjustments	189,800	(40,550)
Non-deductible expenses	7,280	(47,040)
Undeducted share issue costs	(69,840)	-
Gain on fair value of convertible promissory note	(580,680)	-
Change in tax benefits not recognized	1,879,470	848,200
Income tax recovery	$ -	$ (33,000)

Deferred Income Tax

The following table summarized the components of deferred income tax:

	2014	2013
Deferred income tax assets		
Non-capital losses carried forward	$ 114,910	$ 61,390
Deferred income tax liabilities		
Advances on convertible promissory notes	$ (100,160)	$ (14,750)
Equipment and intangibles	(14,750)	(46,640)
Net deferred income tax liabilities	$ -	$ -

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax liabilities:

	2014	2013
Recognized in profit and loss	$ -	$ 33,000
Recognized in equity	-	(33,000)
Net deferred income tax liabilities	$ -	$ -

NOTE 9 INCOME TAXES - continued

Unrecognized Deferred Tax Assets

Deferred income 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 income tax assets have not been recognized in respect of the following deductible temporary differences:

	2014	2013
Non-capital losses carried forward	$ 15,634,710	$ 9,353,440
Inventory	$ 575,540	$ 271,070
Share issuance costs	$ 432,040	$ 156,630
Equipment	$ 3,810	$ 4,240
Ontario tax credits	$ 89,730	$ 89,730

The total Canadian non-capital loss carry forwards expire as noted in the share issue and financing costs will be fully amortized by 2018. Investment tax credits expire from 2014 to 2024. 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:

2029	$ 194,290
2030	648,660
2031	1,344,450
2032	3,598,100
2033	2,992,200
2034	7,290,630
	$ 16,068,300

NOTE 10 SHARE CAPITAL

(a) Shares

Authorized
Unlimited number of common shares without par value

Issued and outstanding
93,469,236 common shares

The common share transactions over the year are as follows:

	Number of Shares	Amount
Closing balance December 31, 2012	**79,453,509**	**$5,758,480**
Issuance of common shares during the year	12,462,768	2,203,866
Closing balance December 31, 2013	**91,916,277**	**$ 7,962,346**
Issuance of common shares during the year	1,552,959	310,592
Closing balance December 31, 2014	**93,469,236**	**$ 8,272,938**

(i) On October 2, 2013 the Company closed a non-brokered private placement consisting of 12,462,768 units for gross proceeds of $2,741,809. Each unit consisted of one common share and one-half common share purchase warrant for a total issuance of 12,462,768 common shares and 6,231,384 warrants. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.30 per common share expiring after 60 months. The purchase warrants may be called by the Company at any time after six months following the closing, provided the common shares of the Company have traded at a price of at least CDN $0.45 for 20 trading days within a 30 consecutive day trading period.

Using the Black-Scholes model to value the warrants, $537,943 was allocated to warrants and the remaining amount of $2,203,866 was allocated to share capital.

(ii) During the year, the Company issued 1,552,959 common shares with a value of $310,592 for payment of interest on the convertible promissory notes.

NOTE 10 SHARE CAPITAL - continued

(b) Stock Options

The Company has a rolling stock option plan for its directors, officers, employees and consultants retained by the Company or any of its subsidiaries or affiliates to provide common shares of the Company at a price as determined by the Board of Directors. The maximum aggregate number of common shares reserved for issuance pursuant to the plan is 15% of the issued and outstanding common shares.

No stock options were granted during the year ended December 31, 2013.

On March 14, 2014, the Company granted previously reserved stock options to certain of its directors, officers, employees and consultants in recognition of past service. Options to acquire a total of 4,075,000 common shares of the Company were granted in accordance with the provisions of the Company's 2011 stock option plan approved by shareholders on March 10, 2011. The options are exercisable at an exercise price of $0.20, vest immediately and will expire five years following the date of the grant.

On April 7, 2014, the Company granted previously reserved stock options to certain of its directors, officers, employees, and consultants in recognition of past service. Options to acquire a total of 4,176,000 common shares of the Company were granted in accordance with the provisions of the Company's 2011 stock option plan approved by the shareholders on March 10, 2011. The options are exercisable at an exercise price of $0.20, vest immediately, and will expire five years following the date of the grant.

On September 12, 2014, the Company granted previously reserved stock options to an officer and an advisor. Options to acquire 1,000,000 common shares of the Company granted in accordance with the provisions of the Company's 2011 stock option plan approved by the shareholders on March 10, 2011. The options are exercisable at an exercise price of $0.20, vest immediately, and will expire five years following the date of the grant.

NOTE 10 SHARE CAPITAL - continued

(b) Stock Options - continued

The fair value of the options granted during the year ended December 31, 2014 of $1,037,294 was determined using the Black-Scholes option pricing model using the following weighted average assumptions:

Risk free interest rate	1.71%
Expected life in years	5 years
Expected volatility	85%
Weighted average fair value per option granted	$0.11

The Black-Scholes option valuation model were developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. The Company's stock options are not transferable and cannot be traded, thus the Black-Scholes model may over-estimate the actual value of the options that the Company has granted. The Black-Scholes model also requires an estimate of expected volatility.

During the year, 1,375,000 (2013 – Nil) stock options granted to past directors were not exercised within the required options period following the director's departure and were forfeited.

Following is a summary of options outstanding at December 31, 2014, exercise price and expiry date:

Dates Options Granted	Number of Options	Exercise Price ($)	Expiry Date
January 11, 2011	300,000	0.10	January 11, 2016
February 7, 2011	200,000	0.10	February 7, 2016
March 10, 2011	899,000	0.10	March 10, 2016
May 24, 2011	1,500,000	0.45	May 24, 2016
August 18, 2011	100,000	0.30	August 18, 2016
August 26, 2011	550,000	0.30	August 26, 2016
November 22, 2011	200,000	0.25	November 22, 2016
March 29, 2012	200,000	0.29	March 29, 2017
March 14, 2014	3,800,000	0.20	March 14, 2019
April 7, 2014	3,576,000	0.20	April 7, 2019
September 12, 2014	1,000,000	0.20	September 12, 2019
	12,325,000		

NOTE 10 SHARE CAPITAL – continued

(c) Warrants

The following table summarizes activity of the Company's warrants, exercisable for common shares for the years ended December 31, 2014 and 2013:

	Number of Warrants	Exercise Price
Granted (Note 10(a)(i))	6,231,384	$0.30
Outstanding, December 31, 2013	6,231,384	$0.30
Granted (Note 7)	10,933,882	$0.30
Outstanding, December 31, 2014	17,165,266	$0.30

The fair value of the warrants issued during the prior year was determined using the Black-Scholes option pricing model using the following assumptions:

Risk free interest rate	1.670%
Expected life in years	5 years
Expected volatility	84%
Expected dividend yield	0%

Following is a summary of warrants outstanding at December 31, 2014, exercise price and expiry date:

Date Warrants Granted	Number of Warrants	Exercise Price ($)	Expiry Date
October 2, 2013	6,231,384	0.30	October 2, 2018

NOTE 11 RELATED PARTY TRANSACTIONS

During the year the Company incurred $708,793 in consulting fees, included in this amount are the following related party transactions:

The Company paid a total of $360,000 in consulting fees to an officer and director of the Company during the year (2013 - $260,000). The Company paid a total of $614,630 in management compensation during the year (2013 - $320,000).

As of December 31, 2014, $11,798 (2013 - $29,205) was owing to officers and directors of the Company for unpaid wages and expenses.

NOTE 12 COMMITMENTS

The Company entered into a lease for office premises which was due to expire on January 31, 2013 with an option to renew the term of the lease for a further three years. The Company exercised the option for a further three years expiring January 2016. The minimum annual lease payments to the expiration of the lease are as follows:

2015	$	39,000
2016	$	3,300

On December 1, 2013, the Company entered into a new lease for additional office space which expires November 30, 2016. The minimum annual lease payments to the expiration of the lease are as follows

2015	$	25,400
2016	$	23,283

NOTE 13 MANAGEMENT OF CAPITAL

The Company defines capital as its equity (currently a deficiency) that may be used for operations and development of its family of pharmaceutical products. The Company's objective in managing capital is to maintain adequate levels of funding to support development of its pharmaceutical products, maintain corporate and administrative functions necessary to support organizational management oversight.

The Board of Directors does not establish quantitative "return on capital" criteria for management. The Company seeks to manage its capital structure in a manner that provides sufficient funding for operational activities. Funds are primarily secured through equity capital obtained in private placements as well as debenture financing. There can be no assurances that the Company will be able to continue raising capital in this manner.

The Company does not have any plans to pay dividends within the next year.

NOTE 14 FINANCIAL INSTRUMENT AND RISK MANAGEMENT

The Company reviews and manages the key risks that could prevent it from reaching its business objectives. This covers all risk areas, including strategic, operational and financial risks. The key risks identified by management are as follows:

Fair value
The carrying values of cash, accounts receivable and accounts payable and accrued liabilities do not materially differ from their fair values given their short-term to maturity. The convertible promissory note and loan payable are carried at amortized cost using a market interest rate. As such the carrying value does not materially differ from the fair market value.

NOTE 14 FINANCIAL INSTRUMENT AND RISK MANAGEMENT – continued

Credit risk
Substantially all of the Company's cash is held with major financial institutions in Canada and management believes the exposure to credit risk with such institutions is not significant. The Company is also exposed to credit risk in the event of non-performance by customers paying outstanding trade receivables. At December 31, 2014 no amounts due from customers were considered past due and no allowance for uncollectible amounts was considered necessary. As at December 31, 2014, two customers accounted for 62 % and 31 % of accounts receivable respectively (2013 – 67% and 29%).

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities (see note 1). The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements as well as growth and development of its Omega-3 pharmaceutical products. The Company coordinates this planning and budgeting process with its financing activities through the capital management process described above in normal circumstances. The Company's financial liabilities are comprised of its accounts payable and accrued liabilities, government remittances payable, interest payable on convertible promissory note and conversion option derivative liability summarized as follows:

Financial liabilities with 90 days or less	$	481,951
Financial liabilities over 90 days	$	6,125,117

The Company generates cash flow primarily from its financing activities.

Interest rate risk
Interest rate risk is the risk that the value of financial instruments may fluctuate due to changes in market interest rate. As at December 31, 2014 the Company has no significant exposure to interest rate risk through its financial instruments.

Foreign currency risk
The Company is exposed to currency risk because it makes purchases and sales transacted in US dollars and Euro. At December 31, 2014, a 10% change in the closing exchange rate between Canadian dollars and US dollars or Euro would have resulted in a $6,600 (2013 - $5,900) change on reported net loss and comprehensive loss for the year.

NOTE 15 GEOGRAPHIC INFORMATION

The Company is organized and managed as a single reportable operating segment. No significant non-current assets are held outside of the United States.

Revenue from operations, classified by major geographical segments in which the Company's customers are located was as follows:

	December 31, 2014	December 31, 2013
United States	$ 304,266	$ 295,166
Canada	2,330	8,364
Total	$ 306,596	$ 303,530

Note 16 SUBSEQUENT EVENTS

Subsequent to year end, the Company issued 763,752 common shares representing interest for the period from December 5, 2014 to March 4, 2015 on its outstanding Convertible Promissory Notes (Note 7).