ANNUAL REPORT 2014

MESSAGE TO SHAREHOLDERS

Fellow Shareholder,

Pivotal Therapeutics enjoyed a year of substantial progress in 2014. Several important milestones were achieved. While your Board of Directors is certainly proud of the team's overall performance, there are still important hills to climb.

Having demonstrated the potential market for **VASCAZEN®** with a small pilot commercialization program focused on three Northeastern states, we are pleased to report sales in a total of 37 states across the U.S. Clearly the pilot program has shown that there is a growing awareness, acceptance, and adoption of **VASCAZEN®** and the benefits of treating an Omega-3 deficiency. This positive experience validates Pivotal's commercialization strategy and readiness for a true national co-marketing partnership and needed expansion of the in-house sales team to take the commercialization effort to the next level.

Moving ahead on several fronts with multiple products offers substantial potential and market opportunities, but it is expensive, especially for a small company. So let's look at these exciting developments.

In 2014 we saw the issuance of U.S. Patent **8,715,648** titled "Formulations Comprising Omega-3 Fatty Acids and Anti-Obesity Agent for the Reduction of Body Weight in CVD Patients and Diabetics". Subsequent to year end, issuance of two patents, that were allowed during Q4 2014, U.S. Patent Number **8,951,514** related to the combination of **VASCAZEN®** with key cholesterol lowering agents (statins) and U.S. Patent Number **8,952,000** related to the combination of **VASCAZEN®** with cholesterol absorption inhibitors. Also subsequent to year end, we received Notice of Allowance for U.S. Patent Application Number 13/584,428 related to a kit for the dietary management of cardiovascular patients that includes **VASCAZEN®** and an Omega-3 fatty acid diagnostic assay. That will bring to four (4) the number of patent applications either issued or allowed, and over seven (7) additional applications pending in the United States. Our strong patent strategy surrounding our formulation and diagnostic have really been the driving force allowing us to pursue and capitalize on these significant opportunities.

The indication of **OMAZEN®** was expanded in 2015 to include a product specifically for heart health that helps maintain and support cardiovascular health and triglyceride levels, following Health Canada's approval. **OMAZEN®** is Pivotal's second product to market for the maintenance of good health, contains greater than 90% pure, pharmaceutical grade Omega-3 with the optimal 6:1 ratio of EPA to DHA. **OMAZEN®** is available for sale and distribution in Canada only and is positioned for the professional over-the-counter (OTC) market.

A new Omega-3 product line was announced with the creation of **BeneFishial™** specifically to be sold in the OTC direct to retail or direct to consumer markets. **BeneFishial™** differentiates itself from other OTC products as it is greater than

90% pure and has a unique formulation that is backed by clinical data. The firm has executed a memorandum of understanding with Korea Animal Medical Science Institute (KAMSI) and its newly created affiliate for the exclusive sales and distribution of the **BeneFishial™** family of products in Korea. We expect this is just the first of a series of agreements to expand **BeneFishial™** into world markets.

While having announced clearance by the French FDA of the clinical evaluation part of the **POMEGA Phase IIa** trial protocol in 2014, subsequent to year end, patients are being scheduled for enrollment in this clinical trial with its **PVT-100** drug candidate. **PVT-100** uses **VASCAZEN®**'s proprietary formulation for the stabilization of vulnerable plaque in patients undergoing carotid endarterectomy, a surgical procedure to remove material accumulated in the arteries to reduce the risk of stroke.

The firm's Point-of-Care (POC) diagnostic for Omega-3 deficiency has continued to progress well through our in-house research facility. This capitalizes on management and staff's extensive experience in developing innovative POC diagnostics tests and will assist healthcare practitioners to easily identify patients that are Omega-3 deficient in their offices, clinics, and pharmacies. The POC diagnostic will simplify the current technology to determine Omega-Score and Omega-Index tests which measure the amount of Omega-3 fatty acids in blood. Current practice involves collecting blood samples and sending them to a laboratory for analysis and reporting, which can be a costly and time-consuming process. The POC test will also act as a companion diagnostic to assist with **VASCAZEN®** treatment monitoring and patient compliance. During the year, the Company focused its efforts and resources on the development of reagents for the rapid format POC test. The Company is targeting an FDA submission in the latter part of 2015 or early part of 2016.

Building on the product expansion successes in 2014, we will continue the product development efforts while working to commercialize approved products. One key will be finding the right strategic partners to help achieve accelerated commercialization, licensing deals and market growth opportunities. In addition to this, Pivotal is looking for the right financial partner that sees the true value in what the team at Pivotal has accomplished to date and the significant commercial opportunities that our business plan presents over the coming years.

We very much appreciate your continued support and that of our business partners and employees. You have helped the firm develop World-class products and pledge our continued efforts to see their potential through to increased shareholder value. Thank you.

Signed "John S. Gebhardt"

John S. Gebhardt
Chairman

CORPORATE PROFILE

Pivotal Therapeutics Inc. is a publicly traded company (OTCQX: PVTTF) (CSE: PVO) with offices in Woodbridge, Ontario, Canada and Boca Raton, Florida, U.S.A. Pivotal is a specialty pharmaceutical company with a focus on Omega-3 therapies for cardiovascular disease (CVD) and overall health.

Pivotal developed its lead product **VASCAZEN®** based on the scientific evidence on the benefits of Omega-3 for cardiovascular patients. **VASCAZEN®** is currently available in the U.S. as a prescription only medical food specifically formulated for the dietary management of Omega-3 deficiency in patients with cardiovascular disease (CVD). **VASCAZEN®** is a greater than 90% pure Omega-3 with a proprietary 6:1 EPA:DHA fatty acid formulation protected by a series of both U.S. and foreign patents.

VASCAZEN® has been clinically shown to correct an Omega-3 deficiency within eight weeks of treatment with positive concomitant effects on the lipid profiles, mainly a 48% reduction of triglycerides and an increase in HDL without a negative impact on the LDL-C lipid profile. **VASCAZEN®**'s results were achieved with a dose of 4 capsules of EPA and DHA per day of a prescription grade, high purity Omega-3.

Pivotal's second product to market, **OMAZEN®** is designed for the over-the-counter (OTC) space. **OMAZEN®** is positioned for the professional segment OTC market that includes but is not limited to Wellness Clinics, Cardiac Rehabilitation Clinics, Sports Medicine Clinics, Naturopathic Clinics and Private Executive Healthcare Clinics. **OMAZEN®** is a greater than 90% pure, pharmaceutical grade Omega-3 for the maintenance of good health. **OMAZEN®** is the highest quality and highest purity product available**. OMAZEN®**'s proprietary formulation delivers optimal levels of Omega-3 that promotes an increase in blood flow, reduced inflammation and positive effects on blood lipids contributing to the maintenance of good health for the user. **OMAZEN®**'s indication was recently expanded to also include a product specifically for heart health and the lowering of triglycerides.

Pivotal's third product, **BeneFishial™** is designed for a different segment of the OTC space. **BeneFishial™** is positioned for the direct-to-retail and direct-to-consumer markets in Canada, U.S. and globally. It is also greater than 90% pure and contains the highest content of Omega-3 fatty acids than any other OTC product on the market. **BeneFishial™** is specifically formulated to give the highest anti-inflammatory properties and the best therapeutic effect for a healthy body and mind. It corrects the imbalance that the typical North American diet high in Omega-6 (pro-inflammatory) creates. Like all of Pivotal's products, **BeneFishial™**'s unique formulation is clinically shown to increase blood levels of Omega-3. **BeneFishial™** contains the optimal purity, ratio and dose and is a simple solution to a number of health risk factors.

Pivotal's pipeline of products has been expanded to include the development a rapid format point-of-care (POC) diagnostic test, **OmegaSTAT™**, to measure Omega-3 deficiency. This diagnostic test will be the first of its kind on the market and will further assist physicians and healthcare professionals in the identification and monitoring of those that are Omega-3 deficient on a timelier basis than the traditional blood test that is used today.

Pivotal's product pipeline also now includes the Company's first drug candidate **PVT-100. PVT-100**'s indication is for the stabilization of vulnerable plaque in patients undergoing carotid endarterectomy. The development of **PVT-100** is connected to the successful execution of the Company's POMEGA Phase IIa clinical trial.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2014

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PIVOTAL THERAPEUTICS INC.
(A Development Stage Company)

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2014

DATE AND SUBJECT OF REPORT

The following Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of operations for Pivotal Therapeutics Inc. (the "**Company**" or "**Pivotal**") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of the Company for the three and twelve months ended December 31, 2014, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The MD&A should be read in conjunction with the audited financial statements and notes thereto for the period ended December 31, 2014. The MD&A has been prepared effective April 28, 2015. All amounts are expressed in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

The information set forth in this MD&A contains statements concerning future results, future performance, intentions, objectives, plans and expectations that are, or may be deemed to be, forward-looking statements. These statements concerning possible or assumed future results of operations of the Company are preceded by, followed by or include the words 'believes,' 'expects,' 'anticipates,' 'estimates,' 'intends,' 'plans,' 'forecasts,' or similar expressions. Forward-looking statements are not guarantees of future performance. These forward-looking statements are based on current expectations that involve numerous risks and uncertainties, including but not limited to, those identified in the Risks Factors section. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether written or oral that may be made by or on the Company's behalf.

Further information is available on the SEDAR website, www.sedar.com.

BUSINESS OVERVIEW

GENERAL AND BUSINESS DEVELOPMENT

The Company is a specialty pharmaceutical company with expertise in cardiovascular science, focused on cardiovascular disease and overall health. Pivotal's lead prescription-only medical food product, VASCAZEN®, is used for the clinical dietary management of cardiovascular disease in patients with documented coronary heart disease and who are deficient in blood Omega-3 fatty acids, Eicosapentaenoic Acid ("**EPA**") and Docosahexanenoic Acid ("**DHA**") levels. VASCAZEN® is a unique pharmaceutical formulation of EPA:DHA and provides the cornerstone upon which a family of combination products, having efficacy across a broad spectrum of cardiac indications, will be developed, and for which the Company is developing a substantial Intellectual Property portfolio. The Company's strategy is centered on cardio-protection that is administered and overseen by a physician. The Company is commercializing VASCAZEN® as a medical food through physician prescription and in combination with a unique monitoring strategy. Based on the Senior Managements internal strengths and track record, the Company is developing a unique rapid format diagnostic test for Omega-3 deficiency.

The Company's operational concept and approach is to participate in areas where it can best create and capture value while minimizing risk. The Company's operational concept and organizational structure was designed to avoid the more costly and asset intensive aspects of the traditional pharmaceutical industry.

At present the Company is funding the following activities through the issuance of securities, including common shares and debt financing:

- Increasing the selling and marketing of VASCAZEN® into the North American and International market place;
- Expansion of the VASCAZEN® distribution network worldwide;
- Pursuing co-marketing medical food partnership to increase sales footprint and conversion of current sales force to mainly commissioned-based;
- Prosecution and issuance of US and international patent applications;
- Expansion of intellectual property patent portfolio;
- Strategic clinical marketing and registration trials;
- Pursuing licensing opportunities for our unique patented 6:1 EPA:DHA formulation in North America, Europe, East Asia, China and Korea;
- Conducting research and development activities to expand the indication for our unique patented 6:1 EPA: DHA formulation;
- Pivotal introduced PVT-100 as its first drug candidate. PVT-100's indication is for the stabilization of vulnerable plaque in patients undergoing carotid endarterectomy. The development of PVT-100 is connected to the successful execution of the Company's POMEGA Phase IIa clinical trial. The trial is scheduled to commence in the first half of 2015;

- Developing diagnostic reagents and rapid format tests for the identification of Omega-3 deficiency in patients;
- Introducing Benefishial™ to the over-the-counter (OTC) marketplace and direct to consumer by positioning it for major drugstore chains in the U.S. and Canada;
- Publication of scientific data validating the efficacy of products and expansion of new indications;
- Ongoing investor presentation and promotion in the interest of broadening the Company's shareholder base in North America and in Europe.

Listing

The Company is quoted on the Canadian Securities Exchange ("**CSE**" formerly "**CNSX**") under the symbol PVO and trades on the US exchange, OTC Markets QX ("**OTCQX**") under the symbol PVTTF.

CORPORATE UPDATE

The Company achieved the following milestones between January 1, 2014 and the date of this report, as set out in the following announcements:

- January 29, 2014 – the Company announced having received a notice of allowance for a US Patent on its unique 6:1 EPA:DHA formulation in conjunction with anti-obesity agents for the reduction of body weight in cardiovascular disease patients and diabetics;
- March 4, 2014 – the Company announced the adjustment of terms, expansion and closing of its debt financing, resulting in gross proceeds of $7,743,580;
- March 10, 2014 – the Company announced the appointment of Mr. James Connolly to the Board of Directors of Pivotal;
- March 14, 2014 – the Company announced the granting of options to acquire 4,075,000 common shares at an exercise price of $0.20 per share to certain directors, officers, employees and consultants that had been deferred from 2012;
- April 8, 2014 – the Company announced the granting of options to acquire 4,176,000 common shares at an exercise price of $0.20 per share to certain directors, officers, employees and consultants that had been deferred from 2013;
- April 23, 2014 – the Company announced the resignation of two recently appointed directors who had been nominees of Crossover Healthcare Fund, LLC;
- April 30, 2014 – the Company announced its 2013 financial results;
- May 6, 2014 – the Company announced its presentation at the American Heart Association's Arteriosclerosis, Thrombosis and Vascular Biology 2104 Scientific Sessions in Toronto, Canada;
- May 7, 2014 – the Company announced the issuance of US Patent 8,715,648 for its unique 6:1 EPA:DHA formulation;
- May 13, 2014 – the Company announced that is has engaged Brandkarma LLC., an award winning US-based, healthcare marketing and brand specialist with global expertise;
- May 14, 2014 – the Company announced changes to the Board of Directors appointing independent director John S. Gebhardt as Chairman;
- May 30, 2014 – the Company announced its First Quarter financial results;
- June 11, 2014 – the Company announced the engagement of Kilmer Lucas to provide Canadian and US investor relations and strategic advisory services;
- August 6, 2014 – the Company announced having entered into a Memorandum of Understanding to create a Joint Venture with ACGT Corporation in an effort to explore commercial opportunities in China;
- August 19, 2014 – the Company announced a publication by *PLOS ONE* reporting a study confirming the VASCAZEN® formulation was superior to the other existing commercial products in the marketplace in terms of sustained increased blood flow, which is important for patients with Coronary Heart Disease who have compromised coronary vessels;
- August 27, 2014 – the Company announced its Second Quarter financial results;

- September 3, 2014 – announces the presentation of VASCAZEN®'s unique Vasoprotective and Antihypertnesive effects at the 2104 Annual Meeting of the European Society of Cardiology Congress in Barcelona, Spain;
- September 8, 2014 – the Company announced the appointment of a new Chief Financial Officer;
- September 10, 2014 – the Company announced publication of a clinical trial showing the beneficial effects of VASCAZEN® in the correction of Omega-3 deficiency in cardiovascular patients;
- October 7, 2014 – the Company announced notification of patent allowance for U.S. application 13/584,480 related to the combination of VASCAZEN® and statin therapy;
- October 8, 2014 – the Company receives notification of allowance for U.S. Patent related to the combination of VASCAZEN® and cholesterol absorption inhibitor;
- November 14, 2014 – the Company announced the resignation of the recently appointed Chief Financial Officer;
- November 28, 2014 – the Company announced its Third Quarter financial results;
- December 17, 2014 – the Company announced that the French FDA cleared the clinical evaluation part of the VASCAZEN® POMEGA Phase IIa trial;
- January 22, 2015 – the Company published its CEO update and 2014 year in review;
- January 27, 2015 – the Company announced have received final approval for the Phase IIa POMEGA clinical trial;
- February 10, 2015 – the Company announced the issuance of two patents, both related to the combination of VASCAZEN® with key cholesterol lowering agents (statins) and cholesterol absorption inhibitors;
- April 1, 2015 – the Company announced having received a notice of allowance for U.S. Patent related to a kit for the dietary management of cardiovascular patients that includes VASCAZEN® and an Omega -3 fatty acid diagnostic assay;
- April 15, 2015 – the Company announced having executed a memorandum of understanding with Korea Animal Medical Science Institute and its newly created affiliate for the exclusive sales and distribution of the Benefishial™ family of products;
- April 27, 2015 – the Company announced having received Health Canada approval to expand the indication of OMAZEN® to include products with claims to maintain and support cardiovascular health and normal triglyceride levels.

SUBSEQUENT TO COMPLETION OF DEBT FINANCING

As a result of limited financial resources over the course of 2013 and the first two months of 2014 the Company had to substantially limit its business development and sales activities. However during the last three months in 2014 sales activities increased when compared to the same period in 2013. Nevertheless, during 2014, the Company continued its ongoing assessment of its pilot sales force programs performance and developed plans for the expansion of its sales force in an effort to broaden geographic coverage. Pivotal also initiated a Key Opinion Leaders' ("**KOL**") speaking program for healthcare practitioners to present medical and product information on behalf of the Company and its products. This program was also negatively influenced by the lack of financial resources.

The completion of the $7,743,580 debt financing, announced on March 4, 2014, allowed the Company to move forward with a number of its business development, sales and marketing and commercialization efforts that had been put on hold. Of the total debt financing of $7,743,580, completed on March 4, 2014, $5,362,961 was received subsequent to December 31, 2013. During the twelve months ended on December 31, 2014 the use of proceeds comprised of the following activities: $1,395,593in sales and marketing; $788,316 in research and development; $418,706 in fixed assets, associated with the construction and outfitting of a research laboratory facility; $127,076 in patent legal fees; loan repayment of $109,289; interest payments of $ 157,564; financing fees of $214,403 in connection to the debt financing, legal fees of $150,367 of which $117,016 was paid in connection with the debt financing and in defense of a threatened hostile proxy challenge and the balance of $33,351 for operational expenses.

The following is a brief description of the initiatives that began subsequent to March 4, 2014.

The Company continues to make efforts to expand its product lines. The current product portfolio consists of three product lines; (i) VASCAZEN® is currently sold in the United States (**"US"**) as a prescription-only medical food formulated to meet the dietary Omega-3 deficient needs of patients with cardiovascular disease, (ii) OMAZEN® is being commercialized in Canada for the maintenance of good health through elevating Omega-3 fatty acid levels and (iii) Benefishial™, which is targeting the direct to consumer market place and consists of six different products.

Pivotal has begun the in-house process of researching and developing an innovative diagnostic test to assist healthcare practitioners in determining Omega-3 deficiency. Current practice involves providing blood samples to a laboratory for analysis and reporting, a lengthy and time-consuming process. In order to conduct the in-house research the Company has built and outfitted a research laboratory that is dedicated to this project and the processing of clinical trial samples. Some of the costs associated with this project have been funded through an Industrial Research and Assistance Program ("IRAP") grant and a Natural Sciences and Engineering Research Council of Canada ("NSERC") grant.

The Company continues its efforts to seek out business development opportunities. During 2014 and the first four months of 2015 Pivotal announced several Business development transactions.

Pivotal executed an agreement with a recognized nationwide provider of US sales data. This information is assisting the Company to track the effectiveness of its sales and marketing initiatives in its current limited Geographic area of New York, New Jersey and Pennsylvania. This data is also allowing the Company to identify new opportunities nationally where there is currently no sales representation. Sales of VASCAZEN® are reported in 36 states across the country. Physicians are writing prescriptions for VASCAZEN® in areas such as Texas, California, Louisiana, Ohio and Florida. The sales data is providing new targeting opportunities and allowing the Company to expand its sales strategy and demonstrates the Company's readiness for a true national sales partner.

On August 6, 2014 Pivotal announced the execution of a memorandum of understanding that will form the basis for a Joint Venture Distribution agreement with ACGT Corporation "**ACGT**". The joint venture's purpose is to explore commercial opportunities, for Pivotal's products, in China.

On April 15, 2015 the Company announced having executed a memorandum of understanding with Korea Animal Medical Science Institute and its newly created affiliate for the exclusive sales and distribution of the Benefishial™ family of products.

Additional business development activities are under way with several companies that are currently assessing opportunities for representing Pivotal's products in Asia and the USA. The Company hopes to make additional positive business development announcements during 2015.

Pivotal continues to conduct research and development leading to the introduction of new products addressing unmet medical needs. On December 17, 2014 the Company announced that it had received approval from the French FDA to commence the clinical evaluation part of the VASCAZEN® POMEGA Phase IIa trial. The positive outcomes of the POMEGA trial would position VASCAZEN®'s formulation as a drug indication in Europe and potentially in the U.S marketplace.

The Company continues to invest in the expansion of its patent portfolio. As at the date of this report the Company has a patent portfolio that has grown to three (3) patents issued, one (1) patent allowed and seven (7) patents filed.

GOALS

The Company continues to work towards the initial goal of further commercializing VASCAZEN® as a medical food and developing a pipeline of products utilizing VASCAZEN®'s unique and patented 6:1 EPA:DHA formulation.

VASCAZEN® is currently sold in the United States (**"US"**) as a prescription-only medical food formulated to meet the dietary Omega-3 deficient needs of patients with

cardiovascular disease through elevating EPA and DHA to levels associated with reduced risk of cardiovascular complications.

OMAZEN® is being commercialized in the professional OTC market in Canada for the maintenance of good health through elevating Omega-3 fatty acid levels. The Company recently received Health Canada approval to expand the indication of OMAZEN® to include products with claims for maintaining and supporting normal triglyceride levels and cardiovascular health. To increase the Company's presence in the OTC direct to retail market and direct to consumer market the Company created a new brand named Benefishial™.

The benefits of Omega-3 are well established and endorsed by the American Heart Association for use in the prevention of cardiovascular events in patients with coronary heart disease. Pivotal's medical food strategy is designed to position VASCAZEN® as the pre-eminent Omega-3 product, and to differentiate it from the many over-the-counter supplements available and other prescription Omega-3 products. The differentiation will be driven by: (i) VASCAZEN®'s unique patented 6:1 EPA:DHA ratio; (ii) its anti-inflammatory properties; (iii) its high purity; (iv) the implementation of a far-reaching intellectual property strategy; (v) the physicians who will be targeted and (vi) the development of a rapid format POC test for monitoring Omega-3 blood levels. Cardiovascular disease has a high inflammatory component. Pivotal's high purity product, enriched with high EPA and a specific level of DHA, is capable of complementing the underlying metabolic processes of the cardiovascular system to restore the proper metabolic balance of inflammatory metabolites to reduce the inflammatory response at the cell membrane level, and thereby promote normal physiologic function and cardiac protection in patients with coronary heart disease.

STRATEGY

As a result of the information and experience the Company has acquired over the last two years from selling VASCAZEN® the Company has developed the following strategy for the commercialization of its lead medical food product:

- Build and expand the sales force;
- Develop a specialized marketing program to create medical food awareness focusing on the correction of a an Omega-3 deficiency;
- Create an in-house reimbursement strategy for medical foods;
- Access a specialized medical food pharmacy to increase sales;
- Commercialize a point-of-care diagnostic to identify Omega-3 deficient patients, monitor efficacy and compliance.

In order to achieve significant US market revenues the Company estimates that a minimum of a 100 person sales force would be required. Given the current lack of financial resources the Company is actively seeking a co-marketing partner. The company has developed a strategy to increasing reimbursement levels for medical foods, which will have a positive impact at both the prescriber and patient levels. A specialized

medical food pharmacy could facilitate sales to individuals with poor or no third party coverage and make the sales program seamless to all patients. The company is currently developing a rapid format point-of-care (POC) diagnostic test that can easily identify patients that are Omega-3 deficient at the physician's office, clinics and pharmacies.

The Company believes that these are the key components for the successful selling, marketing and positioning of a medical food.

Intellectual Property

The Omega-3 patent field is crowded, with at least one dominant player focused on its own specific EPA:DHA ratio (that differs from the Company's ratio). Based on an extensive patent review, however, Pivotal believes that its unique formulation allows for freedom-to-operate. On February 22, 2012, Pivotal filed five international patent applications under the Patent Cooperation Treaty (**"PCT"**), directed towards its novel lead product VASCAZEN® and combinations thereof with certain cardiovascular treatment agents. A PCT application establishes a filing date in each of the 148 contracted PCT countries that Pivotal designates, including the United States of America, thereby securing patent pending status for VASCAZEN®. Pivotal continues to make efforts towards the expansion of its intellectual property portfolio.

On May 7, 2014 the Company announced the issuance of U.S. Patent 8,715,648 for its unique 6:1 EPA:DHA formulation. The issuance of this patent represents an important step in further protecting and advancing the commercial potential of VASCAZEN®'s formulation. This patent covers Pivotal's unique formulation in conjunction with anti-obesity agents for the reduction of body weight in patients with cardiovascular disease ("CVD") and diabetics. This patent has terms that expire no earlier than 2031.

On October 7, 2014 the Company received notification of patent allowance for US application serial number 13/584,480 related to a combination product of VASCAZEN® and statin therapy. On February 10, 2015 the Company announced the issuance of U.S. Patent Number 8,951,514 titled "STATIN and Omega -3 Fatty Acids for Reduction of Apolipoprotein-B levels".

On October 8, 2014 the Company received notification of patent allowance for US patent application serial number 13/584,403 related to a combination product of VASCAZEN® and cholesterol absorption inhibitor. On February 10, 2015 the Company announced the issuance of U.S. Patent Number 8,952,000 titled "Cholesterol Absorption Inhibitor and Omega-3 Fatty Acids for the reduction of Cholesterol and for the Prevention or Reduction of Cardiovascular, Cardiac and Vascular Events".

On April 1, 2015 the Company received notification of patent allowance for US application serial number 13/584,428 related to a kit for the dietary management of cardiovascular patients that includes VASCAZEN® and an Omega-3 fatty acid diagnostic assay.

These patent applications, patents allowed and issued patents are part of an expanding patent portfolio for Pivotal protecting its unique formulation with three (3) patent applications now issued and one (1) allowed and seven (7) additional applications

pending in the United States Patent and Trademark Office ("USPTO"). Pivotal is also pursuing patent applications related to VASCAZEN®'s formulation in multiple jurisdictions outside the United States.

Development of a Rapid Format POC Test

This diagnostic test will assist physicians and healthcare professionals in the identification of the desired population, those individuals deficient in EPA and DHA, and permits point-of-care (POC) monitoring of patient Omega-3 levels, compliance and effectiveness of VASCAZEN®.

Update on VASCAZEN®

Revenues for the three and twelve months ended December 31, 2014 are $107,728 and $306,596 respectively as compared to $75,859 for the three months and $303,530 for the twelve months ended December 31, 2013. While sales to date of the US product, VASCAZEN®, have been limited, acceptance by healthcare professionals is growing and the increased awareness of VASCAZEN® is generating sales in several US states that are not currently serviced by Pivotal sales representatives. While 2013 sales of $303,530 versus 2012 sales of $93,637 demonstrated a significant increase, 2014 twelve months results are tracking at slightly ahead of 2013 results. Sales data indicates that our sales representatives are achieving competitive levels of prescriptions written and filled but the limited number of sales and marketing resources is affecting overall financial results. Realizing that current efforts to expand the in house sales team have been hampered by limited financial resources the Company has recently increased its efforts in the identification and contacting of sales groups or companies with a sales network that calls on the same targeted health care practitioners. The Company has also recently switched to a mainly commission-based sales force compensation model.

Update on OMAZEN®

OMAZEN® is a greater than 90% pure, pharmaceutical grade Omega-3 for the maintenance of good health. OMAZEN® has a proprietary formulation delivering optimal levels of Omega-3 that promotes an increase in blood flow, reduced inflammation and positive effects on blood lipids contributing to the maintenance of good health. The Company recently received Health Canada approval to expand the indication of OMAZEN® to include products with claims for maintaining and supporting normal triglyceride levels and cardiovascular health.

Introduction of Benefishial™

In an effort to differentiate Pivotal's unique patented 6:1 EPA:DHA formulation with OTC products and to address new market segments Pivotal created the Benefishial™ line of products. The product line was specifically designed to be sold in the OTC direct to retail or direct to consumer markets. Benefishial™ is greater than 90% pure and contains the highest content of Omega-3 fatty acids than any other OTC product on the market. It is specifically formulated to give the highest anti-inflammatory properties and the best therapeutic effect for a healthy body and mind. It corrects the imbalance that the typical North American diet high in Omega-6 (pro-inflammatory) creates. Benefishial™'s unique formulation is clinically shown to increase blood levels of Omega-3 and clinical studies conducted determined Benefishial™'s efficacy in maintaining a healthy body and mind. Benefishial™ is third party tested and goes through a five-step purification process

to remove all toxins and fillers. It is monitored for freshness throughout the manufacturing process, tested by third parties and is packaged using blister packaging to maintain this freshness. Benefishial™ contains the optimal purity, ratio and dose of any Omega-3. Benefishial™ is a simple solution to a number of health risk factors.

The Benefishial™ product line currently consists of the following six products: (i) Benefishial™ for overall health, (ii) Benefishial™ for cardiovascular health, (iii) Benefishial™ for prenatal health, (iv) Benefishial™ for toddler's health, (v) Benefishial™ for child's health and (vi) Benefishial™ for pet's health (veterinary application).

Drug Candidate – PVT-100

Pivotal introduced PVT-100 as its first drug candidate. PVT-100's indication is for the stabilization of vulnerable plaque in patients undergoing carotid endarterectomy. The development of PVT-100 is connected to the successful execution of the Company's POMEGA Phase IIa clinical trial. The trial is scheduled to commence in the first half of 2015.

PUBLICATOIN OF VASCAZEN®-REVEAL CLINICAL TRIAL

On May 7, 2013 the Company announced that it had presented positive results from the completion of the VASCAZEN®-REVEAL clinical trial. The results and conclusions derived from this clinical trial were significant. The results were presented on May 3, 2013 at the American Heart Association's Arteriosclerosis, Thrombosis and Vascular Biology ("**ATVB**") 2013 Scientific Sessions.

The purpose of the VASCAZEN®-REVEAL trial was to demonstrate that CVD patients are nutritionally deficient in Omega-3 fatty acids, and through treatment with VASCAZEN® such deficiency can be corrected, resulting in the improvement of patient lipid profiles and ultimately reducing CVD risk factors. The trial was a double-blind, placebo-controlled study comprised of 110 subjects randomized and stratified by baseline triglyceride levels. The trial analyzed both the placebo (n=54) and VASCAZEN® treated (n=56) groups at baseline and after eight weeks of treatment. The primary endpoints were the change in the Omega-Score and Omega-Index, with secondary endpoints including the change in serum triglyceride, lipoprotein cholesterol (VLDL, LDL, HDL, ApoB, and subfractions), and hsCRP. The Omega-Score and Omega-Index are proprietary diagnostic tests that measure circulating blood levels of Omega-3 in individuals. The Omega-Score and Omega-Index are independent measures of risk factors for CVD. The levels correlate with the risk of CVD events; patients with low levels of Omega-3 have a higher incidence of CVD events than patients with high levels of Omega-3.

VASCAZEN® was demonstrated to be highly effective in correcting an Omega-3 deficiency. In eight weeks of treatment a statistically significant ($p<0.0001$) increase of 121% in the Omega-Score and 112% ($p<0.0001$) in Omega-Index (the blood levels of EPA, DHA and Docosapentaenoic acid, ("DPA") was observed in VASCAZEN® treated subjects. The VASCAZEN®-REVEAL trial confirms Pivotal's Open Label Study results conducted in 2011 that identified >80% of CVD patients as Omega-3 deficient. The VASCAZEN® formulation had a profound effect on correcting an Omega-3 deficiency and

positive effect on lipid profiles, mainly the reduction of triglycerides and raising HDL in as little as eight weeks of treatment.

The VASCAZEN®-REVEAL trial confirmed that Omega-3 deficiency is prevalent in individuals with CVD, and that such a deficiency can be corrected with VASCAZEN®, a 6:1 EPA:DHA Omega-3, resulting in a concomitant and significant placebo-corrected reduction in triglycerides and VLDL, and increase in HDL-C in patients with high triglycerides (200-500mg/dL), without adversely affecting LDL-C.

Of the 110 patients enrolled > 85% were Omega-3 deficient. The VASCAZEN®-REVEAL trial is the first to determine dietary levels of Omega-3 in plasma and in red blood cells using the Omega-Score and Omega-Index diagnostics. Improvement after treatment with VASCAZEN® and the concomitant beneficial effects on CVD risk factors in patients with high triglycerides (200-500mg/dL) was analyzed.

On September 10, 2014 Pivotal announced the publication of the results of a VASCAZEN®-REVEAL study in the peer-reviewed journal Molecular and Cellular Biochemistry. It was a prospective randomized controlled trial in the US that evaluated the effects of VASCAZEN® in the correction of Omega-3 deficiency in patients with one or more risk factors associated with CVD and evaluated VASCAZEN®'s concomitant effects on these risk factors including triglycerides, VLDL cholesterol, LDL cholesterol, and HDL cholesterol.

The publication titled, "Efficacy of a unique omega-3 formulation on the correction of nutritional deficiency and its effects on cardiovascular disease risk factors in a randomized controlled VASCAZEN®-REVEAL Trial," was authored by Nisar Shaikh, Jason Yantha, Sabah Shaikh, William Rowe, Maggie Laidlaw, Carla Cockerline, Abbas Ali, Bruce Holub and George Jackowski, MolCellBiochem (2014) 396:9-22 with open public access at http://link.springer.com/article/10.1007/s11010-014-2132-1/fulltext.html.

VASCAZEN® POMEGA Phase IIa CLINICAL TRIAL

On December 17, 2014 the Company announced that it had received approval from the French FDA to commence the clinical evaluation part of the VASCAZEN® POMEGA Phase IIa trial. The POMEGA trial is a double-blinded placebo controlled study to include over 100 patients scheduled to undergo vascular surgery for carotid endarterectomy at the University Hospital of Strasbourg, France. Patients will be randomized to receive either Pivotal's uniquely formulated VASCAZEN® product or placebo for six consecutive weeks. The composite primary endpoint of the trial consists of histomorphological, biochemical and immunological status of the vascular plaque. The trial is being coordinated and monitored locally by Preventor TBC GMBH, a German drug safety corporation specialized in pre-clinical and clinical pharmacovigilance, that provides guidance to Pivotal in Europe. More than 4,000 patients are diagnosed with carotid plaque stenosis in France annually. The positive outcomes of the POMEGA trial would position VASCAZEN®'s formulation as a drug indication in Europe and potentially in the U.S marketplace.

SELECTED FINANCIAL INFORMATION

TRENDS, RESULTS OF OPERATIONS AND ANNUAL RESULTS

Since October 1, 2010, the date of incorporation, the Company has concentrated its efforts in the organization, strategic development and financing of the Company and in securing its intellectual property position. On December 8, 2010, Pivotal Therapeutics Inc. (pre-amalgamation) entered into an amalgamation agreement with a reporting issuer, Media Script Marketing Inc., to amalgamate. The parties entered into a definitive agreement whereby the common shares of Pivotal (pre-amalgamation) and Media Script (consolidated shares) were each exchanged for the common shares of the amalgamated entity (the Company) on a one to one basis, after the common shares of Media Script had been consolidated on a two to one basis. This transaction was completed, resulting in the amalgamated entity continuing as the Company, effective April 7, 2011.

The period of three and twelve months ended December 31, 2014 represents the Company's fourth year of operation as an amalgamated entity and represents a continuation of Pivotal Therapeutics Inc. (pre-amalgamation) for accounting purposes. Comparative figures are for the three and the twelve months ended December 31, 2013.

On March 4, 2014, the Company completed its debt financing that had been announced in October 2013, resulting in the issuance of 7,744 Convertible Promissory units for gross proceeds of $7,743,580. Each unit consists of $1,000 Convertible Promissory Notes ("**Notes**") and 1,200 common share purchase warrants for a total issuance of 9,292,296 warrants. The maturity of the Notes is two years from the date of issuance. The conversion price of the Notes is $0.20 for each common share of the Company. The Notes accrue interest at 8% per annum and the warrants may be exercised at any time for a period of 60 months following the date of issuance at an exercise price of $0.30 per common share. The Company may, at its discretion, pay the interest in either cash or common shares of the Company; valued at the greater of $0.20 per share and such price as may be allowed under the CSE Policy. The Company incurred financing costs associated with the transaction of $480,533 and issued an aggregate of 1,641,586 agent warrants. The agent warrants may be exercised at a price of $0.30 per common share for a period of 60 months. The warrants have an expiry date of March 4, 2019.

The Company's operating expenses for the three and twelve months ended December 31, 2014 increased to $1,309,494 and $5,995,320 respectively as compared to $990,984 and $3,103,248 for the three and twelve months ended December 31, 2013. Operating expenses for the three months and twelve months ended December 31, 2014 include an inventory write down of $315,849 to account for slow moving inventory. Also included in operating expenses is stock based compensation of $1,037,294 for the twelve months ended December 31, 2014 and $Nill for the twelve months ended December 31, 2013. Stock based compensation expenses are in recognition of deferred option awards to directors, officers, employees and consultants for 2013 and 2014. Also included in Net Loss are interest of $156,144 for the three months and $513,981 for the twelve months ended December 31, 2014 on the Notes. Stock based compensation ($1,037,294); Inventory impairment ($315,849); Interest on long-term debt ($513,981); Financing fees

($214,403) and Accretion expense ($1,069,772), offset by a Gain on change in fair value of conversion options ($2,191,228) account for a total of $960,071 of total net losses of $5,381,262 reported for the twelve months ended December 31, 2014.

Despite the delays in the completion of the Company's financing efforts, many strategic business milestones were achieved by the Company during the twelve months ended December 31, 2014, including:

The Company has expanded its supply of its product lines. The product portfolio currently consists of three product lines; (i) VASCAZEN® is currently sold in the United States (**"US"**) as a prescription-only medical food formulated to meet the dietary Omega-3 deficient needs of patients with cardiovascular disease, (ii) OMAZEN® is being commercialized in Canada for the maintenance of good health through elevating Omega-3 fatty acid levels and (iii) Benefishial™, which is targeting the direct to consumer market place and consists of six different products.

Pivotal has begun the in-house process of researching and developing an innovative diagnostic test to assist healthcare practitioners in determining Omega-3 deficiency. Current practice involves providing blood samples to a laboratory for analysis and reporting, a lengthy and time-consuming process. In order to conduct the in-house research the Company has built and outfitted a research laboratory that is dedicated to this project and the processing of clinical trial samples. Some of the costs associated with this project have been funded through an Industrial Research and Assistance Program ("IRAP") grant and a Natural Sciences and Engineering Research Council of Canada ("NSERC") grant.

The Company continues its efforts to seek out business development opportunities. During 2014 and the first four months of 2015 Pivotal announced several Business development transactions.

Pivotal executed an agreement with a recognized nationwide provider of US sales data. This information is assisting the Company to track the effectiveness of its sales and marketing initiatives in its current limited Geographic area of New York, New Jersey and Pennsylvania. This data is also allowing the Company to identify new opportunities nationally where there is currently no sales representation. Sales of VASCAZEN® are reported in 36 states across the country. Physicians are writing prescriptions for VASCAZEN® in areas such as Texas, California, Louisiana, Ohio and Florida. The sales data is providing new targeting opportunities and allowing the Company to expand its sales strategy and demonstrates the Company's readiness for a true national sales partner.

On August 6, 2014 Pivotal announced the execution of a memorandum of understanding that will form the basis for a Joint Venture Distribution agreement with ACGT Corporation "**ACGT**". The joint venture's purpose is to explore commercial opportunities, for Pivotal's products, in China.

On April 15, 2015 the Company announced having executed a memorandum of understanding with Korea Animal Medical Science Institute and its newly created affiliate for the exclusive sales and distribution of the Benefishial™ family of products.

Additional business development activities are under way with several companies that are currently assessing opportunities for representing Pivotal's products in Asia and the USA. The Company hopes to make additional positive business development announcements during 2015.

Pivotal continues to conduct research and development leading to the introduction of new products addressing unmet medical needs. On December 17, 2014 the Company announced that it had received approval from the French FDA to commence the clinical evaluation part of the VASCAZEN® POMEGA Phase IIa trial. The positive outcomes of the POMEGA trial would position VASCAZEN®'s formulation as a drug indication in Europe and potentially in the U.S marketplace.

The Company continues to invest in the expansion of its patent portfolio. As at the date of this report the Company has a patent portfolio that has grown to three (3) patents issued, one (1) patent allowed and seven (7) patents filed.

Sales

Product sales for the three and twelve months ended December 31, 2014 are $107,728 and $306,596 respectively as compared to $75,859 and $303,530 for the three and twelve months ended December 31, 2013. The twelve-month 2014 sales resulted in a 1.0% increase when compared to the same period in the previous year. Sales and marketing expenses increased by 27.1% for the twelve months ended December 31, 2014 as compared to the twelve months ended December 31, 2013. The reduction of sales and marketing expenses in 2013 had a direct negative impact on product sales for 2014. While sales to date of the US product, VASCAZEN®, have been limited, acceptance by healthcare professionals is growing and the increased awareness of VASCAZEN® is generating sales in several US states that are not currently serviced by Pivotal sales representatives. While 2013 sales of $303,530 versus 2012 sales of $93,637 demonstrated a significant increase, 2014 twelve months results are tracking at slightly above 2013 results. Sales data indicates that our sales representatives are achieving competitive levels of prescriptions written and filled but the limited number of sales and marketing resources is negatively affecting overall financial results. Realizing that current efforts to expand the in-house sales team have been hampered by limited financial resources the Company has recently increased its efforts in the identification and contacting of sales groups or companies with a sales network that calls on the same targeted health care practitioners.

In an effort to address new market segments Pivotal developed a new product brand, Benefishial™, that is being directed towards the over the counter market. Currently the Company is seeking to develop commercial relationships for the US, International and Canadian market.

Sales and marketing expenses increased to $269,765 for the three months and to $1,395,593 for the twelve months ended December 31, 2014 as compared to $248,402 for the three months and $1,097,913 for the twelve months ended December 31, 2013. Despite the fact that sales and marketing efforts continue to be impacted from the lack of

financial resources, that first occurred in 2013, the Company has been able to sell product in 36 states across the US even though our direct sales force efforts, to date, have concentrated only in three states. This positive experience demonstrates the company's readiness for a true national co-marketing partner.

Expenses

The Company anticipates that expenses will continue to increase commensurate with an increase in sales and marketing activity, research and development, business development and expansion of its product portfolio.

During the three and twelve months ended December 31, 2014, the Company had sales and marketing expenses of $269,765 and $1,395,593 as compared to $248,402 and $1,097,913 for the three and twelve months ended December 31, 2013, a increase of $21,363 and $297,680 respectively. The increase reflects a renewal of selling and marketing efforts that was previously reduced due to the Company's limited financial resources during 2013. With the completion of the recent debt financing, the Company has renewed its selling and marketing efforts leading to an increase in expenditures and a delayed potential increase in revenues. With increased capital resulting from the recent financings, the Company entered into an agreement during the second quarter of 2014 with a sales and marketing branding company to assist in the implementation of the next stage in the Company's commercialization strategy. In addition, Pivotal has entered into agreements to obtain industry retail pharmaceutical sales data to assist in the identification of new selling opportunities and the refining of current efforts. These activities have contributed significantly to the increase in expenses during 2014.

During the three and twelve months ended December 31, 2014, the Company had stock-based compensation adjustment of $59,956 and expense of $1,037,294 respectively, as compared to $Nil for the three and twelve months ended December 31, 2013. Stock-based compensation represents the fair value of the options granted during the three and twelve months ended December 31, 2014 and was determined using the Black-Scholes option pricing model. The increase reflects the value associated with the issuance of options to acquire 9,251,000 common shares of the Company. The Company had deferred the issuance of 8,251,000 options until it concluded its equity financing. On March 14, 2014, The Company granted previously reserved stock options to certain of its directors, officers, employees and consultants in recognition of awards deferred from 2012. 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 and will expire five years following the date of the grant. The increase also includes the value attributed to options issued on April 7, 2014. On April 7, 2014 the Company granted previously reserved stock options to certain of its directors, officers, employees and consultants in recognition of awards deferred from 2013. 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 shareholders on March 10, 2011. Included in the total are 250,000 options granted to Crossover Healthcare Fund, LLC in recognition of services provided. The options are exercisable at an exercise price of $0.20 and will expire five years following the date of the grant. In addition, on September 15, 2014 the Company announced the granting of

1,000,000 stock options to an officer and consultant. The stock options were granted effective September 12, 2014, are exercisable at an exercise price of $0.20 and will expire five years following the date of grant.

During the three and twelve months ended December 31, 2014, the Company had salaries and benefits expenses of $291,770 and $930,781 respectively, as compared to $103,377 and $388,193 for the three and twelve months ended December 31, 2013. The three-month increase of $188,394 and the twelve month increase of $542,588 reflects an increase in executive compensation, to bring compensation levels up to industry comparatives, and the added expense associated with the addition of the new Chief Financial Officer ("CFO"), effective September 7, 2014 and an accrued termination expense. The CFO's employment was subsequently terminated with an effective date of May 8, 2015.

During the three and twelve months ended December 31, 2014, the Company had research and development costs of $150,644 and $788,316, respectively, as compared to $193,773 and $454,443 for the three and twelve months ended December 31, 2013. The three month decrease of $43,129 and twelve month increase of $333,873 in research and development costs is directly attributed to the Company having established its own in-house research laboratory. One of the main purposes for the in-house laboratory is to enhance the Company's research capabilities in the development of new products. Research and development cost are planned to continue to increase during 2015 in conjunction with an expansion of in-house research staff and activities leading to the development of a rapid format point-of-care Omega-3 diagnostic. The Company is developing a rapid format diagnostic, which can be used in the physician offices, to provide an analysis of a patient's Omega-3 deficiency levels.

During the three and twelve months ended December 31, 2014, the Company had consulting expenses of $183,575 and $708,793 as compared to $140,826 and $533,339 for the three and twelve months ended December 31, 2013. The increase of $42,749 and $175,454 for the three and twelve months ended December 31, 2014 relates to an increase in activity associated with business development and product sales.

During the three and twelve months ended December 31, 2014, the Company had office and general administration expenses of $36,110 and $345,223 respectively, as compared to $32,408 and $246,822 for the three and twelve months ended December 31, 2013. Included in the twelve month increase of $98,401 are foreign exchange losses of $5,871.

During the twelve months ended December 31, 2013, the Company was required to provide an inventory impairment provision of $271,068. An additional amount of $315,849 has been provided for the twelve months ended December 31, 2014. This provision relates to the possibility that a portion of existing VASCAZEN® and OMAZEN® inventories will not be distributed or sold prior to the expiration date of the product based on forecasted sales levels. Pivotal had produced sufficient inventory to meet with projected demand resulting from anticipated increase in sales and marketing efforts. The delays in financing for the Company had a serious negative effect on sales and marketing activities for 2013 and 2014 resulting in downward revisions to forecasted sales.

During the three and twelve months ended December 31, 2014, the Company had professional fees of $63,229 and $262,481 respectively, as compared to and adjustment of ($11,379) for the three months and $146,367 for the twelve months ended December 31, 2013, a increase of $74,608 for the three months and an increase of $116,114 for the twelve months ended December 31, 2014. The three month increase reflects higher legal fees associated with an increase in business development activities. In addition the twelve month increase relates to an increase in legal fees, incurred in the first half of the year, associated with the March 2014 debt financing.

During the three and twelve months ended December 31, 2014, the Company had rent and utilities expenses of $20,837 and $77,508 respectively, as compared to $13,244 for the three months and $51,171 for the twelve months ended December 31, 2013, a increase of $7,593 for the three months and an increase of $26,337 for the twelve months ended December 31, 2014. The increase relates to an expansion of space requirements in connection with the establishment of an in-house research facility.

During the three and twelve months ended December 31, 2014, the Company had depreciation expenses of $17,785 and $68,145 respectively as compared to $6,862 and $23,550 for the three and twelve months ended December 31, 2013. The three month increase of $10,923 and twelve month increase of $44,595 in depreciation is related to increased purchases of research and development equipment made in connection with the Company expanding its in-house research facility for the purposes of pursuing a rapid-format diagnostic test to assist healthcare practitioners in determining Omega-3 deficiency.

During the three and twelve months ended December 31, 2014, the Company had registration fees of $11,542 and $49,830 respectively, as compared to $4,297 for the three months and $41,477 for the twelve months ended December 31, 2013. An increase of $7,245 for the three months and a increase of $8,353 for the twelve months ended December 31, 2014. The changes are reflective of timing difference associated with the delays in billings from third party service providers. These costs are associated with the Company being listed on two exchanges, the Canadian Securities Exchange ("**CSE**") (formerly "**CNSX**") and the OTC Markets QX ("**OTCQX**").

During the three and twelve months ended December 31, 2014, the Company had amortization of intangible assets expenses of $8,345 and $35,355 respectively, as compared to $13,458 for the three months and $32,958 for the twelve months ended December 31, 2013. This expense pertains to the amortization of intellectual property. Intellectual property had an original carrying value of $520,000 and has been supplemented by capitalized investment in prosecuting and maintaining the portfolio. Intellectual property expenditures during 2013 resulted in an increase to such intangible assets of $139,067. In addition expenditures of $127,076, incurred during 2014 have been added to the carrying value. The amortization of the increase in value explains the increase in amortization expense for the twelve months ended December 31, 2014.

During the three and twelve months ended December 31, 2014, the Company had scientific research refund applied amounts of $19,848 for the twelve months ended 2014 as compared to $184,053for the twelve months ended December 31, 2013. The decrease

of $164,205 for the twelve months ended December 31, 2014 relates to decreases in qualified Canadian research projects activity.

During the twelve months ended December 31, 2014, the Company had accretion expense of $1,069,772 as compared to $68,862 for the twelve months ended December 31, 2013. Accretion expense relates to the Company's Convertible Promissory Notes, as described in Note 7 to the consolidated financial statements for the period ended December 31, 2014. This expense reflects the difference, which is recognized as an expense over the life of the Notes, between the face value of the promissory notes and the fair value at which they are reported in the Company's statement of financial position.

During the three and twelve months ended December 31, 2014, the Company had interest on long term debt of $156,145 and $513,981 respectively as compared to $Nil for the three and twelve months ended December 31, 2013. The increase of $156,145 for the three months and $513,981 for the twelve months ended December 31, 2014 relates to paid and or accrued interest on the Notes.

During the twelve months ended December 31, 2014, the Company had financing fees of $214,403 as compared to $Nil for the twelve months ended December 31, 2013. The increase of $214,403 for the twelve months ended December 31, 2014 relates to the completion of the Notes financing in March of 2014.

During the twelve months ended December 31, 2014, the Company recorded a gain on change in fair value of conversion option of $2,191,228 as compared to $Nil for the twelve months ended December 31, 2013. The $2,191,228 for the twelve months ended December 31, 2014 relates to the convertible note financing. 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, see Note 8 of the audited financial statements.

Trends

Based on completion of its initial private placements, amalgamation, and warrant exercise, the Company was able to fund its initial growth plan and begin to commercialize its lead product, VASCAZEN®.

Effective February 2013, the Company has directly employed its sales force. This action has resulted in a more effective control of the sales force, reduced costs of operation and increased sales. Bringing the sales team in-house has provided greater understanding of the US market. The experiences gained are expected to better enable management to develop and execute a more effective sales and marketing strategy for the future. The Company anticipates that over time positive results will be achieved.

Sales, marketing, product distribution, clinical trials and reimbursement activities undertaken and managed during the twelve months ended December 31, 2013 and the twelve months ended December 31, 2014, were restricted as the Company made every effort to control costs and preserve financial resources.

On October 2, 2013 the Company announced that the equity portion of its private placement had raised gross proceeds of $2,741,809, and issued 12,462,768 units at a price of $0.22 per unit. Each unit consisted of one common share and one-half purchase warrant. Prior to closing, the terms of the purchase warrants were revised from an expiry of 24 months to 60 months and the warrants' exercise price was revised from $0.50 per common share to $0.30 per common share. 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 $0.45 for 20 trading days within a 30 day consecutive trading period.

On March 4, 2014, the Company completed its debt financing that had been announced in October 2013, resulting in the issuance of 7,744 Convertible Promissory units for gross proceeds of $7,743,580. Each unit consists of $1,000 Convertible Promissory Notes ("**Notes**") and 1,200 common share purchase warrants for a total issuance of 9,292,296 warrants. The warrants may be exercised at any time for a period of 60 months following the date of issuance at an exercise price of $0.30 per common share. The Company also incurred financing costs associated with the transaction of $480,544 and issued an aggregate of 1,641,586 Agent warrants. The agent warrants may be exercised at a price of $0.30 for a period of 60 months and have an expiry date of March 4, 2019. The maturity of the Notes is two years from the date of issuance. Subsequent to the year-end, the conversion price of the Notes was amended from $0.25 to $0.20 for each common share of the Company, the maximum amount of the offering was increased from $5,000,000 and the warrant exercise price was reduced from $0.50 per common share to $0.30. The Notes accrue interest at 8% per annum due and payable quarterly with the first payment due three months from the date of issuance, (July 1, 2014). The Company may, at its discretion, pay the interest in either cash or common shares of the Company, valued at the greater of $0.20 per share and such price as may be allowed under the CSE's policy (CNSX policy).

As at July 1, 2014 the Company made the first interest payment of $156,145 in cash. As at October 1, 2014 the Company made the second interest payment of $156,145 by issuing 780,722 common shares of the Corporation (the "Common Shares") representing payment of interest for the period of June 5, 2014 to September 4, 2014 on its outstanding Convertible Notes. As at December 17, 2014 the Company made the third interest payment of $154,447 by issuing 772,236 common shares of the Corporation (the "Common Shares") representing payment of interest for the period of September 5, 2014 to December 4, 2014 on its outstanding Convertible Notes. As at March 4, 2015 the Company made the fourth interest payment of $152,750 by issuing 763,752 common shares of the Corporation (the "Common Shares") representing payment of interest for the period of December 5, 2014 to March 4, 2015 on its outstanding Convertible Notes.

The following tables provide selected financial information that should be read in conjunction with the audited consolidated financial statements and the unaudited condensed interim consolidated financial statements of the Company.

SUMMARY OF SELECTED QUARTERLY RESULTS

Income Statement Items	**Three Months ended December 31, 2014 (unaudited)**	**Three Months ended September 30, 2014 (unaudited)**	**Three Months ended June 30, 2014 (unaudited)**	**Three Months ended March 31, 2014 (unaudited)**	**Three Months ended December 31, 2013 (unaudited)**
Total Net Revenues	$107,728	$72,544	$73,791	$52,532	$75,860
Net (Loss)	$(106,125)	$(1,632,052)	$(2,172,778)	$(1,613,667)	$(964,086)
Weighted Average Number of Shares Outstanding	92,151,238	91,916,277	91,916,277	91,916,277	82,526,520
Loss per Common Share	$(0.00)	$(0.02)	$(0.02)	$(0.02)	$(0.01)

Statements of Financial Position as at	**December 31, 2014 (audited)**	**December 31, 2013 (audited)**
Assets		
Current Assets	$1,089,584	$1,191,098
Production Advance	$0	$165,348
Equipment	$424,929	$74,368
Intangible Assets	$672,429	$580,709
Total Assets	$2,186,942	$2,011,523
Liabilities		
Current Liabilities	$528,862	$655,682
Long Term Liabilities	$6,108,206	$1,967,293
Total Liabilities	$6,637,068	$2,622,975
Shareholders' Equity		
Share Capital	$8,272,938	$7,962,346
Other Paid-in Capital	$2,495,812	$1,458,518
Warrants	$732,645	$537,943
Deficit	$(15,951,521)	$(10,570,259)
Total Liabilities and Shareholders' Equity	$2,186,942	$2,011,523

LIQUIDITY AND CAPITAL RESOURCES

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the international Accounting Standards Board ("IASB") and on the assumption that the Company will be able to realize the carrying value of its assets and discharge its liabilities in the normal course of operations as a going concern. The Company's ability to discharge its liabilities and realize the carrying value of its assets in the normal course of operations is dependent upon, among other things, being able to raise the required capital amount of debt and/or equity financing for profitable operations to be achieved.

The Company's first private placement occurred through the issuance of a unit ("**Unit**") consisting of one common share and one-half of one common share purchase warrant, with a subscription price of $0.10 per Unit. As at February 2, 2011 the Company was successful in completing the first private placement resulting in gross proceeds of $2,378,844.

On July 14, 2011, after having met the conditions of an Accelerated Event, the Company issued a call on the share purchase warrants. Following an extension of the exercise period, Warrant holders of record had until 5:00 pm on September 16, 2011 to exercise their warrants, with each full warrant, at a price of $0.25 per common share, entitling the holder to purchase one common share in the capital of the Company. The cumulated exercise of 10,466,392 common stock purchase warrants resulted in net proceeds of $2,616,598.

On June 25, 2012, the Company announced having entered into a subscription agreement for a $5,000,000 non-brokered private placement with a US Institutional Fund. Pursuant to the subscription agreement, the Company had agreed to issue 22,727,273 units at a price of $0.22 each. Each unit consisted of one common share and one-half purchase warrant. Each full purchase warrant may be exercised to purchase one common share of the Company upon payment of the exercise price of $0.50 per common share. Units were to be issued in tranches as funds were received. The purchase warrants were to expire 24 months following the closing of each tranche and 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 $0.75 per share for 20 trading days within a 30 day consecutive trading period.

On October 2, 2013 the Company announced that equity portion of the private placement had raised gross proceeds of $2,741,809 representing 12,462,768 units at a price of $0.22 per unit. Each unit consist of one common share and one-half purchase warrant. The terms of the purchase warrants were revised from an expiry of 24 months to 60 months. The warrants' exercise price was reduced from $0.50 per common share to $0.30 per common share. The purchase warrants may be called by the Company at any time after six months following the closing, provided the commons shares of the Company have traded at a price of at least $0.45 for 20 trading days within a 30 day consecutive trading period.

On March 4, 2014, the Company completed its debt financing that had been announced in October 2013, resulting in the issuance of 7,744 Convertible Promissory units for gross proceeds of $7,743,580. Each unit consists of $1,000 Convertible Promissory Notes ("Notes") and 1,200 common share purchase warrants for a total issuance of 9,292,296 warrants. The maturity of the Notes is two years from the date of issuance. Subsequent to the year-end, the conversion price of the Notes was amended from $0.25 to $0.20 for each common share of the Company, the maximum amount of the offering was increased from $5,000,000 and the warrant exercise price was reduced from $0.50 per common share to $0.30. The Notes accrue interest at 8% per annum due and payable quarterly with the first payment due three months from the date of issuance, (July 1, 2014). The Company may, at its discretion, pay the interest in either cash or common shares of the Company, valued at the greater of $0.20 per share and such price as may be allowed under the CSE's policy (CNSX policy). The warrants may be exercised at any time for a period of 60 months following the date of issuance at an exercise price of $0.30 per common share. The Company also incurred financing costs associated with the transaction of $480,533 and issued an aggregate of 1,641,586 agent warrants. The agent warrants may be exercised at a price of $0.30 for a period of 60 months and have an expiry date of March 4, 2019.

There are currently no defaults or arrears by the Company on:

i) Dividend payments, lease payments, interest or principal payment on debt;
ii) Debt covenants; or
iii) Redemption or retraction or sinking fund payments.

As of the date of this MD&A, the Company did not have any commitments for capital expenditures.

At December 31, 2014, the Company had cash totaling $466,904 compared to $487,199 at December 31, 2013. The decrease in cash that occurred during the twelve months ended December 31, 2014 is primarily due to increases in cash used in operating activities combined with increased acquisitions of equipment as well as investments in intangible assets, repayment of loans and interest payments.

Working capital (defined as current assets minus current liabilities) has decreased to $560,722 for the twelve months ended December 31, 2014 as compared to $700,764 for the year ended December 31, 2013, mainly as a result of an increase in financing activities, a reduction in cash used for operating activities, and an increase in the acquisition of equipment and intangible asset additions. In order for the Company to sustain operations it will require additional capital. The Company expects to satisfy operating cash requirements over the next twelve months from cash on hand, collection of anticipated revenues resulting from commercialization activities, development or marketing license agreements, through managing operating expenses and additional equity or debt financings. There are no assurances that Pivotal will be able to obtain any new capital on desirable terms or in amounts sufficient to meet its operating needs. The availability of financing for the Company will be affected by, amongst other things, the success of its commercialization efforts, the results of its clinical studies, the market acceptance of its products, the general state of the capital markets, its strategic alliance

agreements and other commercial factors. In the event that Pivotal is unable to obtain additional capital over the next twelve months, there may be substantial doubt about the Company's ability to continue as a going concern and realization of assets and payment of liabilities as they become due.

CAPITAL EXPENDITURES

Total capital expenditures for the twelve months ended December 31, 2014 were $418,706, an increase from the December 31, 2013 amount of $13,103. Capital expenditures for the twelve months ended December 31, 2014 all relate to the purchase and expansion of research equipment and related facilities. Total capital expenditures for 2015 are anticipated to increase insignificantly as the majority of planned purchases took place during the twelve months ended December 31, 2014. The Company continues to fund capital expenditures from working capital.

CONTRACTUAL OBLIGATIONS

During the financial year ended December 31, 2011, $709,326 was provided as a production advance to a supplier under an exclusive supply agreement. Under the revised terms of the supply agreement, $567,068 of the production advance of $709,326 was utilized during 2012 as settlement of an outstanding accounts payable obligation. 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.

In addition, the Company had entered into a lease for office premises, which was scheduled 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 rental payments to the end of the lease term 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 rental payments to the end of the lease term are as follows:

2015: $25,400
2016: $23,283

DISCLOSURE CONTROL AND PROCEDURES

Under the supervision and with the participation of Pivotal's management, including the Chief Executive Officer, Chief Operating Officer and President and Chief Financial Officer, Pivotal has evaluated the effectiveness of its disclosure controls and procedures as at December 31, 2014. Disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the Company's Chief Executive Officer, Chief Operating Officer and President and Chief Financial Officer, as appropriate, to allow required disclosures to be made on a timely basis. Based on the evaluation, management has concluded that these disclosure controls and procedures are effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining effective internal control over financial reporting.

Internal control over financial reporting include those policies and procedures that establish the following: maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of assets; reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable generally accepted accounting principles; receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors; and reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Management has concluded that internal control over financial reporting is effective. The design and operation of internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles.

OFF BALANCE SHEET ARRANGEMENTS

As at April 28, 2015, the Company did not have any off-balance sheet arrangements.

PROPOSED TRANSACTIONS

The Company does not have any proposed transactions to discuss at this time.

TRANSACTIONS WITH RELATED PARTIES

The Company paid a total of $360,000 in consulting fees to an officer and director of the Company for the twelve months ending December 31, 2014, compared to $260,000 for the twelve months period ended December 31, 2013. The Company paid a total of $614,630 in management compensation for the twelve months ending December 31, 2014, compared to $320,000 for the twelve months period ended December 31, 2013. The twelve-month increase of $294,630 reflects an increase in executive compensation to bring compensation levels up to industry comparatives, and includes a $74,630 performance based compensation payment.

As at December 31, 2014, $11,798 was owing to officers and directors of the Company for unpaid expenses as compared to $29,205 as at December 31, 2013.

CONTINGENCIES

As at the date of this report, the Company did not have any contingencies outstanding.

OUTSTANDING SHARE DATA

As at:	December 31, 2014	December 31, 2013
Authorized:		
Unlimited number of common shares without par value		
Issued and Outstanding:		
Common shares (1)	93,469,236	91,916,277
Common share value	$8,272,938	$7,962,346
Common share purchase warrants to be issued	17,165,266	6,231,384
Common share purchase warrants to be issued value	$5,149,579	$1,869,415
Stock options exercisable at $0.10, expiry Jan 11, 2016	300,000	600,000
Stock options exercisable at $0.10, expiry Feb 7, 2016	200,000	200,000
Stock options exercisable at $0.10, expiry Mar 10, 2016	899,000	899,000
Stock options exercisable at $0.45, expiry May 24, 2016	1,500,000	1,600,000
Stock options exercisable at $0.30, expiry Aug 18, 2016	100,000	100,000
Stock options exercisable at $0.30, expiry Aug 26, 2016	550,000	650,000
Stock options exercisable at $0.25, expiry Nov 22, 2016	200,000	200,000
Stock options exercisable at $0.29, expiry Mar 29, 2017	200,000	200,000
Stock options exercisable at $0.20, expiry Mar 14, 2019	3,800,000	-
Stock options exercisable at $0.20, expiry April 7, 2019	3,576,000	-
Stock options exercisable at $0.20, expiry Sept 12, 2019	1,000,000	-
Total stock options issued and outstanding	12,325,000	4,449,000
Total stock options exercised	1,000	1,000
Total stock options available for issuance	1,694,385	9,337,441
Total stock option plan (15% of common share issued and outstanding)	14,020,385	13,787,441

COMMON SHARES

On October 2, 2013, the Company announced that the equity portion of the private placement had raised gross proceeds of $2,741,809 representing 12,462,768 units at a price of $0.22 per unit. Each unit consist of one common share and one-half purchase warrant.

WARRANTS

For the twelve months ended December 31, 2014 there were 17,165,266 warrants issued and outstanding.

Pursuant to the private placement, the closing of the equity portion, which was announced on October 2, 2013, the Company issued 6,231,384 common share purchase warrants, each of which purchase warrant may be exercised to purchase one common share of the Company upon payment of the exercise price of $0.30 per common share. The purchase warrants expire 60 months following the closing and 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 $0.45 per share for 20 trading days within a 30 day consecutive trading period. To date no warrants issued in connection with this financing have been exercised.

On March 4, 2014, the Company completed its debt financing that had been announced in October 2013, resulting in the issuance of 7,744 Convertible Promissory units for gross proceeds of $7,743,580. Each unit consisted of $1,000 Convertible Promissory Notes ("**Notes**") and 1,200 common share purchase warrants, for a total issuance of 9,292,296 warrants. The maturity of the Notes is two years from the date of issuance. The Notes may be converted at a price of $0.20 for each common share of the Company. The warrant exercise price is $0.30 per common share. The Notes accrue interest at 8% per annum due and payable quarterly with the first payment due three months from the date of issuance, (July 1, 2014). The Company may, at its discretion, pay the interest in either cash or common shares of the Company, valued at the greater of $0.20 per share and such price as may be allowed under the CSE's policy (CNSX policy). The warrants may be exercised at any time for a period of 60 months following the date of issuance at an exercise price of $0.30 per common share. The Company also incurred financing costs associated with the transaction of $480,544 and issued an aggregate of 1,641,586 agent warrants. The agent warrants may be exercised at a price of $0.30 for a period of 60 months and have an expiry date of March 4, 2019.

STOCK OPTIONS

No stock options were granted during the year ended December 31, 2013. No options were exercised during the year ended December 31, 2014. On February 1, 2014, 100,000 stock options granted August 26, 2011 to a past employee were not exercised within the required option period following the employee departure and expired. On March 14, 2014, the Company granted previously reserved stock options to certain of its directors, officers, employees and consultants that were deferred from 2012. 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 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 that were deferred from 2013. 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 shareholders on March 10, 2011. The options are exercisable at an exercise price of $0.20 and will expire five years following the date of the grant. In addition, on September 15, 2014 the Company announced the granting of 1,000,000 stock options to an officer and consultant. The stock options were granted effective September 12, 2014 are exercisable at an exercise price of $0.20 and will expire five years following the date of grant. On July 17, 2014, 250,000 stock options, granted March 14, 2014 to a past director were not exercised within the required option period following the director's departure and expired. On July 17, 2014, 500,000 stock options, granted April 7, 2014 to two past directors were not exercised within the required option period following the directors' departure and expired. On October 16, 2014, 50,000 stock options, granted April 7, 2014 to a past employee were not exercised within the required option period following the employee's departure and expired. On October 28, 2014, 300,000 stock options, granted January 11, 2011 to a past employee were not exercised within the required option period following the employee's departure and expired. On October 28, 2014, 100,000 stock options, granted May 24, 2011 to a past employee were not exercised within the required option period following the employee's departure and expired. On October 28, 2014, 25,000 stock options, granted March 14, 2014 to a past employee were not exercised within the required option period following the employee's departure and expired. On October 28, 2014, 50,000 stock options, granted April 7, 2014 to a past employee were not exercised within the required option period following the employee's departure and expired.

SUBSEQUENT EVENTS

On March 25, 2015, the Company issued 763,752 common shares of the corporation, representing payment of interest of $152,750 for the period of December 5, 2014 to March 4, 2015 on its outstanding Convertible Notes. Interest on the notes, at a rate of 8% per annum, is payable quarterly in either cash or common shares at the option of the Company, valued at the greater of $0.20 per share and such price as may be allowed under the Canadian Securities Exchange (CSE) policy.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Please refer to Note 2 of the Company's December 31, 2014 audited consolidated financial statements.

RISK AND UNCERTAINTIES

The Company is subject to numerous risks and uncertainties as a result of its stage of development. The following risk factors outline some of the risks that may impact the Company and its business but are not a definitive list of all risk factors associated with the Company and its business.

Development Stage Company

The Company is subject to all the risks inherent in the establishment of a new business enterprise, including the need to develop efficient systems while focusing on the development of new products. The likelihood of success of the Company must be considered in view of the problems, expenses, difficulties and delays frequently encountered in connection with the development of a new business.

Strategic and Operational Risks

Strategic and operational risks are risks that arise if the Company fails to launch its product into the market place on a profitable and timely basis or fails to raise the required capital of debt and/or equity financing for profitable operations to be achieved. The strategic opportunities or threats arise from a range of factors, which might include: (1) competitors actions, (2) regulatory requirements and (3) general economic and political conditions.

Fair Value

The carrying value of cash, accounts receivable, government remittances receivable, 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 an amortized cost using a market interest rate. As such the carrying value does not materially differ from the fair market value.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. 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 in Note 14 of the audited consolidated financial statements for the twelve months ended December 31, 2014.

The Company's financial liabilities are comprised of its accounts payable and accrued liabilities and government remittances payable, for financial liabilities within 90 days or less of $481,951 and financial liabilities of over 90 days of $6,125,117. In the event that Pivotal is unable to obtain additional capital over the next twelve months, there may be substantial doubt about the Company's ability to continue as a going concern and realization of assets and payment of liabilities as they become due.

Interest Rate Risk

The Company's cash and cash equivalents are held in the form of cash deposits and/or term deposits at a Canadian chartered bank. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of the financial institutions. As at December 31, 2014 and December 31, 2013 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 average exchange rate between Canadian dollars and US dollars or Euro would have resulted in a $6,600 change on reported net loss and comprehensive loss for the year.

Credit Risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Substantially all 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 and December 31, 2013 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 as compared to 67% and 29% as at December 31, 2013.

General and Industry Risks

The Company's financial success may be dependent upon the extent to which it can develop, market and distribute its lead product, VASCAZEN®.

Competition

The pharmaceutical/health care industry is intensely competitive in all of its phases, and the Company will compete with many companies possessing greater financial resources and technical facilities than the Company.

Additional Funding Requirement

The Company will require additional capitalization to further manufacture and market its products, and to continue protection of its intellectual property portfolio. The Company will likely need to raise additional funds to support its long-term product development and commercialization programs. The Company offers no assurance that future funding will be secured or, if secured, will be on reasonable terms.

Capital

The primary source of future funds presently available to the Company is through the sale of equity capital or the assumption of debt. There is no assurance that such sources of financing will be available on acceptable terms, if at all. If the Company seeks additional equity financing, the issuance of additional shares may dilute the interests of their current shareholders. Failure to obtain such additional financings could result in delay or indefinite postponement of the Company's strategic goals.

No History of Earnings or Dividends

To date, the Company has limited history of earnings, and there is no assurance that the Company will generate earnings. The Company has not generated significant revenues from the sale of products and accordingly has not made an operating profit. The accumulated deficit as at December 31, 2014 is $15,882,632. It is anticipated that the Company will continue to experience operating losses in the short run until significant commercial sales have been achieved. There can be no assurance that the Company will ever achieve significant revenues, profitable operations or provide a return on investment in the future. The Company has no plans to pay dividends for the foreseeable future.

Potential Profitability Depends Upon Factors Beyond the Control of the Company

The potential profitability of the Company is dependent upon many factors beyond the Company's control. Profitability also depends on the costs of operations, including costs of labor, equipment, electricity, regulatory compliance or other production inputs. Such costs will fluctuate in ways the Company cannot predict and are beyond the Company's control, and such fluctuations will impact on profitability and may eliminate profitability altogether. Additionally, events, which cause worldwide economic uncertainty, may make the raising of funds for development difficult. These changes and events may materially affect the financial performance of the Company.

Possible Volatility of Securities Prices

The market price of the Company's securities following the offering may be highly volatile, as has been the case with securities of other companies in emerging industries. Factors such as the Company's operating results and announcements by the Company or its competitors concerning technological innovations or new products may have a significant effect on the market price of the Company's securities. In addition, market prices for securities of many emerging companies have experienced wide fluctuations not necessarily related to the operating or other performance of such companies.

Key Personnel and External Collaborators

Pivotal's product development capacity will depend, to a great extent, on its ability to attract and retain highly qualified staff, as well as to establish and maintain relationships with its collaborators. The competition in this area is very intense. Pivotal's success is highly dependent upon its senior officers, its scientific personnel as well as its consultants and collaborators. The loss of key employees or collaborators, if any, could compromise the pace and success of the Company's product development, commercial and operational success.

Government Regulation

The business of the Company may be subject to government regulation, including the Health Protection Branch of Health Canada, the US Food and Drug Administration ("**FDA**") and applicable health authorities in other countries, with regard to the development, testing, manufacturing and marketing of the products. Even though the Company's product will be marketed as a Medical Food, a distinct category of FDA regulated products that do not require FDA premarket approval; there are a number of strict guidelines that must be adhered to. There can be no assurance that any required regulatory approvals will be maintained and/or obtained on a timely basis or at all, or that difficulties or excessive costs will not be encountered by the Company in its efforts to secure necessary approvals, which could delay for a considerable period of time or prevent the Company from marketing its products. Regulatory authorities may impose costly requests upon the Company for additional data, the result of which may be a delay in the marketing of its products. Any such delay in obtaining or failure to obtain such approvals would adversely affect the marketing of the Company's planned products and the ability to earn product revenues.

Patents and Proprietary Technology

The Company's success will depend, in part, on its ability to obtain patents, maintain trade secret protection and operate without infringing the proprietary rights of others. Interpretation and evaluation of biotechnology patent claims present complex and often novel legal and factual questions. Accordingly, there is some question as to the extent to which discoveries and related products and processes can be effectively protected by patents. There can be no assurance that the patent applications assigned to the Company will be issued or that any issued patents will be valid and enforceable if challenged or that any patent will provide the Company with a competitive advantage. In addition, others may have filed patent applications and may have been granted patents or otherwise obtained proprietary rights to technologies potentially useful to the Company. The extent to which the Company may be required to modify its products by reason of the rights asserted by others is also unknown. There is no assurance that the Company's proprietary technology will not be circumvented through adoption of a competitive though non-infringing process or product. The cost of enforcing the Company's patent rights, if any, in lawsuits that the Company may bring against infringers or defending itself against infringement charges by other patent holders may be significant and could limit the Company's operations.

Manufacturing Capabilities

The Company is a development stage company with no existing manufacturing capabilities and is reliant upon entering into supply and manufacturing agreements with third parties for the manufacture of product. There can be no assurance that the Company will be able to manufacture or negotiate agreements to manufacture any products on a cost effective basis.

Limited Supply

There are a limited number of potential suppliers of highly purified Omega-3 for the Company's products. There can be no assurance that the Company will be able to lock up supply from these organizations for any significant length of time nor is there any assurance that the supplier will be able to supply all the oil required by the Company.

Dependence on Single Product Line

Although the Company anticipates developing other products, its operations are currently restricted to the development of its lead product, VASCAZEN®. In the event the Company is unable to market such products for any reason, it would be materially adversely affected.

Sales and Marketing

The Company has no history of selling, marketing or distributing any products. In order to market any of its products, the Company has established a dedicated sales force with expertise in such areas as marketing, sales and customer support in the United Sates. There can be no assurance that the sales or marketing efforts will be successful.

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

(Expressed in Canadian Dollars)

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

(Expressed in Canadian Dollars)

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.

(Expressed in Canadian Dollars)

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.

(Expressed in Canadian Dollars)

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.

(Expressed in Canadian Dollars)

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

(Expressed in Canadian Dollars)

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.

(Expressed in Canadian Dollars)

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%.

(Expressed in Canadian Dollars)

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	$ -	$ -

(Expressed in Canadian Dollars)

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

(Expressed in Canadian Dollars)

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.

(Expressed in Canadian Dollars)

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		

(Expressed in Canadian Dollars)

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.

(Expressed in Canadian Dollars)

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.

(Expressed in Canadian Dollars)

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).

Investor and Shareholder Information

Corporate Head Office

Pivotal Therapeutics Inc.
81 Zenway Blvd., Unit 10
Woodbridge, Ontario L4H 0S5
Canada
Phone:(905) 856-9797
Fax: (905) 856-2177
www.pivotaltherapeutics.us
info@pivotaltherapeutics.us

U.S. Corporate Office

Pivotal Therapeutics (US), Inc.
3641 FAU Blvd.,
Suite 400
Boca Raton, Florida, 33431
USA
Phone: (561) 288-5231

Board of Directors

John S. Gebhardt
Chairman

James J. Carey, Rear Admiral (Ret.)
Vice-Chairman

Eugenio G. Bortoluzzi, B.Comm.,MBA
Chief Executive Officer and Chief Financial Officer
Pivotal Therapeutics Inc.

Rachelle MacSweeney, B.Sc., MBA
Chief Operating Officer and President
Pivotal Therapeutics Inc.

George Jackowski Ph.D.
Chief Scientific Officer
Pivotal Therapeutics Inc.

Senior Management

Eugenio G. Bortoluzzi, B.Comm.,MBA
Chief Executive Officer and Chief Financial Officer

Rachelle MacSweeney, B.Sc., MBA
Chief Operating Officer and President

George Jackowski, Ph.D.
Chief Scientific Officer

Canadian Legal Council

Carlyle Peterson Lawyers LLP
700 Richmond Street, Suite 216
London, Ontario N6A 5C7

United States Legal Council

Venable LLP
575 7th Street NW
Washington, DC, 20004
USA

Law Office of Stewart A. Merkin
444 Brickell Avenue, Suite 300
Rivergate Plaza
Miami, Florida 33131
USA

Law Office of Gary A. Agron
5445 DTC Pkwy., Suite 520
Greenwood Village, CO 80111
USA

Registrar & Transfer Agent

Computershare Limited
100 University Avenue, 8th Floor
Toronto, Ontario
M5J 2Y1
Canada

Auditors

MNP LLP
701 Evans Avenue, Suite 800
Toronto, Ontario
M9C 1A3
Canada

Trading Symbols

Canadian Securities Exchange:
CSE: PVO

OTC Markets Group, OTCQX International:
OTCQX: PVTTF

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