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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Algae Dynamics Corp.

We have audited the accompanying balance sheets of Algae Dynamics Corp. as of March 31, 2016 and 2015, and the related statements of operations, stockholders' (deficiency), and cash flows for each of the years in the two year period ended March 31, 2016. Algae Dynamics Corp.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Algae Dynamics Corp. as of March 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two year period ended March 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Algae Dynamics Corp. will continue as a going concern. As discussed in Note 1 to the financial statements, Algae Dynamics Corp.'s operating losses, and negative working capital and an accumulated deficit as at March 31, 2016 raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
June 29, 2016

**ALGAE DYNAMICS CORP.****Balance Sheets**

(Stated in Canadian Dollars)

	As at March 31, 2016	As at March 31, 2015
<b>ASSETS</b>		
Current Assets		
Cash	\$ 173	\$ 3,084
Prepaid expenses	14,752	5,519
Amounts receivable from officer (Note 12)	21,064	29,967
Amounts receivable, net	8,002	10,046
<b>Total Current Assets</b>	<b>43,991</b>	<b>48,616</b>
Equipment and leasehold improvements, net (Note 4)	65,252	77,500
Intangible assets (Note 5)	-	15,970
<b>Total Assets</b>	<b>\$ 109,243</b>	<b>\$ 142,086</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities (Note 12)	\$ 397,878	\$ 161,877
Advances from shareholders and related parties (Note 6)	383,990	367,267
Warrant liability (Note 9b)	27,479	364,878
<b>Total Current Liabilities</b>	<b>809,347</b>	<b>894,022</b>
<b>STOCKHOLDERS' (DEFICIENCY)</b>		
Common stock (Note 9a), no par value, unlimited amount authorized, 9,701,051 issued and outstanding as of March 31, 2016, (2015 - 9,256,410)	1,466,352	542,323
Additional paid in capital (Note 9c)	1,026,765	324,916
Warrants (Note 9b)	190,198	190,198
Equity to be issued (Note 9a)	339,949	-
Accumulated deficit	(3,723,368)	(1,809,373)
<b>Total Stockholders' (Deficiency)</b>	<b>(700,104)</b>	<b>(751,936)</b>
<b>Total Liabilities and Stockholders' (Deficiency)</b>	<b>\$ 109,243</b>	<b>\$ 142,086</b>

Going Concern (Note 1)

Commitments and Contingencies (Note 11)

***These financial statements are approved by the Directors:***\_\_\_\_\_  
Director\_\_\_\_\_  
Director

The accompanying notes are an integral part of these financial statements

**ALGAE DYNAMICS CORP.**  
**Statements of Operations**  
(Stated in Canadian Dollars)

	For the Year Ended March 31, 2016	For the Year Ended March 31, 2015
<b>OPERATING EXPENSES</b>		
Accretion expenses (Note 8)	\$ 12,563	\$ -
Application and membership fees	23,394	-
Amortization expense (Note 4)	20,198	20,338
Business development	13,901	25,145
Foreign exchange loss	1,616	-
Interest	26,792	-
Occupancy costs	32,012	41,470
Office and general	7,426	18,915
Professional fees (Notes 9a and 9b)	859,993	582,564
Research and development	3,184	46,228
Stock based compensation (Notes 9a and 9c)	808,972	324,916
Telephone and internet services	14,511	14,802
Travel	19,626	12,911
Extinguishment of debt (Notes 6 and 7)	61,052	-
Impairment of intangible assets (Note 5)	15,970	-
<b>Total Operating Expenses</b>	<b>1,921,210</b>	<b>1,087,289</b>
<b>Operating Loss</b>	<b>1,921,210</b>	<b>1,087,289</b>
Deferred Income Tax Recovery (Note 10)	(7,215)	-
<b>Net Loss for the Year</b>	<b>\$ 1,913,995</b>	<b>\$ 1,087,289</b>
Net loss per common share - basic and diluted	\$ 0.20	\$ 0.12
Weighted average common shares outstanding - basic and diluted	9,389,903	9,238,710

The accompanying notes are an integral part of these financial statements

**ALGAE DYNAMICS CORP.**  
**Statements of Stockholders' Equity (Deficiency)**

(Stated in Canadian Dollars)

	Common Shares Number	Common Shares Amount	Warrants	Additional Paid in Capital	Equity to be Issued	Accumulated Deficit	Stockholders' (Deficiency)
March 31, 2014	8,606,250	\$ 100	\$ -	\$ -	328,180	\$ (722,084)	\$ (393,804)
Unit subscriptions issued (Note 9a)	625,160	689,116	-	-	(328,180)	-	360,936
Valuation of warrants (Note 9b)	-	(171,308)	171,308	-	-	-	-
Warrants granted for services (Note 9b)	-	-	19,290	-	-	-	19,290
Unit issue costs	-	(1,100)	(400)	-	-	-	(1,500)
Warrants exercised	25,000	1,113	-	-	-	-	1,113
Warrant liability valuation transferred on exercise	-	32,675	-	-	-	-	32,675
Stock options (Note 9c)	-	-	-	324,916	-	-	324,916
Valuation of warrants classified as warrant liabilities	-	(8,273)	-	-	-	-	(8,273)
Net loss for the year	-	-	-	-	-	(1,087,289)	(1,087,289)
March 31, 2015	9,256,410	542,323	190,198	324,916	-	(1,809,373)	(751,936)
<b>Warrants exercised (Note 9b)</b>	<b>230,500</b>	<b>12,614</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,614</b>
<b>Warrant liability valuation transferred on exercise (Note 9b)</b>	<b>-</b>	<b>509,285</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>509,285</b>
<b>Stock options (Note 9c)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>701,849</b>	<b>-</b>	<b>-</b>	<b>701,849</b>
<b>Shares issued for cash (Note 9a)</b>	<b>31,532</b>	<b>48,441</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,441</b>
<b>Shares issued for conversion of debt debt (Notes 8 and 9a)</b>	<b>29,609</b>	<b>36,263</b>	<b>-</b>	<b>-</b>	<b>172,501</b>	<b>-</b>	<b>208,764</b>
<b>Beneficial conversion feature</b>	<b>-</b>	<b>5,042</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,042</b>
<b>Shares issued as compensation (Note 9a)</b>	<b>153,000</b>	<b>312,384</b>	<b>-</b>	<b>-</b>	<b>167,448</b>	<b>-</b>	<b>479,832</b>
<b>Net loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,913,995)</b>	<b>(1,913,995)</b>
<b>March 31, 2016</b>	<b>9,701,051</b>	<b>\$ 1,466,352</b>	<b>\$ 190,198</b>	<b>\$ 1,026,765</b>	<b>\$ 339,949</b>	<b>\$ (3,723,368)</b>	<b>\$ (700,104)</b>

The accompanying notes are an integral part of these financial statements

**ALGAE DYNAMICS CORP.****Statements of Cash Flows**

(Stated in Canadian Dollars)

	Year Ended March 31, 2016	Year Ended March 31, 2015
<b>Cash flows from operating activities</b>		
Net loss	\$ (1,913,995)	\$ (1,087,289)
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization	20,198	20,338
Stock based compensation (Notes 9a and 9c)	1,353,336	733,486
Units issued in settlement of debt (Note 9a)	-	11,256
Extinguishment of debt	61,052	-
Impairment of intangible assets	15,970	-
Deferred income tax recovery	(7,215)	-
Accretion expense	12,563	-
Realized foreign exchange loss	3,669	-
<b>Change in operating assets and liabilities</b>		
Prepaid expenses	(9,233)	6,605
Accounts receivable	19,851	(10,820)
Accounts payable	233,885	74,347
Net cash flows used in operating activities	<u>(209,919)</u>	<u>(252,077)</u>
<b>Cash flows from investing activities</b>		
Investment in equipment and leasehold improvements	-	(55,870)
Investment in patents	-	(8,829)
Net cash flows used in investing activities	<u>-</u>	<u>(64,699)</u>
<b>Cash flows from financing activities</b>		
Advances from shareholders	83,665	(94,107)
Unit subscriptions received	-	349,680
Unit issue costs	-	(1,500)
Common shares issued	48,441	-
Term loan proceeds	30,000	-
Convertible note proceeds	32,288	-
Warrant exercise proceeds	12,614	1,113
Net cash flows from financing activities	<u>207,008</u>	<u>255,186</u>
<b>Net change in cash</b>	<b>(2,911)</b>	<b>(61,590)</b>
<b>Cash position - beginning of year</b>	<b>3,084</b>	<b>64,674</b>
<b>Cash position - end of year</b>	<b>173</b>	<b>\$ 3,084</b>

**Supplemental Information:**

Income taxes paid	-	-
Interest paid	-	-
Common shares and shares to be issued, issued for conversion of debt (Notes 6, 7 and 8)	208,764	

The accompanying notes are an integral part of these financial statements

**1.) Nature of the Business and Going Concern**

Algae Dynamics Corp. (the "Company") was incorporated under the Canada Business Corporations Act on October 7, 2008 as Converted Carbon of Canada Corp. On November 19, 2010, the Company amended its Articles of Incorporation to change its name to Converted Carbon Technologies Corp. and a further amendment was approved by the shareholders on August 28, 2014 to change the name to Algae Dynamics Corp.

The Company is a nutrient ingredient company and has developed a scalable Pure-BioSilo™ for sanitary cultivation of microalgae targeted to the functional food and beverage additives and supplement markets. The Company's planned principal operations are the design, engineering and manufacturing of a proprietary algae cultivation system for the high volume production of pure contaminant-free algae biomass. The Company is currently conducting research and development activities to operationalize certain technology currently in the allowed patent application stage, so it can produce pure contaminate-free algae biomass.

During the year ended March 31, 2014, the Company secured a research facility in Mississauga, Ontario, which houses all of its employees and research and development activities. The Company is also in the process of raising additional equity capital to support the completion of its development activities to begin production of pure contaminate-free algae biomass as soon as possible.

The Company filed a Form S-1 registration Statement with the U.S Securities and Exchange Commission (SEC) as an initial registration of common shares. The registration was declared effective by the SEC on November 21, 2014. The Company's stock began trading on September 17, 2015.

The Company's activities are subject to significant risks and uncertainties, including failing to obtain patents and failing to secure additional funding to operationalize the Company's current technology before another company develops similar technology.

These financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company is in the development stage and has not yet realized profitable operations and has relied on non-operational sources to fund operations. The Company has suffered recurring losses and additional future losses are anticipated as the Company has not yet been able to generate revenue. In addition, as of March 31, 2016, the Company has a working capital deficiency of \$765,356 (2015 - \$845,406) and an accumulated deficit of \$3,723,368 (2015 - \$1,809,373). The Company's ability to continue as a going concern is dependent on successfully executing its business plan, which includes the raising of additional funds. The Company will continue to seek additional forms of debt or equity financing, but it cannot provide assurances that it will be successful in doing so. These circumstances raise substantial doubt as to the ability of the Company to meet its obligations as they come due and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. Such adjustments could be material.

## 2.) Presentation of Financial Statements

### Basis of Presentation

The financial statements have been prepared in accordance with U.S Generally Accepted Accounting Principles ("US GAAP"). All adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows as of March 31, 2016 have been included.

The Company's financial statements are prepared using the accrual basis of accounting in accordance with US GAAP and the Company's functional and reporting currency is the Canadian dollar.

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-10 "ASU 2014-10" to eliminate certain financial reporting requirements for development stage entities. The amendments in ASU 2014-10 remove the incremental financial reporting requirements from US GAAP for development stage entities, including the presentation of inception-to-date information in the statements of income, cash flows and shareholder equity, and disclosure of the financial statements as those of a development stage entity. The Company has chosen to early adopt these amendments effective for its fiscal year ended March 31, 2013 and onwards.

### Use of Estimates and Assumptions

The preparation of the financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could materially differ from these estimates. The significant areas requiring the use of management estimates are related to provision for doubtful accounts, accrued liabilities, contingencies, the valuation of deferred taxes, stock based compensation, warrants, convertible debt and intangible assets. Although these estimates are based on management's knowledge of current events and actions management may undertake in the future, actual results may ultimately differ materially from those estimates.

## 3.) Summary of Significant Accounting Policies

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, and all highly liquid debt instruments purchased with an original maturity of three months or less. As at March 31, 2016 and 2015 there were no cash equivalents.

### Prepaid Expenses

Prepaid expenses consist of services paid, for which the Company has not yet received the benefit.

### 3.) Summary of Significant Accounting Policies (continued)

#### Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of an asset is derecognized when replaced.

Repairs and maintenance costs are charged to the statements of operations, during the year in which they are incurred.

Amortization is provided for over the estimated useful life of the asset as follows:

Computer equipment	30% on a declining balance
Production equipment	20% on a declining balance

Leasehold improvements are amortized over the term of the lease or useful life of the improvements, whichever is shorter, which is currently 5 years.

Useful lives and residual values are reviewed and adjusted, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The cost and accumulated amortization of assets retired or sold are removed from the respective accounts and any gain or loss is recognized in operations.

#### Intangible Assets

Intangible assets are comprised of patents. Patents represent capitalized legal costs incurred in connection with applications for patents which have a probable future economic benefit. In-process patents are not amortized. All patents subject to amortization are amortized on a straight line basis over an estimated useful life. The Company regularly evaluates patents and patent applications for impairment or abandonment, at which point the Company charges the remaining net book value to expenses.

#### Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events and circumstances indicate that the carrying value of an asset might not be recoverable. An impairment loss, measured as the amount by which the carrying amount exceeds the fair value, is recognized if the carrying amount exceeds estimated undiscounted future cash flows.

### 3.) Summary of Significant Accounting Policies (continued)

#### Research and Development

Research and development costs include costs directly attributable to the conduct of research and development programs, including the cost of consulting fees, materials, supplies, and the maintenance of research equipment. All costs associated with research and development are expensed as incurred. The approved refundable portion of tax credits are netted against the related expenses. Non-refundable investment tax credits are recorded in the period when reasonable assurance exists that the Company has complied with the terms and conditions required for approval of the tax credit and it is more likely than not that the Company will realize the benefits of these tax credits against the deferred taxes. Refundable investment tax credits are recorded in the period when reasonable assurance exists that the Company has complied with the terms and conditions required for approval of the tax credit and it is more likely than not that the Company will collect it.

#### Stock-based Compensation

The Company uses the fair value based method of accounting for all its stock-based compensation in accordance with FASB Accounting Standards Codification ("ASC") ASC 718 "Compensation – Stock Compensation". The estimated fair value of the options and warrants that are ultimately expected to vest based on performance related conditions, as well as the options and warrants that are expected to vest based on future service, is recorded over the instrument's requisite service period and charged to stock-based compensation. In determining the amount of options and warrants that are expected to vest, the Company takes into account, voluntary termination behavior as well as trends of actual option and warrant forfeitures. Stock options and warrants which are indexed to a factor which is not a market, performance or service condition, in addition to the Company's share price, are classified as liabilities and re-measured at each reporting date based on the Black-Scholes option pricing model with a charge to operations, until the date of settlement.

#### Income Taxes

Income taxes are accounted for under the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax liabilities and assets are recognized for the estimated future tax consequences attributable to differences between the amounts reported in the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply when the asset is realized or the liability is settled. The effect of a change in income tax rates on deferred tax liabilities and assets is recognized in income in the period in which the change occurs. Deferred tax assets are recognized to the extent that they are considered more likely than not to be realized.

FASB issued ASC 740-10 "Accounting for Uncertainty in Income Taxes". ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This standard requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements.

### 3.) Summary of Significant Accounting Policies (continued)

#### Fair Value of Financial Instruments

ASC 820 "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices that are observable for the asset or liability or indirectly; and
- Level 3 – inputs that are not based on observable market data.

The carrying amounts of the Company's financial instruments including cash, amounts receivable, accounts payable and accrued liabilities and advances from shareholders approximate their fair values due to their short-term nature. Management is of the opinion that the Company is not exposed to significant interest, credit or currency risks from these financial instruments.

The Company's equity-linked financial instruments reflected as warrant liability on the balance sheet represent financial liabilities classified as Level 3 as per ASU 2009-05. As required by the guidance, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair value of the warrant liability which is not traded in an active market has been determined using the Black-Scholes option pricing model based on assumptions that are not supported by observable market conditions.

#### Foreign Currency Transactions and Translation

Monetary assets and liabilities are translated into Canadian dollars, which is the functional currency of the Company, at the year-end exchange rate, while foreign currency expenses are translated at the exchange rate in effect on the date of the transaction. The resultant gains or losses are included in the statement of operations. Non-monetary items are translated at historical rates.

#### Loss per Share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method and reflects the potential dilution of securities by including warrants and contingently issuable shares, if any, in the weighted average number of common shares outstanding for a year, if dilutive. In a loss year, dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Accordingly, for the years ended March 31, 2016 and 2015, the basic loss per share was equal to diluted loss per share as there were no dilutive securities.

### 3.) Summary of Significant Accounting Policies (continued)

#### Comprehensive Income (Loss)

ASC 220 "Comprehensive Income" establishes standards for reporting and display of comprehensive income, its components and accumulated balances. The net loss is equivalent to the comprehensive loss for the periods presented.

#### New Accounting Pronouncements

In June 2014, FASB issued Accounting Standards Update ("ASU") ASU No. 2014-12, "Compensation – Stock Compensation (Topic 718); Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period". The amendments in this ASU apply to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. For all entities, the amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The Company is currently evaluating the impact this guidance will have on its financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30). This guidance is to simplify the presentation of debt issuance costs by recognizing a debt liability in the balance sheet as a direct deduction from that debt liability consistent with the presentation of a debt discount. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company is currently evaluating the impact of the new requirements on its financial statements.

In February 2016, the FASB issued ASU 2016-02 Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The amendments in this update are effective for fiscal years beginning after December 15, 2018, which is our fiscal 2020, beginning on April 1, 2019. The Company is currently evaluating the impact this guidance will have on its financial statements.

**3.) Summary of Significant Accounting Policies (continued)**

**New Accounting Pronouncements (continued)**

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. The amendments in this update are effective for annual periods beginning after December 15, 2016, which is the Company's fiscal 2018, which will begin on April 1, 2017. The Company is currently evaluating the impact of the new requirements on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's financial statements upon adoption.

**4.) Equipment and Leasehold Improvements**

	<b>March 31, 2016</b>		<b>March 31, 2015</b>	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	\$ 3,558	\$ 2,089	\$ 3,558	\$ 1,459
Production equipment	67,367	27,738	67,367	17,831
Leasehold improvements	<u>42,290</u>	<u>18,136</u>	<u>33,649</u>	<u>7,784</u>
Total	<u>\$ 113,215</u>	<u>\$ 47,963</u>	<u>\$ 104,574</u>	<u>\$ 27,074</u>
Net carrying amount		<u>\$ 65,252</u>		<u>\$ 77,500</u>

During the year ended March 31, 2016, the Company recorded total amortization of \$20,198 (2015 - \$20,338) which was recorded to amortization expense on the statements of operations.

**5.) Intangible Assets**

The Company has patents and patents pending with a cost of \$Nil as at March 31, 2016 (2015 - \$15,970) that are not currently being amortized and accordingly, the Company did not record amortization expense relating to its intangible assets for the years ended March 31, 2016 and 2015. During the year ended March 31, 2016, the Company reported an impairment of \$15,970 with respect to its intangible assets.

#### 6.) Advances from Shareholders and Related Parties

As at March 31, 2016, the Company had received cumulative working capital advances in the amount of \$383,990 (2015 - \$367,267) from two shareholders who are also officers and directors of the Company and a related party who is a family member of one of the officers. The advances from shareholders are unsecured, non-interest bearing and payable upon demand. During the year ended March 31, 2016, advances of \$75,846 (including interest of \$8,721) were settled with 49,371 shares to be issued valued at (USD\$1.72) \$2.38 per share based on the quoted market value. The total value of consideration provided in exchange for the extinguishment of debt was \$117,526, which resulted in a loss on extinguishment of debt of \$41,681, which was recorded on the statement of operations. The advances from the related party are unsecured, payable upon demand and bear interest at 20% per annum.

#### 7.) Term Loan

On May 6, 2015, the Company agreed to a one year term loan (maturing May 5, 2016) with a family member of an officer. The loan bore interest at 12% per annum paid quarterly. The face value of the loan was \$33,000. The carrying value of the loan was recorded net of \$3,000 of transaction costs. The term loan plus the accrued interest was settled on December 31, 2015 with 23,094 shares to be issued valued at (USD\$1.72) \$2.38 per share based on the quoted market value. The total value of consideration provided in exchange for the extinguishment of debt was \$54,975, which resulted in a loss on extinguishment of debt of \$19,371, which was recorded on the statement of operations.

#### 8.) Convertible Note

On September 2, 2015, the Company entered into a convertible note with an arm's length third party with a principal amount of USD\$25,000 (\$32,400). The convertible note matures on September 1, 2016 and accrues interest at the rate of 12% per annum. The convertible note is convertible at any time after six months, in whole or in part, at the holder's option into common shares of the Company's capital stock at a variable conversion price equal to a 45% discount from the lowest trading price in the twenty (20) trading days prior to the day that the holder requests conversion. The beneficial conversion feature was recognized separately at issuance by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital in accordance with ASC 470-20. The intrinsic value at issuance was \$27,227.

The issuance of convertible debt with a beneficial conversion feature results in a tax basis difference. The recognition of deferred taxes for the temporary difference of the convertible debt with a beneficial conversion feature is recorded as an adjustment to additional paid-in capital. A deferred income tax liability of \$7,215 was recognized upon the issuance of the convertible note.

The discount to the carrying value of the convertible note was amortized as a non-cash interest expense over the term of the convertible note using the effective interest rate method. During the year ended March 31, 2016, the Company accreted \$12,563 (2015 - \$Nil) in non-cash accretion expense in connection with the convertible note, which is included in accretion expense on the statements of operations.

**8.) Convertible Note (continued)**

The convertible loan plus the accrued interest was converted into 29,609 common shares on February 17, 2016 at a 45% discount to the market price (USD\$0.89) \$1.23 based on the terms of the convertible note.

**9.) Capital Stock**

**(a) Common Shares**

**Authorized**

The Company is authorized to issue an unlimited number of common shares with no par value.

**Issued and Outstanding**

On June 6, 2014, the Company closed a private placement for gross proceeds of \$647,860 of which \$328,180 was received as at March 31, 2014 and reflected as equity to be issued. Pursuant to the private placement, the Company issued 556,118 units at \$1.12 per unit for gross proceeds of \$622,860 and 44,642 units at \$0.56 per unit for gross proceeds of \$25,000, with each unit comprised of one common share and one-half of one (1/2) common share purchase warrant. Each whole warrant is exercisable at \$1.68 per share within the first twelve months of the close of the private placement and \$2.24 per share for the second twelve month period to expiration. Immediate family members of management subscribed for 57,000 units for gross proceeds of \$63,840 pursuant to this private placement.

On October 22, 2014, a consultant was issued 6,700 units in settlement of debt owed in the amount of USD\$10,050 (\$11,256), each unit comprised of one common share and one-half of one (1/2) common share purchase warrant. Each whole warrant is exercisable at USD\$1.50 (\$1.94) per share until October 22, 2016.

On November 24, 2014, the Company closed a further private placement for gross proceeds of \$30,000. Pursuant to the private placement, the Company issued 17,700 units at USD\$1.50 (\$1.695) per unit for gross proceeds of \$30,000, each unit comprising one common share and one-half of one (1/2) common share purchase warrant. Each whole warrant is exercisable at USD\$2.00 (\$2.59) per share until November 30, 2016.

Additionally, on November 22, 2014, 25,000 common share purchase warrants were exercised at USD\$0.04 (\$0.046) per warrant for total cash proceeds of USD\$1,000 (\$1,113).

On June 25, 2015, 12,500 common share purchase warrants were exercised at USD\$0.04 (\$0.048) per warrant for total cash proceeds of USD\$500 (\$620).

On September 10, 2015, a consultant was issued 50,000 common shares for services rendered in the amount of \$67,195, this amount has been recorded as professional fees on the statement of operations.

**9.) Capital Stock (continued)**

**(a) Common Shares (continued)**

On November 5, 2015, 31,000 common share purchase warrants were exercised at USD\$0.04 (\$0.052) per warrant for total cash proceeds of USD\$1,240 (\$1,632).

On December 18, 2015, 51,600 common share purchase warrants were exercised at USD\$0.04 (\$0.054) per warrant for total cash proceeds of USD\$2,064 (\$2,834).

On December 22, 2015, 31,000 common share purchase warrants were exercised at USD\$0.04 (\$0.056) per warrant for total cash proceeds of USD\$1,240 (\$1,735).

On December 31, 2015, 48,400 common share purchase warrants were exercised at USD\$0.04 (\$0.055) per warrant for total cash proceeds of USD\$1,936 (\$2,683).

On December 31, 2015, a private placement was completed to issue 31,532 common shares at USD\$1.11 (\$1.54) per share for gross proceeds of USD\$35,000 (\$48,441). The shares were subscribed for by a family member of an officer.

On December 31, 2015, a consultant was issued 10,000 common shares for services rendered in the amount of USD\$17,200 (\$23,805). Another consultant was issued 93,000 common shares for services rendered in the amount of USD\$159,960 (\$221,385) (see Note 11), these amounts have been recorded as professional fees on the statement of operations.

On January 4, 2016, 31,000 common share purchase warrants were exercised at USD\$0.04 (\$0.056) per warrant for total cash proceeds of USD\$1,240 (\$1,732).

On February 25, 2016, 25,000 common share purchase warrants were exercised at USD\$0.04 (\$0.056) per warrant for total cash proceeds of USD\$1,000 (\$1,378).

**Shares to be issued**

On December 31, 2015, the term loan described in Note 7 was converted into shares to be issued at a value of \$54,975 based upon an estimated fair market value of USD\$1.72 (\$2.38) per share at the time of conversion.

On December 31, 2015, advances from related parties described in Note 6 were converted into shares to be issued at a value of \$117,526 based upon a fair market value of USD\$1.72 (\$2.38) per share at the time of conversion.

On December 31, 2015, the Company agreed to issue 45,000 compensatory shares to three officers of the Company with a fair market value of USD\$1.72 (\$2.38) per share for a total value of \$107,123. This expense was recorded as stock based compensation on the statements of operations.

On December 31, 2015, a consulting firm was granted 13,874 shares to be issued for services rendered in the amount of USD\$22,500 (\$31,140), these amounts have been recorded as professional fees on the statement of operations.

**9.) Capital Stock (continued)**

On March 31, 2016, a consulting firm was granted 15,264 shares to be issued for services in the amount of USD\$22,500 (\$29,185). This amount has been recorded as professional fees on the statement of operations.

**Equity Purchase Agreement ("EPA")**

On September 10, 2015 the Company entered into the EPA. The holder of the EPA is committed to purchase up to USD\$750,000 worth of the Company's common shares (the "Put Shares") over the 12 month term of the EPA. The Company paid to the holder of the EPA a commitment fee for entering into the EPA equal to 50,000 restricted common shares of the Company, valued at \$67,195, based on the stock price in the most recent private placement as the Company's shares had not yet begun to trade on a public market.

From time to time over the EPA, commencing on the trading day immediately following the date on which the registration statement covering the resale of the Put Shares (the "Registration Statement") is declared effective by the Securities and Exchange Commission (the "Commission"), the Company may, in its sole discretion, draw upon the EPA periodically during the term by the Company's delivery to the holder of the EPA, a written notice requiring the holder to purchase a dollar amount in common shares (the "Draw Down Notice"). The shares issuable pursuant to a Draw Down Notice, when aggregated with the shares then held by the holder on the date of the draw down may not exceed the lesser of (i) 4.99% of the Company's outstanding common shares, (ii) USD\$62,500 in any 30 days period or (iii) 100% of the aggregate trading volume for the 10 trading days immediately preceding the date of the Draw Down Notice without the prior written consent of the holder. The purchase price per common share purchased under the EPA shall equal 65% of the lowest closing bid for the 10 days immediately preceding the date of the Draw Down Notice. The Registration Statement was filed with the Commission on October 1, 2015 and was declared effective by the Commission on March 3, 2016. See Note 14.

**(b) Warrants**

As at March 31, 2016, the following warrants were outstanding:

<u>Expiration Date</u>	<u>Number of Warrants</u>	<u>Number of Warrants Exercisable</u>	<u>Weighted Average Exercise Price</u>	<u>Grant Date Fair Value Equity</u>	<u>Fair Value at March 31, 2016 of Vested Warrants - Liability</u>
June 6, 2016*	300,383	300,383	\$2.24	\$ 170,908	\$ -
June 7, 2016*	5,000	5,000	\$1.12	3,180	-
June 6, 2017	22,500	22,500	\$1.12	16,110	-
April 1, 2017	369,500	44,500	USD \$0.04 (\$0.052)	-	26,744
October 22, 2016	3,350	3,350	USD \$1.50 (\$1.95)	-	60
November 30, 2016	8,850	8,850	USD \$2.00 (\$2.59)	-	675
	<u>709,583</u>	<u>384,583</u>	<u>\$1.06</u>	<u>\$ 190,198</u>	<u>\$ 27,479</u>

\* Expired unexercised subsequent to the year-ended March 31, 2016.

**9.) Capital Stock (continued)**

**(b) Warrants (continued)**

- i) In connection with a private placement offering completed during the year ended March 31, 2015, the Company granted an aggregate of 300,383 share purchase warrants each exercisable into one common share at \$1.68 during the first year and at \$2.24 during the second year. The fair value of the warrants at the date of grant of \$170,908 was estimated using the Black-Scholes option pricing model, based on the following weighted average assumptions: expected dividend yield of 0%; expected volatility of 173%; risk free interest rate of 1.06%; and expected term of 2 years.
- ii) In connection with a second private placement offering completed during the year ended March 31, 2015, the Company granted an aggregate of 8,850 share purchase warrants each exercisable into one common share at USD\$2.00 (\$2.59) until November 30, 2016. The fair value of the warrants at the date of grant of \$6,213 was estimated using the Black-Scholes option pricing model, based on the following weighted average assumptions: expected dividend yield of 0%; expected volatility of 124%; risk free interest rate of 1.02%; and expected term of 2 years.
- iii) During the year ended March 31, 2015, the Company also issued 27,500 warrants of the Company valued at \$19,290 for services rendered of which 22,500 warrants were granted to an officer of the Company. The compensation expense has been included in professional fees on the statements of operations. Each warrant entitles the holder to purchase one common share at an exercise price of \$1.12 for a period ranging from 2.15 to 3 years after the date of issuance. The fair value of the warrants at the date of grant of \$19,290 was estimated using the Black-Scholes option pricing model, based on the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 1.14%; expected volatility of 182%; and expected term of 2.85 years.
- iv) In connection with the unit issuance completed October 22, 2014 in settlement of debt, the Company granted 3,350 share purchase warrants exercisable into one common share at USD\$1.50 (\$1.95) per share for a period of 2 years from the date of issuance. The fair value of the warrants at the date of grant of \$2,060 was estimated using the Black-Scholes option pricing model, based on the following assumptions: expected dividend yield of 0%; expected volatility of 123%; risk free interest rate of 0.99%; and expected term of 2 years.
- v) In connection with a consulting agreement (see Note 11), the Company granted 625,000 common share purchase warrants with each warrant entitling the grantee to acquire one common share in the capital of the Company at an exercise price of USD\$0.04 (\$0.052) at any time prior to April 1, 2017. Of the warrants granted, 300,000 vested on September 3, 2014 with the unvested portion vesting pro-rata for each USD\$250,000 (\$324,275) raised in an offering, fully vesting upon USD\$1,500,000 (\$1,945,650) being raised. The fair value of the 625,000 warrants at the date of grant of \$500,000 was estimated using the Black-Scholes option pricing model, based on the

**9.) Capital Stock (continued)**

**(b) Warrants (continued)**

following assumptions: expected dividend yield of 0%; expected volatility of 159%; risk free interest rate of 1.25%; and expected term of 3 years.

For the year ended March 31, 2016, the Company recorded \$Nil (2015 - \$240,000) as compensation expense for warrants issued to a consultant for services, plus a market adjustment for the year ended March 31, 2016 of \$171,655 (2015 - \$149,280). This expense was recorded as professional fees on the statement of operations.

ASC 815 "Derivatives and Hedging" indicates that warrants with exercise prices denominated in a currency other than an entity's functional currency should not be classified as equity. As a result, warrants with a USD exercise price have been treated as derivatives and recorded as liabilities carried at their fair value, with period-to-period changes in the fair value recorded as a gain or loss in the statements of operations.

The continuity of warrants for the years ended March 31, 2015 and 2016 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, March 31, 2014	-	\$ -
Granted	965,083	0.79
Exercised	<u>(25,000)</u>	<u>0.05</u>
Balance, March 31, 2015	940,083	0.63
Exercised	<u>(230,500)</u>	<u>0.05</u>
Balance, March 31, 2016	<u>709,583</u>	\$ 1.06

As at March 31, 2016, the fair value of the 381,700 (2015 - 612,200) warrants exercisable in US dollars, remaining after the exercise of 255,500 warrants (2015 - 25,000), was \$222,803 (2015 - \$786,403) which was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0% (2015 - 0%); expected volatility of 150% (2015 - 118%); risk-free interest rate of 0.54% (2015 - 0.52%) and expected term of 0.99 years (2015 - 2 years). Of this amount, \$27,479 (2015 - \$364,878) was reflected as a liability as at March 31, 2016, representing the percentage of the fair value of the warrants that is equal to the percentage of the requisite service that has been rendered at March 31, 2016.

The warrant liability is classified as Level 3 within the fair value hierarchy (See Note 13). The Company's computation of expected volatility during the years ended March 31, 2016 and 2015 is based on the market close price of comparable public entities over the period equal to the expected life of the warrants. The Company's computation of expected life is calculated using the contractual life.

**9.) Capital Stock (continued)**

**(c) Stock-based compensation**

The Company's stock-based compensation program (the "Plan") includes stock options in which some options vest based on continuous service. For those equity awards that vest based on continuous service, compensation expense is recorded over the service period from the date of grant.

The total number of options outstanding as at March 31, 2016 was 930,000 (2015 – 505,000). The weighted average grant date fair value of options granted during the year ended March 31, 2016 was \$2.21 (2015 - \$1.18). The maximum number of options that may be issued under the Plan is floating at an amount equivalent to 15% of the issued and outstanding common shares, or 1,455,158 as at March 31, 2016 (2015 – 1,388,461).

During the year ended March 31, 2015, 505,000 options were granted to officers, employees and consultants of the Company. The exercise price of these options is \$1.73. Of this grant, 420,000 options vest as to one-third on the date of grant and one-third vest on each of the first anniversary and the second anniversary of the grant date; 60,000 options vest as to one quarter on the date of grant and one quarter vesting at 90 days, 180 days and 270 days from the grant date; and 25,000 options vested immediately. Since stock-based compensation is recognized only for those awards that are ultimately expected to vest, the Company has applied an estimated forfeiture rate (based on historical experience and projected employee turnover) to unvested awards for the purpose of calculating compensation expense. The grant date fair value of these options was estimated as \$1.18 using the Black-Scholes option pricing model, based on the following assumptions: expected dividend yield of 0%; expected volatility of 144%; expected risk free interest rate of 1.39%; and expected term of 5 years.

During the year ended March 31, 2016, 425,000 options were granted to officers and consultants of the Company. The exercise price of these options is \$2.43. Of this grant, 340,000 options vest as to one-third on the grant date and one-third vesting on each of the first anniversary and the second anniversary of the grant date; 85,000 options vest as to one quarter on the date of grant and one quarter vesting at 90 days, 180 days and 270 days from the grant date. Since stock-based compensation is recognized only for those awards that are ultimately expected to vest, the Company has applied an estimated forfeiture rate (based on historical experience and projected employee turnover) to unvested awards for the purpose of calculating compensation expense. The grant date fair value of these options was estimated as \$2.21 using the Black-Scholes option pricing model, based on the following assumptions: expected dividend yield of 0%; expected volatility of 157%; expected risk free interest rate of 0.66%; and expected term of 5 years.

**9.) Capital Stock (continued)**

**(c) Stock-based compensation (continued)**

The Company's computation of expected volatility during the years ended March 31, 2016 and 2015 is based on the market close price of comparable public entities over the period equal to the expected life of the options. The Company's computation of expected life is calculated using the contractual life.

For the year ended March 31, 2016, the Company recorded \$701,849 (2015 - \$324,916) as Additional Paid in Capital for options issued to directors, officers and consultants based on continuous service. This expense was recorded as stock based compensation on the statements of operations. Additionally, for the year ended March 31, 2016, the Company recorded \$372,709 (2015 - Nil) as professional fees for 153,000 common shares issued and 29,138 shares to be issued to consultants for services rendered. The expense was recorded as professional fees on the statements of operations.

The activities in options outstanding are as noted below:

	Number of Options Granted	Weighted Average Exercise Price
Balance, March 31, 2014	-	-
Granted	505,000	\$ 1.73
Balance, March 31, 2015	505,000	\$ 1.73
Granted	425,000	\$ 2.43
Balance, March 31, 2016	930,000	\$ 2.05

The following table presents information relating to stock options outstanding and exercisable at March 31, 2016.

Exercise Price	Options Outstanding		Options Exercisable		
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
\$1.73	505,000	3.70	398,333	\$1.73	3.70
\$2.43	425,000	4.75	134,583	\$2.43	4.75
\$2.05	930,000	4.05	532,916	\$1.91	3.97

**10.) Income Taxes**

The following table reconciles the income tax benefit at the Canadian statutory rate to income tax benefit at the Company's effective tax rates.

	2016	2015
Loss before income taxes	\$ (1,921,210)	\$ (1,087,289)
Statutory tax rate	<u>26.5%</u>	<u>26.5%</u>
Expected income tax (recovery)	\$ (509,000)	\$ (288,000)
Non-deductible items	143,000	197,000
Change in valuation allowance	<u>358,785</u>	<u>91,000</u>
Total income taxes (recovery)	<u>\$ (7,215)</u>	<u>\$ -</u>

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases for financial reporting purposes. Deferred tax assets as at March 31, 2016 and 2015 are comprised of the following:

	2016	2015
Net operating loss carry forwards	\$ 599,000	\$ 242,000
Equipment and leasehold improvements	35,000	30,000
Valuation allowance	<u>(634,000)</u>	<u>(272,000)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The Company has net operating loss carry forwards of approximately \$2,262,000 (2015 - \$913,000) which may be carried forward to apply against future year income for Canadian income tax purposes, subject to final determination by taxing authorities, expiring in the following years:

Expiry	
2029	\$ 65,000
2030	83,000
2031	28,000
2032	81,000
2033	91,000
2034	242,000
2035	323,000
2016	<u>1,349,000</u>
Total	<u>\$ 2,262,000</u>

**10.) Income Taxes (continued)**

The deferred tax assets have not been recognized because at this stage of the Company's development, it is not determined that future taxable profits will be available against which the Company can utilize such deferred tax assets. Tax years 2010 through 2016 remain open to examination by the taxing jurisdictions to which the Company is subject. The Company has not been notified by any taxing jurisdictions of any proposed or planned examination. The Company has non-refundable tax credits as at March 31, 2016 of \$5,449 (2015 - \$5,449) which expire in the year 2031.

**11.) Commitments and Contingencies**

The Company entered into a five year operating lease for office and production facilities. The lease commenced on December 1, 2013 and expires on November 30, 2018. The base monthly rental is \$1,362, plus the Company's estimated portion of property taxes and operating expenses which are currently \$810 per month. The future commitments pursuant to this lease arrangement, including property taxes and operating expenses for the fiscal periods ending March 31 are:

2017	\$ 26,066
2018	26,400
2019	17,600

For the year ended March 31, 2016, occupancy costs related to this lease were \$26,015 (2015 - \$25,732).

On March 11, 2014, and as amended on July 18, September 3, 2014, September 5, 2014 and again on December 31, 2015, the Company entered into a consulting agreement with Connectus, Inc. to assist and advise the Company in matters concerning corporate finance and the Company's current and proposed financing activities for the period commencing April 1, 2014 and ending December 31, 2014. On December 31, 2015, the Company extended the contract to December 31, 2016. In consideration of the contract extension, the Company issued 93,000 common shares to Connectus, Inc. as compensation, which has been recorded as professional fees on the statements of loss. Pursuant to this agreement, the Company agreed to issue to this consulting corporation (the "Consultant"), 625,000 warrants of the Company. Each warrant is exercisable at USD\$0.04 (\$0.052) per share for a period of three years. Of the warrants granted, 300,000 vested on September 3, 2014 with the unvested portion vesting pro-rata for each USD\$250,000 (\$324,275) raised in an offering, fully vesting upon USD\$1,500,000 (\$1,945,650) being raised. During the year ended March 31, 2015, the President of the Consultant became a director of the Company.

**11.) Commitments and Contingencies (continued)**

On April 23, 2014, the Company entered into employment agreements with three officers of the Company effective July 1, 2014. The initial contracts contain minimum aggregate commitments of approximately \$427,000 per year for three years and additional contingent payments of up to approximately \$600,000 in aggregate upon the occurrence of a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements. If employment is terminated by the Company other than upon a change of control or for just cause, the officers will be entitled to an amount equal to twelve months compensation including benefits, which shall be increased by one month for each full year of service completed. The employment agreements were amended whereby any salary from the commencement of the employment agreements has been waived until such a time when the Company is able to raise additional financing. Salaries will be earned based upon the Company's success in raising future capital in accordance with the following schedule:

Cumulative Funds Raised <sup>1</sup>	Effective Monthly Salary %
\$100,000	10.0%
\$175,000	15.0%
\$250,000	25.0%
\$375,000	37.5%
\$500,000	50.0%
\$750,000	62.5%
\$1,000,000	75.0%
\$1,250,000	87.5%
\$1,500,000	100.0%

<sup>1</sup> Cumulative funds raised is inclusive of all sources including without limitation capital raised, grants received, revenue recorded, debt raised, and assets sold.

On September 24, 2015, the Company signed a consulting agreement with an investor relations firm with terms commencing immediately and ending on September 30, 2016. Consideration payable under the consulting agreement include a monthly fee of USD\$7,500 (\$9,728) payable in a combination of cash and restricted stock.

## 12.) Related Party Transactions

Included in accounts payable and accrued liabilities as at March 31, 2016 is \$52,030 (2015 - \$52,030) owing to two directors who are also officers and significant shareholders of the Company for unpaid management fees. This balance is unsecured, non-interest bearing and due on demand.

See also Notes 6, 7, 9(a), 9(b) and 9(c), 11 and 14.

Amounts receivable from officer as at March 31, 2016 of \$21,064 (2015 - \$29,967) is owing from a shareholder, who is also a director and officer of the Company for funds advanced under the employment agreement (See Note 11). The amount receivable is unsecured, non-interest bearing and repayable upon demand.

Management fees and consulting fees in the amount of \$427,000 (2015 - \$363,750) were waived by the officers of the Company during the year ended March 31, 2016.

## 13.) Financial Instruments

### (a) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company generates cash flow primarily from its financing activities and advances from shareholders. As at March 31, 2016, the Company had cash of \$173 (2015 - \$3,084) to settle current liabilities of \$809,347 (2015 - \$894,022). All of the Company's financial liabilities other than the warrant liability of \$27,479 (2015 - \$364,878) have contractual maturities of less than 30 days and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity.

In the normal course of business, management considers various alternatives to ensure that the Company can meet some of its operating cash flow requirements through financing activities, such as private placements of common stock, preferred stock offerings and offerings of debt and convertible debt instruments as well as through merger or acquisition opportunities. Management may also consider strategic alternatives, including strategic investments and divestitures. As future operations may be financed out of funds generated from financing activities, the ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the green-technology industry and the Company's securities in particular. Should the Company elect to satisfy its cash commitments through the issuance of securities, by way of either private placement or public offering or otherwise, there can be no assurance that the efforts to obtain such additional funding will be successful, or achieved on terms favorable to the Company or its existing shareholders. If adequate funds are not available on favorable terms, the Company may have to reduce substantially or eliminate expenditures or obtain funds through other sources such as divestiture or monetization of certain assets or sublicensing (where permitted) of certain rights to certain of the Company's technologies or products.

**13.) Financial Instruments (continued)**

**(b) Concentration of credit risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits. Cash deposits with a major Canadian chartered bank are insured by the Canadian Deposit Insurance Corporation up to \$100,000. As at March 31, 2016, the Company held \$173 (2015 - \$3,084) with a major Canadian chartered bank.

**(c) Foreign exchange risk**

The Company principally operates within Canada. The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. See also Note 13 (e).

**(d) Interest rate risk**

As at March 31, 2016, the Company does not have any interest-bearing debt. The Company invests any cash surplus to its operational needs in investment-grade short-term deposit certificates issued by highly rated Canadian banks. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of the bank.

**(e) Derivative liability – warrant liability**

In connection with a consulting agreement, the Company granted warrants to purchase up to 625,000 common shares of the Company as disclosed in Note 9(b). The warrants have an exercise price of USD\$0.04 (\$0.052). The warrants are exercisable at any time prior to April 1, 2017. The warrants are accounted for as derivative liabilities because the exercise price is denominated in a currency other than the Company's functional currency.

In connection with the settlement of a vendor's account, the Company granted warrants to purchase up to 3,350 common shares of the Company. The warrants have an exercise price of USD\$1.50 (\$1.95). The warrants are exercisable at any time prior to October 22, 2016. The warrants are accounted for as derivative liabilities because the exercise price is denominated in a currency other than the Company's functional currency.

In connection with a private placement, the Company granted warrants to purchase up to 8,850 common shares of the Company. The warrants have an exercise price of USD\$2.00 (\$2.59). The warrants are exercisable at any time prior to November 30, 2016. The warrants are accounted for as derivative liabilities because the exercise price is denominated in a currency other than the Company's functional currency.

**13.) Financial Instruments (continued)**

The table below summarizes the fair value of the Company's financial liabilities measured at fair value:

	Fair Value at March 31, 2016	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Derivative liability – Warrants	\$ 27,479	\$ -	\$ -	\$ 27,479

The table below sets forth a summary of changes in the fair value of the Company's Level 3 financial liabilities (warrant derivative liability) for the periods ended March 31, 2016 and 2015:

	March 31, 2016	March 31, 2015
Balance at beginning of year	\$ 364,878	\$ -
Additions to derivative instruments, recognized in earnings as professional fees (Note 9(b))	-	240,000
Additions to derivative instruments as a result of issuance in settlement of debt (Note 9(b))	-	2,060
Additions to derivative instruments as a result of issuance of units (Note 9(b))	-	6,213
Derivative instruments exercised	(509,054)	(32,675)
Change in fair market value, recognized in operations as professional fees	<u>171,655</u>	<u>149,280</u>
Balance at end of year	<u>\$ 27,479</u>	<u>\$364,878</u>

These instruments were valued using pricing models that incorporate the price of a share of common stock (based upon the price of the most recent private placement), expected volatility, risk free rate, expected dividend rate and expected estimated life. The Company estimated the value of the warrants using the Black-Scholes model. There were no transfers of assets or liabilities between Level 1, Level 2, or Level 3 during the years ended March 31, 2016 and 2015.

The following are the key weighted average assumptions used in connection with the estimation of fair value as at March 31, 2016:

	March 31, <u>2016</u>
Number of shares underlying the warrants	381,700
Fair market value of the stock	\$0.65
Exercise price	USD\$0.10 (\$0.1275)
Expected volatility	150%
Risk-free interest rate	0.54%
Expected dividend yield	0%
Expected warrant life (years)	0.99

**14.) Subsequent Events**

Subsequent to March 31, 2016, the Company entered into various agreements pursuant to which it has committed to issue up to 1,100,000 common shares of the Company to October 24, 2016, as compensation for services to be rendered.

On May 4, 2016 the Board approved a term loan in the amount of \$40,000 for bridge financing with a relative of one of the officers of the Company. The terms of the loan are that it is to be repaid on August 28, 2016 at a 30% premium.

On May 18, 2016, 44,500 warrants were exercised at USD\$0.04 (\$0.52) for gross proceeds of USD\$1,780 (\$2,164).

On June 23, 2016, the Company agreed in conjunction with RY Capital Group, LLC and GHS Investments, LLC to assign the EPA to GHS Investments, LLC. The change made to the EPA include increasing the share purchase price per common share to 80% from 65% of the lowest closing bid for the 10 days immediately preceding the date of the draw down notice, increasing the upper limit on individual draws to USD\$75,000 from USD\$62,500 and including a True-Up feature whereby if the lowest volume-weighted average price ("VWAP") for the ten trading days following a draw down (the "Trading Period") is less than 85% of the purchase price of the common shares issued in connection with a draw down, then the Company shall issue such additional common shares as maybe necessary to adjust the purchase price for such draw down to equal the VWAP during the Trading period.

See Note 9(b) regarding expiration of warrants subsequent to March 31, 2016.