

Auxellence Health Corporation

Consolidated Financial Statements

Year Ended June 30, 2016

(Expressed in Canadian dollars)

Auxellence Health Corporation
Index to Financial Statements
June 30 2016

Independent Auditor's Report	3-4
Consolidated Statements of Financial Position	5
Consolidated Statements of Loss and Comprehensive Loss	6
Consolidated Statements of Changes in Shareholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to the Consolidated Financial Statements	9-34



Cinnamon Jang Willoughby

Chartered Professional Accountants

A Partnership of Incorporated Professionals

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Auxellence Health Corporation:

We have audited the accompanying consolidated financial statements of Auxellence Health Corporation, which comprise of the consolidated statements of financial position as at June 30, 2016 and June 30, 2015 and the consolidated statements of loss and comprehensive loss, consolidated changes in equity and consolidated cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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

We believe that the audit evidence we have obtained in our audits 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 Auxellence Health Corporation as at June 30, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw your attention to Note 2 to the consolidated financial statements which indicates that the continuation of the Company's operations is dependent on the ability to receive continued financial support or generate profitable operations in the future. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Restatement of Consolidated Financial Statements

Without modifying our opinion, we draw attention to Note 4 to the consolidated financial statements as at June 30, 2015 for the year then ended which indicates that these consolidated financial statements have been restated from those on which we originally reported on October 27, 2015 respectively, and more extensively describes the reason for the statements.

"Cinnamon Jang Willoughby"

Chartered Professional Accountants

Burnaby, BC
October 28, 2016

Auxellence Health Corporation
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	June 30, 2016	June 30, 2015
	\$	Restated \$
Assets		
Current:		
Cash & cash equivalents	3,875	6,910
Accounts receivable (Note 5)	91,385	2,228
Prepaid expenses and deposit	29,687	2,000
	124,946	11,138
Intangible properties (Notes 6 & 13)	5,009,748	3,587,432
Total Assets	5,134,694	3,598,570
Liabilities		
Current Liabilities:		
Accounts payable (Note 7 & 13)	47,990	208,935
Accrued liabilities	21,000	13,000
Loans payable (Note 10)	896,477	807,500
Preferred shares (Note 8)	2,000	2,000
	967,467	1,031,435
Convertible debt (Note 10)	1,459,568	-
	2,427,035	1,031,435
Shareholders' Equity		
Equity portion of convertible debts	47,125	-
Capital stock (Note 9)	2,195,606	2,056,553
Contributed Surplus	742,383	592,762
Deficit	(277,455)	(82,180)
	2,707,659	2,567,135
Total Liabilities and Shareholders' Equity	5,134,694	3,598,570

Restatement (Note 4)
Commitment (Note 16)

Approved and authorized for issue by the Board of Directors on October 28, 2016:

"Sydney Au"

Sydney Au, Director

"Ron Ozols"

Ron Ozols, Director

The accompanying notes are an integral part of these Consolidated Financial Statements

Auxellence Health Corporation

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Year Ended June 30, 2016 \$	Year Ended June 30, 2015 Restated \$
Expenses:		
Advertising & Promotion	237	4,658
Bank Charges	647	685
Consulting Fees	24,000	3,580
Finance Charge (Note 10)	36,080	14,483
Interest Expense	76,052	6,596
License & Taxes	6,630	15,008
Listing expenses	7,408	48,935
Office & miscellaneous	12,579	4,045
Professional fees	19,031	78,875
Rent	7,500	-
Share-based compensation	69,424	-
Travel	2,470	6,793
Transfer agent & filing fees	21,336	3,893
Loss before other items	(283,394)	(187,551)
Other Income	77,869	133,486
Gain on conversion of debt	10,250	368,927
Net income (loss) and total comprehensive loss for the year	(195,275)	314,862
Basic and diluted earning (loss) per common share	(0.002) \$	0.003
Weighted average number of common shares outstanding	106,471,339	95,976,264
Fully diluted number of common shares outstanding	106,471,339	118,977,864

The accompanying notes are an integral part of these Consolidated Financial Statements

Auxellence Health Corporation

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars except the number of shares)

	Number of Outstanding Shares	Share Capital \$	Equity Portion of Convertible Debts \$	Contributed Surplus	Income (Deficit) \$	Total Shareholder' Equity \$
Balance, June 30, 2014	42,377,684	1,430,537	41,625	-	(397,042)	1,075,120
Shares issued for purchase of IP (Note 6)	40,000,000	400,000	-	-	-	400,000
Shares issued for debt (Note 9)	23,001,600	230,016	-	318,864	-	548,880
Equity portion of convertible debt	-	-	(41,625)	41,625	-	-
Allocated to preference shares	-	(4,000)	-	-	-	(4,000)
Gain on conversion of equity portion of convertible debt	-	-	-	8,357	-	8,357
Share-based compensation	-	--	-	233,916	-	233,916
Net income and comprehensive income for the year	-	-	-	-	314,862	314,862
Balance, June 30, 2015	105,379,284	2,056,553	-	592,762	(82,180)	2,567,135
Shares issued for cash	1,300,000	27,300	-	37,700	-	65,000
Shares issued for debt (Note 13)	1,850,000	46,965	-	45,535	-	92,500
Shares issued for services (Note 13)	150,000	3,788	-	3,712	-	7,500
Equity portion of convertible debt	-	-	47,125	-	-	47,125
Exercise of warrants for cash	200,000	22,000	-	(2,000)	-	20,000
Exercise of warrants for settlement of debt (Note 13)	475,000	42,000	-	(4,750)	-	37,250
Share issuance costs	-	(3,000)	-	-	-	(3,000)
Share-based compensation (note 13)	-	-	-	69,424	-	69,424
Net loss and comprehensive loss for the year	-	-	-	-	(195,275)	(195,275)
Balance, June 30, 2016	109,354,284	2,195,606	47,125	742,383	(277,455)	2,707,659

The accompanying notes are an integral part of these Consolidated Financial Statements

Auxellence Health Corporation

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars except the number of shares)

	Year Ended June 30, 2016 \$	Year Ended June 30, 2015 Restated \$
Operating Activities:		
Net income (loss)	(195,276)	314,862
Adjustments for non-cash items:		
Gain on conversion of debt	(10,250)	(368,927)
Loan repayment via service provided	(40,000)	-
Share-based compensation	69,424	-
Interest expense	76,039	-
Finance charges on convertible debt	36,080	14,483
Share-based payments	7,500	-
Foreign exchange loss	204	-
Change in non-cash working capital items:		
Accounts receivable	(3,485)	244
Loan receivable	-	75
Prepaid expenses and deposit	(27,686)	10,500
Accounts payable	11,390	10,933
Accrued liabilities	8,000	-
Cash flows (used in) operating activities	(68,060)	(15,830)
Investing Activity:		
Intangible properties	(928,475)	(943,943)
Cash flows (used in) investing activity	(928,475)	(943,943)
Financing Activities:		
Proceeds on loans payable	399,080	1,058,287
Repayment of loans payable	(162,277)	(95,408)
Proceeds on issuance of convertible debt	674,697	368,927
Investor deposits	-	(10,000)
Contributed surplus	34,662	592,762
Proceeds on issuance of common shares	47,338	-
Cash flows provided by financing activities	993,500	948,879
Net decrease in Cash and Cash Equivalents	(3,035)	(10,894)
Cash & cash equivalents, beginning	6,910	17,804
Cash & cash equivalents, ending	3,875	6,910

Non-cash Activities (Note 15)*The accompanying notes are an integral part of these Consolidated Financial Statements*

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS:

Auxellence Health Corporation (the “Company” or “Auxellence”) is a technology company offering Automated Biomedical Care online for common health problems. The Company has developed a platform for electro-physiologically interactive computing that supports therapeutic-diagnostic along with multiple online software applications that are to be used for personal health management. The Company was incorporated on November 9, 2011 under the laws of British Columbia, Canada. The Company’s office and mailing address is #701 – 675 West Hastings Street, Vancouver, BC, V6B 1N2.

The Company’s shares are listed on Canadian Securities Exchange (“CSE”) under the symbol “AID” and the OTC Markets Group Inc.’s marketplace under (“OTCQB: AXHLF”). Subsequent to year end the company changed its name to Evitrade Health Systems Corp. and is trading on the CSE under the symbol “EVA”.

The consolidated financial statements of the Company for the year ended June 30, 2016 (including comparatives) have been prepared by management, reviewed and authorized for issue by the Board of Directors on October 28, 2016. Shortly thereafter, the financial statements are made available to shareholders and others through filing on the System for Electronic Document Analysis and Retrieval (“SEDAR”).

2. BASIS OF PRESENTATION:

a. Statement of compliance -

The financial statements for the period ended June 30, 2016 were prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). Significant accounting policies are described in the Note 3. Significant accounting estimates, judgments and assumptions used or exercised by management in the preparation of these financial statements are presented below.

b. Going concern basis of presentation -

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue to operate for the foreseeable future and have the ability to realize its assets and discharge its liabilities in the normal course of business. However, certain adverse conditions and events cast significant doubt upon the validity of this assumption.

The commercialization of the company’s licensed proprietary system may take many years to be in successful operation and the amount of resulting income, if any, is difficult to determine with any certainty. As a development company, the Company does not anticipate producing revenues for some time, other than from incidental revenue. At June 30, 2016 the Company had not yet achieved profitable operations, had recurring losses, a deficit of \$277,455 (June 30, 2015 - \$(82,180)). At June 30, 2016, the Company had some non-related income from work performed in relation to a plan of arrangement but this not from core business operations. The Company expects to incur further losses in the development of its business.

2. BASIS OF PRESENTATION: (Continued)

b. Going concern basis of presentation - (Continued)

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events and conditions that may cast a significant doubt upon the Company's ability to continue as a going concern as described above, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Such adjustments could be material.

c. Principles of consolidation -

The consolidated financial statements consolidate the assets, liabilities and results of all entities in which the Company holds a controlling interest. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany balances, transactions and unrealized profits are eliminated in full. The consolidated financial statements include the financial statements of the Company and its subsidiaries.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. The interests of non-controlling shareholders may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Pursuant to the requirements of IFRS 1, this requirement has been applied prospectively from the date of transition to IFRS.

These consolidated financial statements include the accounts C&C Cosmeceuticals Corp, a wholly-owned subsidiary.

d. Basis of measurement -

These consolidated financial statements have been prepared using the historical cost convention except for some financial instruments that have been measured at fair value.

e. Functional and presentation currency -

All monetary references expressed in these notes are references to Canadian dollar amounts ("\$/").

2. BASIS OF PRESENTATION: (Continued)

f. Significant accounting judgments and estimates -

The preparation of these financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the period. Actual results could differ from these estimates.

These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

(i) Ability to continue as a going concern -

Management assesses the Company's ability to continue as a going concern at each reporting date, using all quantitative and qualitative information available. This assessment, by its nature, relies on estimates of future cash flows and other future events (as discussed in Note 1), whose subsequent changes could materially impact the validity of such an assessment.

(ii) Share-based compensation expense -

The Company uses the Black-Scholes option pricing model to fair value options in order to calculate share-based compensation expense. The Black-Scholes model involves six key inputs to determine fair value of an option: risk-free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility. Certain of the inputs are estimates that involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. The Company is also required to estimate the future forfeiture rate of options based on historical information in its calculation of share-based compensation expense. Refer to Note 7 for further details.

(iii) Impairment of financial assets -

The carrying value and the recoverability of intangible properties, which are included in the statements of financial position.

2. BASIS OF PRESENTATION: (Continued)

f. Significant accounting judgments and estimates - (continued)

(iii) Impairment of financial assets - (continued)

The recoverability of intangible property is evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's intangible asset. External sources of information considered are changes in the Company's economic, legal and regulatory environment which it does not control but affect the recoverability of its intangible asset. Internal sources of information the Company considers include the manner in which intangible asset are being used or are expected to be used and indications of economic performance of the assets.

(iv) Income taxes -

The Company operates in the United States and Canada and is subject to multiple tax jurisdictions, and consequently, income is subject to various rates and rules of taxation. As a result, the Company's effective tax rate may vary significantly from the Canadian statutory tax rate depending upon the profitability of operations in a different jurisdiction. The Company calculates deferred income taxes based upon temporary differences between the assets and liabilities that are reported in its consolidated financial statements and their tax bases as determined under applicable tax legislation. The future realization of deferred tax assets can be affected by many factors, including: current and future economic conditions, net realizable sale prices, and can either be increased or decreased where, in the view of management, such change is warranted. In determining whether a deferred tax asset is probable, management reviews the timing of expected reversals of taxable temporary differences, the estimates of future taxable income and prudent and feasible tax planning that could be implemented. Refer to Note 15 for further details.

3. SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies set out below are in effect for the year ended June 30, 2016 and have been applied consistently to all periods presented in these financial statements.

a. Cash and cash equivalents -

Cash and cash equivalents are comprised of cash in banks, and all short-term investments that are highly liquid in nature, cashable, and have an original maturity date of three months or less.

b. Shared-based payments -

The fair value of any options granted is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the period that the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. There are currently no options outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES: (Continued)

c. Deferred income taxes -

Deferred income tax assets and liabilities are recognized for deferred income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a deferred income tax asset will be recovered, the deferred income tax assets is reduced. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to offset current tax assets against liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

d. Financial instruments -

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The initial measurement of financial assets and liabilities is fair value and their subsequent measurement is dependent on their classification as described below. Classification of a financial instrument depends on the purpose for which it was acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

Asset / Liability	Classification	Subsequent measurement
Cash and cash equivalents	Fair value through profit or loss	Fair Value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost
Client deposits	Other financial liabilities	Amortized cost
Convertible debt	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost
Note payable	Other financial liabilities	Amortized cost
Preferred shares	Other financial liabilities	Amortized cost

Financial assets or financial liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading. They are measured at fair value at the period end date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES: (Continued)

g. Financial instruments - (continued)

Financial assets or financial liabilities at fair value through profit or loss (continued)

Financial liabilities at fair value through profit or loss are those non-derivative financial liabilities that the Company elects to designate on initial recognition as financial instruments that it will measure at fair value. These are accounted for in the same manner as financial assets at fair value through profit or loss. The Company has not designated any non-derivative financial liabilities as financial liabilities at fair value through profit or loss.

Refer to compound financial instruments note below for details on measurement of option component of convertible debt and derivatives.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or financial assets or financial liabilities at fair value through profit or loss investments. Except as mentioned below, available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized or deemed to be an other than temporary impairment when the cumulative loss is transferred to profit or loss.

Available-for-sale financial assets that do not have quoted market prices in an active market are recorded at cost.

Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method.

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other financial liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

3. SIGNIFICANT ACCOUNTING POLICIES: (Continued)

g. Financial instruments - (continued)

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debt that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of compound financial instruments is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component, if any, is recognized initially at the difference between the fair value of the compound financial instrument and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of compound financial instruments is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not measured again subsequent to initial recognition. Interest, dividends, losses and gains relating to financial liabilities are recognized in profit or loss.

Transaction costs

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Effective interest method

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

e. Impairment of financial assets -

Financial assets, other than those at fair value through profit or loss (FVTPL), are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

3. SIGNIFICANT ACCOUNTING POLICIES: (Continued)

e. Impairment of financial assets - (continued)

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of available-for-sale (AFS) equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

f. Impairment of non-financial assets -

The carrying amounts of non-financial assets are reviewed for impairment at each reporting date, or whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. If there are indicators of impairment, a review is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. Reviews are undertaken on an asset-by-asset basis.

If the carrying amount of a non-financial asset exceeds the recoverable amount, being the higher of its fair value less costs to sell and its value-in-use, an impairment loss is recognized in net earnings as the excess of the carrying amount over the recoverable amount.

Where the recoverable amount is assessed using discounted cash flow techniques, the resulting estimates are based on detailed production plans. The mine plan is the basis for forecasting production output in each future year and for forecasting production costs. For value-in-use calculations, production costs and output may be revised to reflect the continued use of the asset in its present form.

3. SIGNIFICANT ACCOUNTING POLICIES: (Continued)

f. Impairment of non-financial assets - (continued)

Non-financial assets that have suffered an impairment are tested for a possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed. In these instances, the impairment loss is reversed to the recoverable amount but not beyond the carrying amount, net of amortization, that would have arisen if the prior impairment loss had not been recognized. Goodwill impairments are not reversed.

g. Share capital -

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Company's shareholders. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

h. Comprehensive loss -

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholder and includes items that are not included in net profit. Other comprehensive income (loss) consists of changes to unrealized gain and losses on available for sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Comprehensive income (loss) measures net earnings for the period plus other comprehensive income (loss). Amounts reported as other comprehensive income (loss) are accumulated in a separate component of shareholder's equity as Accumulated Other Comprehensive Income (Loss). The Company has not had other comprehensive income (loss) since inception and accordingly, a statement of comprehensive income (loss) has not been presented.

i. Loss per share -

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average share outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

3. SIGNIFICANT ACCOUNTING POLICIES: (Continued)

j. Provisions -

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The increase in the obligation due to the passage of time is recognized as finance expense. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

k. Research and development costs -

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. During the period ended June 30, 2016 and 2015, \$nil was incurred on research activities.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized if, and only if, it has demonstrated all of the following:

- development costs can be measures reliably;
- the product or process is technically and commercially feasible;
- future economic benefits are probable; and
- the Company intends to and has sufficient resources to complete development and to use or sell the asset

Upon a determination that the criteria to capitalize development expenditures have been met, the expenditures capitalized will include the cost of materials, direct labour, contracting, consulting, professional fees, administration and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are expensed as incurred. Capitalized development expenditures will be measured at cost less accumulated amortization and accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES: (Continued)

l. Intangible Asset -

The Company owns intangible assets consisting of licensed patent rights and development costs. Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by charging the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in research and development expenses.

Amortization is recognized in profit or loss on a straight line basis over the useful lives of intangible assets from the date they are available for use. The Company recognized the payments made to Decanex as development costs and amortization of the development costs is recognized over their useful lives, on the straight line basis over 10 years, commencing upon commercialization. Therefore, there has been no amortization to date.

m. Accounting standards adopted in 2015 -

The Company applied for the first time certain amendment, which are effective for annual periods beginning on or after January 1, 2015. The Company has not early adopted any other standard, interpretation, or amendment that has been issued but is not yet effective.

Although these amendments applied for the first time in 2015, they did not have a material impact on the annual consolidated financial statements of the Company.

n. New standards and interpretations not yet applied -

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt this standard when it becomes effective. The following pronouncements are being assessed to determine its impact on the Company's results and financial position:

3. SIGNIFICANT ACCOUNTING POLICIES: (Continued)

- n. New standards and interpretations not yet applied - (continued)

Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016. The Company is in the process of evaluating the impact of these amendments.

Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets

IAS 16, "Property, Plant and Equipment" and IAS 38, "Intangible Assets": In May 2014, the IASB issued amendments to IAS 16 and IAS 38 to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

IFRS 9 Financial Instruments

'Financial Instruments' is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model for an entity to recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue- Barter Transactions Involving Advertising Services. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. This standard is effective for annual periods beginning on or after January 1, 2017.

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

4. CORRECTION OF PRIOR PUBLISHED FINANCIAL STATEMENTS:

The Company previously reported no gain on the issuance of shares for the extinguishment of debt in fiscal 2015. Subsequent to publishing the consolidated financial statements for 2015, it was determined that there was a gain on the conversion.

The consolidated financial statements for the fiscal year 2015 have been restated to reflect the above. The effect on 2015 is as follows:

Consolidated statement of financial position

	2015 Published to Sedar	Adjustment	2015 Restated figures
Shareholders' Equity:			
Equity portion of convertible debt	\$ -	\$ -	\$ -
Capital Stock	3,018,242	(961,689)	2,056,553
Contributed Surplus	223,916	368,846	592,762
Retained Earnings (Deficit)	(675,023)	592,843	(82,180)
	<u>2,567,135</u>	<u>-</u>	<u>2,567,135</u>
Total liabilities and shareholders' equity	<u>\$3,598,570</u>	<u>\$ -</u>	<u>\$3,598,570</u>

Consolidated statement of loss and comprehensive loss

	2015 Published to Sedar	Adjustment	2015 Restated figures
Expenses			
SBC	\$223,916	\$(223,916)	\$ -
Total Operating expenses	411,467	(223,916)	187,551
Loss before other items			
Gain on conversion of debt	-	368,927	368,927
Net income and total comprehensive loss	<u>\$(277,981)</u>	<u>\$153,368</u>	<u>\$314,862</u>
Basic and diluted EPS	<u>\$ (0.003)</u>		<u>\$ 0.003</u>
Weighted average number of common shares outstanding	105,379,284	9,403,020	95,976,264
Fully diluted number of common shares outstanding	-	118,977,864	118,977,864

Auxellence Health Corporation
Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

4. CORRECTION OF PRIOR PUBLISHED FINANCIAL STATEMENTS (continued)
2015 published to Sedar

	Number of Outstanding Shares	Share Capital \$	Equity Portion of Convertible Debts \$	Contributed Surplus	Deficit \$	Total Shareholders' Equity \$
Balance, June 30, 2014	42,377,684	1,430,537	41,625		397,042	1,075,120
Shares issued for debt	23,001,600	1,150,080				1,150,080
Equity portion of convertible debt		41,625	(41,625)			-
Net loss and comprehensive loss for the period					(277,981)	(277,981)
Balance, June 30, 2015	105,379,284	3,018,242	-	223,916	(675,023)	2,567,135

Adjustment

	Number of Outstanding Shares	Share Capital \$	Equity Portion of Convertible Debts \$	Contributed Surplus	Deficit \$	Total Shareholders' Equity \$
Shares issued for debt	23,001,600	(920,064)		(318,864)		(601,200)
Equity portion of convertible debt		(41,625)		41,625		-
Gain on conversion of equity portion of convertible debt				8,357	(8,357)	-
Net loss and comprehensive loss for the period					601,200	601,200

Restated figures

	Number of Outstanding Shares	Share Capital \$	Equity Portion of Convertible Debts \$	Contributed Surplus	Deficit \$	Total Shareholders' Equity \$
Balance, June 30, 2014	42,377,684	1,430,537	41,625		397,042	1,075,120
Shares issued for purchase of IP	40,000,000	400,000				400,000
Shares issued for debt	23,001,600	230,016		318,864		548,880
Equity portion of convertible debt			(41,625)	41,625		-
Gain on conversion of equity portion of convertible debt				8,357		8,357
Allocated to preferred shares		(4,000)				(4,000)
Stock based compensation				223,916		223,916
Net income and comprehensive loss for the period					(314,862)	314,862
Balance, June 30,	105,379,284	2,056,553	-	592,762	82,180	2,567,135

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

2015**4. CORRECTION OF PRIOR PUBLISHED FINANCIAL STATEMENTS (continued)****Consolidated statement of cash flows**

	2015 published to Sedar	Adjustment	2015 Restated figures
Operating Activities:			
Net income (loss)	\$ (277,981)	\$ 592,843	\$ 314,865
Adjustments for non-cash items:			
Gain on conversion of debt	-	(368,927)	(368,927)
Stock-based compensation	233,916	(223,916)	-
Cash flows (used in) operating activities	(15,830)	-	(15,830)
Investing activities			
Intangible properties	(1,343,943)	400,000	(943,943)
Cash flows (used in) investing activities	(1,343,943)	400,000	(943,943)
Financing Activities:			
Issuance of convertible debt	-	368,927	368,927
Contributed surplus	-	592,762	592,762
Issuance of shares	(1,391,689)	396,000	(965,689)
Cash flows provided by financing activities	1,348,879	(400,000)	948,879
Net decrease in cash & cash equivalents	(10,894)	-	(10,894)
Cash & cash equivalents, beginning	17,804	-	17,804
Cash & cash equivalents, ending	\$ 6,910		\$ 6,910

5. ACCOUNTS RECEIVABLE

	June 30, 2016	June 30, 2015
Accounts receivables from related parties (Note 13)	\$87,367	\$ -
Government remittances recoverable	4,018	2,228
	\$91,385	\$2,228

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

6. INTANGIBLE ASSETS**Cost and Carrying Amounts**

	Patents	Development Costs	Total
Balance, July 1, 2014	\$ -	2,047,432	\$2,047,432
Additions	400,000	1,140,000	1,540,000
Balance, June 30, 2015	400,000	3,187,432	3,587,432
Additions	-	1,422,316	1,422,316
Balance, June 30, 2016	\$400,000	4,609,748	\$5,009,548

During fiscal 2013, in conjunction with Decanex Inc., a private company related through a significant shareholder, the company began developing an electro-physiologically interactive computing system that interfaces with users via a blood pressure monitor with interactive protocols. The company has entered into a licensing, development, collaboration, marketing and general service agreement with Decanex Inc. that required the company to make monthly payments of \$95,000 to Decanex Inc. In 2015, the company acquired the patents to this technology from Decanex Inc. through the issuance of 40,000,000 shares to an officer of Decanex Inc. (see also Notes 9 and 13).

In February 2016m the licensing, development, collaboration, marketing and general service agreement with Decanex Inc. was extended by an additional five years (see Note 13).

Amortization will commence upon commercialization. Therefore, there has been no amortization to date.

7. ACCOUNTS PAYABLE

	June 30 2016	June 30 2015 Restated
Accounts payable to third parties	\$40,843	\$6,307
Accounts payable to related parties (Note 13)	7,147	202,628
	\$47,990	\$208,935

8. REDEEMABLE PREFERRED SHARES

(a) Authorized

Unlimited Class A preferred shares

(b) Issued

	June 30, 2016		June 30, 2015	
	Shares	Amount, \$	Shares	Amount, \$
Class A preferred shares				
Balance, beginning of year	21,188,842	2,000	-	-
Issued – Plan of Arrangement	-	-	42,377,684	4,000
Redeemed	-	-	(21,188,842)	(2,000)
Class A preferred shares	21,188,842	2,000	21,188,842	2,000

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

8. REDEEMABLE PREFERRED SHARES (continued)

(a) Issued (continued)

The Class A preferred shares, with a redemption price of \$0.000094 each for a total value of \$2,000, are non-voting, non-participating and are mandatorily redeemable by the Company in accordance with the Plan of Arrangement. At June 30, 2016, 21,188,842 (2015 – 21,188,842) preferred shares were outstanding and will be redeemed once the Plan of Arrangement is completed.

9. CAPITAL STOCK

- a. Authorized: unlimited Common shares without par value; and
unlimited Preferred shares without par value.

- b. Issued and Outstanding:

Common shares

On August 18, 2014, the Company issued 40,000,000 shares for the purchase of the Intellectual Property subject to certain terms and conditions. (Note 13)

On September 2, 2014 the Company issued 23,001,600 shares to convert a total of \$1,150,080 of debt into equity with a full warrant exercisable at \$0.10 for 3 or 5 years from date of issue.

On March 18, 2016 the Company issued 1,300,000 shares as a part of a private placement with a full warrant exercisable at \$0.10 for 3 or 5 years from date of issue.

On April 7, 2016, the Company issued 150,000 shares to an officer of the company for services performed (Note 13).

On April 7, 2016, the Company issued 1,850,000 shares on the conversion of debt (Note 10(b)). Of this, 1,000,000 was to an officer of the company (Note 13).

Share purchase warrants

As of June 30, 2016 the following warrants were outstanding and exercisable:

Number of Warrants Outstanding	Exercise Price	Expiry Date	Number of Common Shares Issuable
3,000,000	\$ 0.10	August 17, 2017	3,000,000
3,100,000	\$ 0.10	August 29, 2017	3,100,000
8,265,000	\$ 0.10	August 29, 2019	8,265,000
7,961,600	\$ 0.10	September 1, 2019	7,961,600
1,300,000	\$ 0.10	March 16, 2021	1,300,000
2,000,000	\$ 0.10	April 7, 2021	2,000,000
25,626,600			25,626,600

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

9. CAPITAL STOCK (continued)

A summary of the Company's issued and outstanding warrants as at June 30, 2016, 2015, and 2014 and changes during those years is presented below:

	Warrants Outstanding	Weighted Average Exercise Price
Balance, June 30, 2014	-	-
Granted	23,001,600	0.10
Balance, June 30, 2015	23,001,600	0.10
Granted	3,300,000	0.10
Exercised	(675,000)	(0.10)
Balance, June 30, 2016	25,626,600	\$ 0.10

On August 18, 2014 the Company issued 3,000,000 warrants exercisable at \$0.10 for 3 years from date of issue.

On December 31, 2014 the Company issued 3,100,000 warrants exercisable at \$0.10 for 3 years from date of issue.

On December 31, 2014 the Company issued 8,940,000 warrants exercisable at \$0.10 for 5 years from date of issue.

On September 2, 2014 the Company issued 7,961,600 warrants exercisable at \$0.10 for 5 years from date of issue.

On November 10, 2015, the Company recorded the exercise of 175,000 warrants at \$0.10 to decrease the number of warrants outstanding.

On December 15, 2015, the Company recorded the exercise of 300,000 warrants at \$0.10 to decrease the number of warrants outstanding.

On January 2, 2016 the Company recorded the exercise of 200,000 warrants at \$0.10 to decrease the number of warrants outstanding.

On March 18, 2016 the Company issued 1,300,000 warrants exercisable at \$0.10 for 5 years from date of issue.

On April 7, 2016, the Company issued 2,000,000 warrants exercisable at \$0.10 for 5 years from the date of issue. Of this, 1,150,000 were to officers of the company (Note 13).

The fair value of warrants issued during the year were determined using the Black-Scholes Option Pricing Model with assumptions as follows:

	<u>2016</u>	<u>2015</u>
Weighted average risk-free interest rate	1.34 %	1.43%
Weighted average estimated volatility	252.06 %	259.25%
Weighted average expected life	3.65 years	4.47 years
Weighted average expected dividend yield	- %	- %

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

9. CAPITAL STOCK (continued)*Stock Options*

The Company has adopted an incentive stock option plan (the "Option Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the applicable stock exchange's requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares. Pursuant to the Option Plan, the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Options granted under the Option Plan can have a maximum exercise term of 5 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors

As of June 30, 2016 the following stock options were outstanding and exercisable:

<i>Number of Shares</i>	<i>Exercise Price per Share</i>	<i>Expiry Date</i>
250,000	\$ 0.05	May 13, 2018
875,000	\$ 0.10	May 13, 2018
437,500	\$ 0.15	May 13, 2019
437,500	\$ 0.20	May 13, 2019
<u>2,000,000</u>		

A summary of the status of the Company's stock options as at June 30, 2016, 2015, and 2014 and changes during those years is presented below:

	<i>Options Outstanding</i>	<i>Weighted Average Exercise Price</i>
Balance, June 30, 2014, 2015		-
Granted (i)	2,000,000	\$ 0.13
Balance, June 30, 2016	2,000,000	\$ 0.13

- (i) On May 13, 2016, the Company granted 2,000,000 stock options at exercise prices between 0.05 to \$0.20 to certain officers, directors, and consultants of the Company, with a vesting date of August 13, 2016. 1,125,000 stock options are exercisable on or before May 13, 2018. 875,000 stock options are exercisable on or before May 13, 2019.

The fair value of 1,000,000 stock options charged to operation in fiscal 2016 as share-based compensation for employees is determined to be \$42,563 using the Black-Scholes option pricing model using the current assumptions of risk-free interest rate of 0.54% to 0.57%, expected life of 2-3 years, forfeiture rate – 0%, expected volatility of 204% to 219.03% and a dividend rate of 0%. Due to the vesting period of August 13, 2016, \$22,207 will be charged to operations in fiscal 2017.

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

9. CAPITAL STOCK (continued)*Stock Options (continued)*

The fair value of 1,000,000 stock options charged to operation in fiscal 2016 as share-based compensation for non-employees is determined to be \$47,217 using the Black-Scholes option pricing model using the current assumptions of risk-free interest rate of 0.51 to 0.53%, expected life of 2-3 years, forfeiture rate – 0%, expected volatility of 205 to 225% and a dividend rate of 0%. Due to the vesting period of August 13, 2016, \$43,283 will be charged to operations in fiscal 2017.

10. DEBTS

Balance, June 30, 2014 (i)	\$ 374,017
Conversion of 1-year convertible debenture	(374,017)
Balance, June 30, 2015	-
Issuance of 18 month convertible debenture (ii)	800,318
Issuance of 18 month convertible debenture (iii)	653,464
Accretion capitalized	5,786
Balance, June 30, 2016	\$1,459,568

a. Convertible debentures

- i. On November 5, 2013, the Company issued \$388,500 of convertible debt that had a term of one year which was non-interest bearing with a conversion feature of \$0.20 per common share. Two officers of the company received \$258,500 of this offering.

On September 2, 2014 the conversion feature of this debt was repriced to \$0.05 per common share giving the debt holders 1,145,281 common shares at conversion. The fair value of the shares was \$0.01 per common share at the time of this repricing, resulting in the value of this liability being reduced to \$58,275. This reduction is a gain of \$330,225 with \$110,500 reported on the statement of operations and the balance of \$219,725 is allocated to contributed surplus as it was related to two officers of the company.

On the same day, the convertible debt of \$58,275 was converted into 1,145,281 common shares at \$0.01 per share resulting in no gain or loss.

- ii. Eighteen month convertible debt: On February 19, 2016 the Company issued \$827,681 of convertible debt to a related party as a part of debt settlement agreement. The debt matures eighteen months from the date of issuance and maybe converted by the debtholder into common shares of the company at a price of CDN \$0.05 per common share . Interest is payable on this debt at an annual rate equal to ten percent (10%), compounded on an annual basis.

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

10. DEBTS (continued)

No finders fees or commissions were paid in connection with this debt offering. A related party subscribed for the full amount of the convertible debt.

An equity component of the debt, \$25,892, has been reduced from the carrying value of the convertible debt at inception and recorded in shareholders' equity. The equity component of this debt was initially measured using the residual value method and is not re-measured at each reporting period. During the year ended June 30, 2016 the carrying value of this convertible debt has been accreted up to \$806,104 and the Company recorded finance charges of \$5,786.

- iii. Eighteen month convertible debt: During the year, an officer loaned the company \$674,697 that is non-interest bearing and has no terms of repayment. On June 30, 2016 the Company issued \$674,697 of convertible debt as settlement to this related party that has a term of 18 months, bears interest at 10% per annum compounded annually, and has a conversion feature of \$0.05 per common share. The holders of this debt may, within the specified time period, convert their debt at their discretion

An equity component of the debt, \$21,233, has been reduced from the carrying value of the convertible debt at inception and recorded in shareholders' equity. The equity component of this debt was initially measured using the residual value method and is not re-measured at each reporting period. During the year ended June 30, 2016 the carrying value of this convertible debt has not been accreted and \$nil has been recorded finance charges.

b. Unsecured loans

	Balance, June 30, 2014 \$	Debt Conversion \$	Cash Payments \$	Cash Proceeds \$	Balance, June 30, 2015 \$
Amounts owing to third parties (i)	472,201	(652,000)	(28,987)	935,786	727,000
Amounts owing to related parties (ii)	134,000	(109,580)	(66,421)	122,501	80,500
Total	606,201	(761,580)	(95,407)	1,058,287	807,500

	Balance, June 30, 2015 \$	Debt Conversion \$	Cash Payments \$	Cash Proceeds \$	Balance, June 30, 2016 \$
Amounts owing to third parties (i)	727,000	(130,000)	(17,000)	178,206	758,206
Amounts owing to related parties (ii)	80,500	(50,000)	(145,277)	253,049	138,272
Total	807,500	(180,000)	(162,277)	431,255	896,478

- (i) Amounts owing to third parties are non interest bearing with no specific terms of repayment.
- (ii) Amounts owing to related parties are non interest bearing with no specific terms of Repayment (Note 13).

11. FINANCIAL AND CAPITAL RISK MANAGEMENT

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include credit risk, liquidity risk, interest rate risk, and currency risk. Where material, these risks are reviewed and monitored by the Board of Directors.

a. Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity and cash as capital. The Company manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the commercialization of the licensed proprietary health monitoring/therapeutic systems and the identification and evaluation of potential acquisitions.

To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through the equity or debt financing. The Company is not subject to any capital requirements imposed by a regulator.

b. Credit risk

The Company's credit risk was primarily attributable to bank balances, GST/HST receivable and loan receivable. The Company limits its credit exposure on cash held in bank accounts firstly by holding its key transactional bank accounts with banks of international financial institutions. GST/HST receivable is due from Canadian Government and management believes that the credit risk to be minimal. Loan receivable is due from Haltain which has been repaid to the Company subsequent to the year end.

c. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March, 31 2016, the Company had cash balance of \$5180 (June 30, 2015 - \$6,910) and current Account Payable of \$210,194 (June 30, 2015 - \$221,934). All of the Company's financial liabilities have or are treated with maturities of less than one year, and are subject to normal trade terms. Management is considering different alternatives to secure adequate debt or equity financing to meet the Company short term and long term cash requirement.

d. Interest rate risk

Interest risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in market risk. The Company's sensitivity to interest rates is currently immaterial.

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

12. FAIR VALUE

The fair value measurements use a fair value hierarchy that reflects the significance of the inputs used in making the measurements on a recurring basis by within the fair value hierarchy. The Company does not have any non-recurring fair value measurements.

Measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy has the following levels:

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- (ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- (iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at March, 31 2016 and 2015:

	June 30, 2016		June 30, 2015	
	Level 1	Level 2	Level 1	Level 2
Financial assets at fair value through profit or loss				
Cash and cash equivalents	\$ 5,180	\$ -	\$ 6,910	\$ -

The methods of measuring each of these financial assets and liabilities have not changed during the past year. The Company does not have any financial assets or liabilities measured at fair value based on unobservable inputs (Level 3). The fair values of financial instruments measured at amortized cost approximate their carrying amounts.

13. RELATED PARTY TRANSACTIONS

- (a) Included in accounts receivable is \$1,694 (2015 - \$2,000) receivable from a company with a director and officer in common.
- (b) Included in accounts receivable is \$85,672 (2015 - \$Nil) receivable from a company with a director, who is a significant shareholder of Auxellence Health Corporation.
- (c) Included in intangible assets is \$1,422,317 (2015 - \$1,540,000) paid to a related company with a director, who is a significant shareholder of Auxellence Health Corporation.
- (d) Included in accounts payable is \$7,147 (2015 - \$2,784) owed to two directors and of which one is a significant shareholder.
- (e) Included in loans payable is \$140,721 (2015 - \$80,500) owing to directors of the company.
- (f) Included in loans payable is \$47,550 (2015 - \$Nil) owing to an immediate family member of one of the directors of the company.
- (g) Included in other income is \$Nil (2015 - \$2,857) earned from companies with a common director and officer.

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

13. RELATED PARTY TRANSACTIONS (continued)

- (h) Key management personnel compensation:
 - i. included in professional fees is an accounting fee of \$7,500 (2015 - \$3,580) paid to one of the directors and officers of the company;
 - ii. Included in share-based compensation is \$22,207 (2015 - \$Nil) paid to one of the directors and officers of the company, who is also a significant shareholder of the company.
- (i) The Company issued a convertible debt to an officer of the Company on June 30, 2016 for 674,697 Note 10).
- (j) The company settled the outstanding amounts from the General Service Agreement with the Company's operator, Decanex Inc., a private company related through a significant shareholder, for \$827,681 (Note 10).

These transactions above are in the normal course of operations and are measured at the agreed to amounts, which is the amount of consideration established and agreed to by the related parties.

14. NON-CASH ACTIVITIES

- a) On November 10, 2015 a debt holder converted \$17,500 of debt for 175,000 common shares through the exercise of warrants. The fair value of the common shares issued on this date was \$8,750 resulting in a gain of \$8,750. (Note 9)
- b) On December 15, 2015 a debt holder converted \$30,000 of debt for 300,000 common shares through the exercise of warrants. The fair value of the common shares issued on this date was \$28,500 resulting in a gain of \$1,500. (Note 9)
- c) On February 26, 2016 the company issued an \$827,681 convertible debt to a related party as settlement for outstanding trade payables. An equity component of the debt, \$25,892 has been reduced from the carrying value at the inception and recorded in shareholders' equity. During the year, the carrying value of this convertible debt was accreted up to \$806,104 and recorded as finance charges of \$5,786. (Note 10)
- d) On April 7, 2016 three debt holders converted \$92,500 of debt for 1,850,000 common shares and 1,850,000 share purchase warrants. The fair value of the common shares issued on this date was \$92,500 resulting in no gain or loss. \$45,535 of the value for the common shares was allocated to shareholders' equity as the fair value for the share purchase warrants issued. Of this settlement, \$50,000 (1,000,000 common shares) was to a director of the company. (Note 10)
- e) On April 7, 2016 an officer of the company received 150,000 common shares and 150,000 share purchase warrants for \$7,500 of services provided to the company. The fair value of the common shares issued on this date was \$7,500 resulting in no gain or loss. \$3,712 of the value for the common shares was allocated to shareholders' equity as fair value for the share purchase warrants issued. (Note 9)

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

14. NON-CASH ACTIVITIES (continued)

- f) On May 13, 2016 the company issued 2,000,000 stock options to certain officers, directors and consultants of the Company. Using the Black-Scholes option pricing model, the fair value of the stock options issued was \$69,424 (Note 9).
- g) During the year a director of the company paid \$31,970 for the development of the intangible asset on behalf of the company. (Note 6)
- h) During the year, a debt to a company was considered fully repaid via services provided to the debtor.

15. INCOME TAXES

The Company has accumulated non-capital losses expire as follows (tax attributes are subject to revision and potential adjustment by tax authorities):

2032	305,534
2033	798,008
2034	1,040,896
2035	1,530,647

A reconciliation of income taxes at statutory rates is as follows:

	June 30, 2016	June 30, 2015
Income (Loss) before income taxes	\$(195,275)	\$314,861
Expected income tax (recovery) at 26%	(50,772)	81,864
Tax effects of:		
Non-deductible expenses and other deductions	24,841	(92,155)
Prior period adjustment	-	(11,061)
Change in valuation allowance	25,931	21,352
Deferred income tax recovery	\$ -	\$ -

The significant components of the Company's deferred income tax assets are as follows:

	June 30, 2016	June 30, 2015
Substantively enacted tax rate	26%	25%
Deferred income tax assets:		
Non-capital losses	\$ 1,349,329	\$ 955,522
Eligible capital expenditures	14,649	12,723
Deferred development costs	(1,302,534)	(932,732)
Valuation allowance	(61,444)	(35,513)
Net deferred income tax assets	\$ -	\$ -

Auxellence Health Corporation

Notes to the Consolidated Financial Statements

June 30, 2016

(Expressed in Canadian dollars)

15. INCOME TAXES (continued)

Estimated taxable income for the period is \$Nil. Deferred tax assets have not been recognized because it is not probable that future taxable income will be available against which the Company can utilize the benefits from the deductible temporary differences and unused tax losses.

16. COMMITMENT

On February 25, 2016 the company amended the licensing, development, collaboration, marketing and general service agreement with Decanex Inc. The agreement requires monthly payments of \$95,000 for a term of five years commencing April 2016 for the further research and development of the TULIP intangible asset (Note 6).

2016	1,140,000
2017	1,140,000
2018	1,140,000
2019	1,140,000
2020	855,000