

M PHARMACEUTICAL INC.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

For the nine months ended September 30, 2016

<i>(In Canadian Dollars)</i>	<i>Notes</i>	September 30, 2016	September 30, 2015
		\$	\$
Cash and cash equivalents provided by (used in):			
Operating Activities			
Net (loss) for the year		(1,919,850)	(2,095,841)
Adjustments for items not affecting cash			19,018
Warrants issued to debenture holders on conversion to shares		490,000	-
Derivative fair value adjustment	11	(49,268)	-
Accretion and accrued interest	10&11	57,098	-
Stock based compensation		271,690	-
Gain on settlement of debt		(16,304)	-
Changes in non-cash components of working capital			
Sales tax receivable		(27,239)	(5,696)
Accounts receivable		-	334
Prepaid expenses		(67,169)	6,637
Accounts payable and accrued liabilities		259,518	990,292
		(1,001,524)	(1,085,256)
Financing Activities			
Issue of common shares	6(a)	950,830	1,080,000
Share issue costs	6(a)	(269,395)	(40,320)
Proceed received from debenture	11	2,035,160	(40,320)
Proceeds received from loan		-	110,800
		2,716,595	1,150,480
Investing Activities			
Acquisition of fixed assets		(9,708)	-
M Diagnostics acquisition	5	-	(188,910)
Acquisition of Intangible	5	(315,351)	-
Proceeds on sale of investments		-	84,928
		(325,059)	(103,982)
Decrease in cash and cash equivalents		1,390,012	38,757
Cash and cash equivalents, beginning of the period		1,474	41,266
Cash and cash equivalents, end of the period		1,391,486	2,509

SUPPLEMENTAL INFORMATION

Interest paid	-	-
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M PHARMACEUTICAL INC.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the nine months ended September 30, 2016

1. General information

M Pharmaceutical Inc. ("the Company") is a clinical-stage company developing innovative technologies for the monitoring and treatment of obesity, diabetes, and other gastroenterological indications. The Company was incorporated on March 11, 2003 under the laws of the Province of Ontario. On November 26, 2014, the Company was continued into the Province of Alberta from Ontario. The address of the head office is suite 734-1055 Dunsmuir Street, Vancouver, BC V7X 1B1.

2. Going concern

The ability of the Company to realize its business plan and continue operations is dependent upon the Company being able to commercialize a product for sale, to finance research, development and commercialization costs and compete in a competitive marketplace for the monitoring and treatment of obesity, diabetes, and other gastroenterological indications. There is no certainty whether the Company will generate significant revenues or attain profitable operations in the near future and there can be no assurance that it will achieve profitability in the future, as it incurred a loss of \$1,919,850 for the nine months ended September 30, 2016, and has accumulated \$56,337,777 of losses as at September 30, 2016.

These Interim Condensed Consolidated Financial Statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. Such adjustments could be material. The Company has a need for financing working capital, product development, marketing and sales. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operations. It is not possible to accurately predict whether present financing efforts will be successful or if the Company will attain profitable levels of operations. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. These conditions raise significant doubt about its ability to continue as a going concern.

3. Basis of preparation

The interim condensed consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, International Accounting Standards 34 "*Interim Financial Reporting*". Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed.

The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2015.

The policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS issued and outstanding as of **November XX, 2016**, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2015 could result in restatement of these unaudited interim condensed consolidated financial statements.

M PHARMACEUTICAL INC.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the nine months ended September 30, 2016

4. Summary of significant accounting policies

These unaudited interim condensed consolidated financial statements have been prepared using the same policies and methods as the annual consolidated financial statements of the Corporation for the year ended December 31, 2015. Refer to note 4 and 5 of the Corporation's audited annual consolidated financial statements for the year ended December 31, 2015 for more information on new accounting standards and amendments not yet effective.

5. Intangible assets

	M Diagnostics	RX Global	TriMtec	C-103	Total
At December 31, 2014	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisition of intellectual property	321,242	569,783	200	-	891,225
Licence payment	-	-	270,000	-	270,000
Impairment	(321,242)	-	(270,200)	-	(591,442)
At December 31, 2015	\$ -	\$569,783	\$ -	\$ -	\$569,783
Acquisition of intellectual property (Note 6)	-	-	-	515,351	515,351
At September 30, 2016	\$ -	\$569,783	\$ -	\$515,351	\$1,085,134

The activity related to M Diagnostics has been suspended. As a result the intangible assets related to M Diagnostics were impaired.

The activity related to TriMtec has been suspended. As a result the remaining license payments have been accrued and intangible assets related to TriMtec were impaired.

The Company has completed an impairment assessment at December 31, 2015, which included a peer based analysis. It was determined that there was no impairment of the intellectual property related to the RX Global acquisition. The impairment assessment used unobservable inputs and the valuation has been determined to be a level 3 measurement in the fair value hierarchy.

On July 15, 2016 the Company closed on its previously announced (April 6, 2016) agreement to acquire assets from Chelatexx, LLC related to a reformulated version of orlistat (product "C-103"). The addition of C-103 provides a novel weight loss pharmaceutical product to the M Pharma pipeline.

During the period, the Company completed a cash payment of US\$ 200,000. Subsequent to the period, the Company has issued 10 million common shares, and will pay a low single-digit royalty on net sales. 10% of the common shares issued will be subject to trading restrictions until November 8, 2016. The balance of the common shares issued are subject to an escrow agreement that will have them released over the 3 years from the date of closing.

6. Share capital

(a) Authorised

Unlimited number of common voting shares. The common shares do not have a par or stated value. All issued common shares are fully paid.

M PHARMACEUTICAL INC.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the nine months ended September 30, 2016

On April 16, 2015, the Company consolidated its common shares on the basis of ten old common shares for one new common share. The consolidation was approved by shareholders at a special meeting of the Company held on October 10, 2014 and was approved by the Canadian Securities Exchange ("CSE") in April 2015. All common shares, warrants, and options are presented on a post consolidation basis.

In February 2015, the Company completed a private placement and raised gross proceeds of \$1,080,000 by issuing 5,400,000 units at \$0.20 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable for 2 years from closing at an exercise price of \$0.50 per common share. The Company issued 110,600 finder's warrants related to the private placement. The Company recognized \$9,000 of share issue costs related to the finder's warrants, using the following assumptions: Term 1 year, Share Price \$0.20, Exercise Price \$0.50, Volatility 169%, Risk Free Rate 1.25%, Dividend Rate Nil.

On May 8, 2015, the Company issued 2,124,814 common shares to settle \$361,218 of trade payables owed to consultants and other service providers, of which \$103,450 was due to a director of the Company. A loss of \$106,241 was recorded on the settlement.

On July 16, 2015, the Company issued 369,200 common shares to settle \$44,304 of trade payables of the Company. A gain of \$7,384 was recorded on the settlement.

On September 15, 2015, the Company issued 2,000,000 common shares. The common shares are being issued pursuant to the executive consulting contract owing by the Company. This amount has been recognized as stock based compensation in the profit and loss.

On September 15, 2015, the Company issued 330,000 common shares. The common shares are being issued pursuant to exercised warrants with an exercise price of \$0.13 per common share. The warrants were repriced from \$0.50 per common share and subsequently exercised.

On September 15, 2015, the Company issued 70,000 common shares. The common shares are being issued for cash with an exercise price of \$0.13 per common share.

On June 27, 2016, the Company issued 34,433,179 common shares. The common shares are being issued for cash proceeds of \$860,830. The Company issued 900,800 finder's warrants related to the private placement. The Company recognized \$10,000 of share issue costs related to the finder's warrants, using the following assumptions: Term 1 year, Share Price \$0.025, Exercise Price \$0.05.

On July 11, 2016 2,000,000 shares were issued pursuant to exercise of warrants at \$0.05.

(b) Common share purchase warrants

On February 6, 2016 110,600 common share purchase warrants expired unexercised. On June 18, 2016 5,174,998 common share purchase warrants expired unexercised.

A summary of the changes in the Company's share purchase warrants during the nine months period ended September 30, 2016 and September 30, 2015 (post consolidated) are as follows:

	Number of Warrants (Post Consolidated)	Weighted Average Exercise Price
Balance, January 1, 2015	13,026,265	\$ 0.05
Issued	5,664,000	\$ 0.25
Expired	(1,104,000)	\$ 0.50

M PHARMACEUTICAL INC.
Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)

For the nine months ended September 30, 2016

Balance, September 30, 2015	17,586,265	\$	0.43
Exercised	(330,000)	\$	0.13
Issued	3,652,925	\$	0.18
Balance, December 31, 2015	20,909,194	\$	0.05
Issued	34,433,179	\$	0.05
Issued	900,800	\$	0.05
Issued	21,864,640	\$	0.05
Issued	640,000	\$	0.05
Issued	8,425,640	\$	0.08
Exercised	(2,000,000)	\$	0.50
Expired	(110,600)	\$	0.50
Expired	(5,174,998)	\$	0.50
Balance, September 30, 2016	79,914,855	\$	0.10

As at September 30, 2016, the following common share purchase warrants were outstanding:

Expiry date	Exercise Price (\$)	Warrants
July 24, 2017	0.50	100,000
February 6, 2017	0.50	4,375,000
February 13, 2017	0.50	1,025,000
October 27, 2017	0.10	4,459,596
February 7, 2017	0.25	5,440,000
February 7, 2020	0.25	224,000
June 27, 2017	0.05	34,433,179
June 27, 2017	0.05	900,800
June 30, 2017	0.05	19,864,640
June 30, 2017	0.05	640,000
September 7, 2020	0.08	6,774,640
September 20, 2020	0.08	1,678,000
		<u>79,914,855</u>

(c) Contributed surplus

The contributed surplus reserve is used to recognize the fair value of share purchase warrants, share options granted to employees, including key management personnel, as part of their remuneration. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital. (Refer to Note 9 for further details of these plans.)

	September 30, 2016	December 31, 2015
Balance, beginning of the period	\$ 9,383,936	\$ 8,191,930
Stock based compensation	271,690	167,042
Warrants issued for RX Global acquisition (Note 6)	-	813,000

M PHARMACEUTICAL INC.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the nine months ended September 30, 2016

Warrants issued with convertible debenture (Note 13)	490,000	-
Warrants issued with convertible debenture (Note 13)	490,053	
Share issuance cost	10,000	-
Finder's warrants (Note 8)	-	9,000
Balance, end of the period	\$ 10,645,679	\$ 9,383,936

The warrants and stock options were valued at issuance using the Black-Scholes Option Pricing Model and the following assumptions. The unvested stock options issued to non-employees were revalued at the end of the period.

	Warrants April 27, 2015 (Note 5)	Warrants October 27, 2015 (Note 11)	Stock Options December 31, 2016	Stock Options September 30, 2016
Exercise price	\$0.25	\$0.10	\$0.11-\$0.17	\$0.08
Grant date share price	\$0.16	\$0.06	\$0.06-\$0.21	\$0.08
Time to maturity	4.8 years	2 years	5 years	5 years
Risk-free rate	1.25%	1.25%	1.25%	1.25%
Volatility	169%	169%	169%-172%	169
Dividend rate	nil	nil	nil	nil

7. Share based payments

The Company has established a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors and employees of the Company as well as persons providing ongoing services to the Company. The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed 10% percent of the total number of common shares outstanding immediately prior to such an issuance. Under the plan, the Board of Directors has the choice of either vesting or allowing options issued to be exercisable upon issuance. Options are normally issued for a five-year term. During the year ended December 31, 2015, 2,775,000 options were granted. The stock options granted vest 1/3 of the immediately, 1/3 on the first anniversary and 1/3 on the second anniversary.

A summary of the share option transactions for the nine month ended September 30, 2016 and September 30, 2015; and the years ended December 31, 2015 and 2014 are summarized as follows:

	Number of Options*	Weighted Average Exercise Price
Balance, December 31, 2014	54,083	\$ 1.92
Expired	(26,333)	\$ 2.00
Granted	2,375,000	\$ 0.17
Balance, September 30, 2015	2,402,750	\$ 0.38
Forfeited	(425,000)	\$ 0.17
Balance, December 31, 2015	2,352,750	\$ 0.17
Granted	7,400,000	\$ 0.08
Balance, September 30, 2016	9,752,750	\$ 0.10

M PHARMACEUTICAL INC.
Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)

For the nine months ended September 30, 2016

The following table summarizes stock options outstanding and exercisable under the Company's stock option plan as at September 30, 2016:

Expiry date	Options Outstanding*	Exercise Price per share (\$)	Options Exercisable
Nov 18, 2016	2,750	0.50	2,750
May 17, 2020	700,000	0.17	233,333
June 10, 2020	1,250,000	0.17	416,667
August 31, 2020	400,000	0.11	100,000
July 25, 2021	7,400,000	0.08	2,466,667
	9,752,750	0.10	3,219,417

8. Related party transactions

The following is a summary of the Company's related party transactions during the period:

(a) Key Management compensation consists of:

(i) Consulting fees

During the nine months ended September 30, 2016, the Company incurred total consulting fees to the directors and to the director's companies for \$60,000 (2015 - \$83,400) of which \$Nil (2015 - \$47,476) is owed at period end.

During the nine months ended September 30, 2016, the Company incurred total consulting fees to Management and to Management's companies for \$165,649 (2015 - \$301,991). A balance of \$116,227 (2015 - \$53,898) is owed at period end.

(ii) Accounting fees

During the nine months ended September 30, 2016, the Company incurred and paid total accounting fees to the Management's company for \$28,800 (2015 - 17,000).

(iii) Legal and Professional fees

During the nine months ended September 30, 2016, the Company incurred and paid total legal and professional fees to a director's company for \$76,279 (2015 - \$175,594). A balance of \$461,817 (2015 - \$492,674) is owed at period end.

On April 4, 2016, the Company announced Brian Keane as Interim President and CEO and signed the consulting agreement for initial consulting fees of US \$60,000 annually commencing on April 1, 2016. The Company will grant a one-time stock option to purchase up to one million (1,000,000) shares of restricted common stocks. No options were granted yet.

M PHARMACEUTICAL INC.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the nine months ended September 30, 2016

9. Investments

In February 2015, the Company disposed of its assets held for sale and the associated decommissioning obligation in exchange for 5,000,000 common shares in a private company and 5,000,000 common shares of the private company's subsidiary. The value attributed to the shares is equal to the carrying value of net assets disposed of which was \$nil. 2,000,000 common shares of the private company were transferred to a promissory note holder. The Company incurred \$17,091 of expenditures related to the assets held for sale, which have been recognized in the statement of profit and loss.

10. Promissory notes payable

On March 8, 2012, the Company issued a promissory note with a face value of \$300,000 bearing annual interest of 10% payable in common shares. The promissory note matured on March 8, 2014. The Company settled the promissory note with \$200,000 of cash, 2,000,000 common shares of the Company, 1,000,000 warrants at a strike price of \$0.50 per share, 2,000,000 common shares of a private exploration company (Note 11), and a new promissory note for principal amount of \$100,000 that matures June 29, 2016 and bears annual interest of 10% which is payable at the anniversary of the note.

The common shares of the Company were valued at \$60,000, based on closing price on the day they were issued. The common share purchase warrants were valued at \$40,000 (Note 8(c)). Common shares of the exploration private company were valued at \$Nil. The new promissory note was recorded at its fair value of \$53,526. The discount rate used in the present value calculation was 53%. The difference between the carrying value of previous promissory note and above mentioned items is \$15,761 which is considered a gain on settlement and is recorded in the statement of comprehensive loss during the period.

RX Global Capital Inc. issued promissory notes to shareholders before being acquired by the Company with a face value of \$280,000. Principal is payable on March 31, 2016. Interest is payable on the principal amount outstanding hereunder at ten percent (10%) per annum, calculated annually, with interest on the outstanding principal payable semi-annually on March 31 and September 30 of each year, commencing September 30, 2015; provided that any missed or late payments under the Note shall bear interest on such missed or late payment amounts at the same amount until such missed or late payments are paid.

The promissory note was recorded at its fair value of \$208,400 on the date of acquisition by the Company, April 27, 2015 (Note 6). The discount rate used in the present value calculation was 53%.

The promissory notes were extinguished by convertible debentures on October 27, 2015 (Note 13). The fair value on the date of extinguishment was \$245,000. The discount rate used in the present value calculation was 53%.

During the nine months period ended September 30, 2016 \$32,953 accretion and interest was recorded.

	September 30, 2016	December 31, 2015
Balance, beginning of the period	\$ 92,718	\$ 66,907
Issuance of promissory notes	-	208,400
Accrued accretion and interest expense	32,953	76,411
Repayment, principle and interest	-	(259,000)
Balance, end of the period	\$ 125,671	\$ 92,718

11. Convertible debentures

On October 27, 2015, the Company issued unsecured convertible securities ("Debentures") with face value of \$743,266 to settle trade payables in the amount of \$449,266 and promissory notes with fair value of

M PHARMACEUTICAL INC.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the nine months ended September 30, 2016

\$245,000 (Note 12).

Each Debenture is convertible to common shares at an exercise price of \$ 0.10. However, conversion price will be adjusted if the Company completes a rights offering for less than 90% of the quoted price. The variability of the conversion price creates a derivative which has been recognized as a liability.

The terms of the Debentures are 36 months at 10% annual simple interest. The interest shall be paid up front, through the issuance of an Interest Unit. Each Interest Unit consists of one common share of the Company's common stock and one common share purchase warrant with an exercise price of \$0.10 and a term of two years.

The modification of terms resulted in an extinguishment of the trade payables and promissory notes and recognition of a new convertible debt instrument. This resulted in a loss of \$102,544 related to the trade payables and a loss of \$99,003 related to the promissory notes.

The Company has determined that the fair value of the modified loan should be recognized together with the conversion derivative liability. The fair value of the loan was determined to be \$114,183 by applying a risk-adjusted rate of 84% to discount the monthly repayments and coupon payments over the remaining life of the loan. During the period accretion and interest of \$29,513 (December 31, 2015 - \$11,308) was recorded. The embedded derivative was estimated using an option pricing model.

The fair value of the derivative liability was determined to be \$364,942 at initial recognition using the below assumptions. It was re-measured at the financial position date, with adjustments made to the derivative liability and reflected in the profit and loss. A fair value adjustment of \$ 49,268 (December 31, 2015 - \$7,295) was recognized at September 30, 2016.

During the period the Company completed an offering for less than 90% of the quoted price. As a result the conversion price was adjusted from \$0.10 to \$0.025, the same price as the offering. Subsequently 562,716 (June 30, 2016 - 546,716) of the 743,266 units were converted into 22,504,640 (June 30, 2016 - 21,864,640) units which included one common share and one share purchase warrants. The share purchase warrants have a one year term and an exercise price of \$0.05. The warrants were attributed a value of \$490,000 using an option pricing model.

	October 27, 2015	December 31, 2015	September 30, 2016
Exercise price	\$0.10	\$0.10	\$0.02
Share Price	\$0.06	\$0.06	\$0.08
Time to maturity	3 years	2.8 years	2.1 years
Risk-free rate	1.25%	1.25%	1.25%
Volatility	169%	169%	169%
Dividend rate	nil	nil	nil

The 4,459,596 common shares issued with the Interest Units were recognized using the quoted market price (Note 7).

The 4,459,596 warrants granted with the Interest Units have been valued using the Black-Scholes option pricing model with assumptions that are further described in Note 7(c).

During the period the Corporation closed a non-brokered private placement of convertible debentures for cash proceeds of \$2,035,160. The debentures bear interest of 10% per annum for a term of 3 years, and be convertible into common shares of the Company at a conversion price of \$0.075 per share. Interest on the debentures will be pre-paid by the issuance of units ("Prepaid Interest Units") at a price of \$0.08 per unit, each unit consisting of one common share and one common share purchase warrant entitling the holder to acquire one additional common share for \$0.08 for a period of two years. In connection the closing, 8,452,640 common shares and warrants were issued as prepaid interest. In addition, finders fees

M PHARMACEUTICAL INC.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

For the nine months ended September 30, 2016

of \$115,560 and 110,360 broker warrants, which have the same terms as the warrants issued as part of the Prepaid Interest Units, were issued. All securities issued on the second closing are restricted from trading until January 21, 2017.

The Company has determined that the fair value of the modified loan should be recognized together with the conversion derivative liability. The fair value of the loan was determined to be \$568,230 by applying a risk-adjusted rate of 53% to discount the repayments and coupon payments over the remaining life of the loan. During the period accretion of \$13,700 was recorded.

The fair value of the warrants were determined to be \$490,053 at initial recognition using an option pricing model and the below assumptions.

	September 30, 2016
Exercise price	\$0.08
Share Price	\$0.12
Time to maturity	2.0 years
Risk-free rate	1.25%
Volatility	63%
Dividend rate	nil

12. Commitments and contingencies

The Company may be required to make milestone, royalty, and other research and development funding payments under research and development collaboration and other agreements with third parties. These payments are contingent upon the achievement of specific development, regulatory and/or commercial milestones. The Company has not accrued for these payments as of September 30, 2016 due to the uncertainty over whether these milestones will be achieved. The Company's significant contingent milestone, royalty and other research and development commitments are described in Note 5.

13. Subsequent events

On October 3, 2016, the Company issued 3,926,000 common shares. The common shares are being issued for debenture conversion with an exercise price of \$0.025 per common share.

On November 8, 2016 20,000,000 shares were issued pursuant to ToConceive LLC acquisition at \$0.02.