



Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)

Unaudited Condensed Interim Consolidated Financial Statements
Fiscal 2016 Third Quarter
For the Three and Nine Month Periods Ended June 30, 2016
(Expressed in US dollars)

To the Shareholders of Lattice Biologics Ltd. (formerly Blackstone Ventures Inc.):

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by the Company's management and approved by the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditor.

August 29, 2016

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in US dollars)
As at

	June 30, 2016 (Unaudited)	September 30, 2015
Assets		
Current assets:		
Cash.....	\$ 314,884	\$ 50,293
Accounts receivable (Note 6).....	601,604	762,694
Prepaid expenses and other current assets.....	73,785	33,361
Inventory (Note 5).....	1,941,677	2,955,642
Total current assets.....	2,931,950	3,801,990
Property and equipment (Note 3).....	673,010	645,676
Intangible assets (Note 4).....	653,167	948,716
Goodwill.....	606,428	606,428
Total assets.....	<u>\$ 4,864,555</u>	<u>\$ 6,002,810</u>
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Notes 8 and 21).....	\$ 3,552,964	\$ 2,633,314
Obligations under finance lease, current portion (Note 9).....	40,651	62,722
Factoring advances (Note 10).....	207,738	268,614
Notes payable, current portion (Notes 12 and 13).....	2,298,992	1,782,060
Royalty funding, current portion (Note 15).....	718,750	437,500
Total current liabilities.....	6,819,095	5,184,210
Obligations under finance lease, long-term portion (Note 9).....	50,301	15,908
Officer loans (Notes 11 and 21).....	1,302,922	1,032,219
Notes payable, long-term portion (Notes 12 and 13).....	550,000	238,841
Convertible notes payable (Note 13).....	-	988,100
Warrant liability (Note 14).....	133,494	-
Royalty funding, long-term portion (Note 15).....	2,155,043	2,436,293
Total liabilities.....	11,010,855	9,895,571
Equity:		
Share capital (Note 16).....	4,948,368	913,845
Accumulated deficit.....	(11,094,668)	(4,806,606)
Total equity.....	(6,146,300)	(3,892,761)
Total liabilities and equity.....	<u>\$ 4,864,555</u>	<u>\$ 6,002,810</u>

Nature of Business and Going Concern (Note 1)
Commitments and Contingencies (Note 19)

Approved by the Board

Cheryl Farmer
Director (Signed)

Guy Cook
Director (Signed)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Statements of Comprehensive Loss
(Expressed in US dollars)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenue.....	\$ 972,320	\$ 914,556	\$ 3,044,949	\$ 3,150,973
Cost of sales.....	633,619	724,888	2,121,605	2,568,326
Gross profit.....	338,701	189,668	923,344	582,647
Operating expenses:				
Depreciation.....	131,202	117,961	356,926	340,040
General and administrative.....	129,241	84,475	589,101	451,241
Professional fees.....	19,223	98,558	223,158	155,531
Rent.....	87,188	64,758	232,435	202,142
Salaries.....	486,803	323,330	1,299,439	941,158
Sales and marketing.....	261,123	133,123	682,513	338,103
Utilities.....	18,125	18,645	55,770	57,781
Total operating expenses.....	1,132,905	840,850	3,439,342	2,485,996
Loss from operations.....	(794,204)	(651,182)	(2,515,998)	(1,903,349)
Other expense:				
Interest and finance charges.....	(383,321)	(198,544)	(855,244)	(457,608)
Loss on convertible note revaluation (Note 13).....	-	(51,267)	(61,900)	(51,267)
Share based payments (Note 16).....	-	-	(1,081,161)	-
Listing expense.....	-	(61,250)	(1,461,901)	(61,250)
Royalty.....	(107,813)	(138,382)	(311,858)	(369,634)
Total other expense.....	(491,134)	(449,443)	(3,772,064)	(939,759)
Net loss and comprehensive loss.....	<u>\$ (1,285,338)</u>	<u>\$ (1,100,625)</u>	<u>\$ (6,288,062)</u>	<u>\$ (2,843,108)</u>
Basic and diluted loss per share.....	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.14)</u>	<u>\$ (0.07)</u>
Weighted average number of common shares outstanding.....	<u>49,767,777</u>	<u>33,727,747</u>	<u>44,978,562</u>	<u>40,217,080</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Lattice Biologics Ltd.
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Unaudited Condensed Interim Consolidated Statements of Changes in Equity (Deficit)
(Expressed in US dollars)

	Number of Shares	Share Capital	Accumulated Deficit	Total Equity (Deficit)
Balances at September 30, 2014.....	20,500	\$ 1,430,000	\$ (668,934)	\$ 761,066
Shares issued.....	2,775	100,000	-	100,000
Shares repurchased.....	(9,400)	(655,707)	(79,906)	(735,613)
Net loss for the period.....	-	-	(2,843,108)	(2,843,108)
Balances at June 30, 2015.....	13,875	874,293	(3,591,948)	(2,717,655)
Shares issued.....	824	39,552	-	39,552
Net loss for the period.....	-	-	(1,214,658)	(1,214,658)
Balances at September 30, 2015.....	14,699	913,845	(4,806,606)	(3,892,761)
Share consolidation.....	(1,987)	-	-	-
Shares issued.....	1,987	1,081,161	-	1,081,161
Reverse takeover adjustment.....	39,607,192	837,230	-	837,230
Shares and warrants issued.....	11,814,100	2,116,132	-	2,116,132
Net loss for the period.....	-	-	(6,288,062)	(6,288,062)
Balances at June 30, 2016.....	<u>51,435,991</u>	<u>\$ 4,948,368</u>	<u>\$ (11,094,668)</u>	<u>\$ (6,146,300)</u>

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Lattice Biologics Ltd.
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Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Expressed in US dollars)

	Nine Months Ended June 30,	
	2016	2015
Operating activities:		
Net loss	\$ (6,288,062)	\$ (2,843,108)
Non-cash adjustments to reconcile net loss to net cash flows from operations:		
Depreciation of property and equipment	61,377	44,490
Amortization of intangible assets	295,549	295,550
Bad debt expense	18,831	-
Finance lease interest	-	11,641
Debt interest	426,294	156,907
Loss on convertible note revaluation	61,900	51,267
Listing expense	837,230	-
Share-based payments	1,081,161	-
Changes in working capital:		
Accounts receivable	142,259	279,666
Prepaid expenses and other assets	(40,424)	17,865
Inventory	1,013,965	671,130
Accounts payable and accrued liabilities	919,650	(218,626)
Factoring advances	(60,876)	141,646
Cash used in operating activities	<u>(1,531,146)</u>	<u>(1,391,572)</u>
Investing activities:		
Purchase of property and equipment	<u>(20,327)</u>	<u>(41,426)</u>
Cash used in investing activities	<u>(20,327)</u>	<u>(41,426)</u>
Financing activities:		
Issuance of common shares and warrants	1,749,626	-
Repayment of finance lease obligations	(56,062)	(91,439)
Proceeds from officer loans	175,000	150,000
Proceeds from convertible notes payable	-	1,050,000
Proceeds from notes payable	250,000	245,000
Royalty funding	-	999,975
Repayment of notes payable	(302,500)	(875,000)
Repayment of officer loans	-	(296,474)
Shares repurchased	<u>-</u>	<u>(435,613)</u>
Cash provided by financing activities	<u>1,816,064</u>	<u>746,449</u>
Increase (decrease) in cash and cash equivalents	264,591	(686,549)
Cash and cash equivalents, beginning of period	50,293	911,745
Cash and cash equivalents, end of period	<u>\$ 314,884</u>	<u>\$ 225,196</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Notes to Financial Statements
(Expressed in US dollars)

1. NATURE OF BUSINESS AND GOING CONCERN

Lattice Biologics Ltd. (the “Company”) develops, manufactures and markets biologic products to domestic and international markets. The products are used in a variety of applications including enhancing fusion in spine surgery, enhancing breast reconstruction post mastectomy for breast cancer patients, sports medicine applications including ACL repair, promotion of bone in foot and ankle surgery, promotion of skull healing following neurosurgery and subchondral bone defect repair in knee and other joint surgeries.

On August 3, 2015 (as amended September 3, 2015), Lattice Biologics, Inc. entered into a letter of intent to engage in an acquisition that would have Blackstone Ventures Inc. (“Blackstone”), an arm’s-length Public Corporation, registered in British Columbia, Canada, acquire all of the issued and outstanding securities of the Company (the “Qualifying Transaction”). The acquisition was completed on December 23, 2015 and Blackstone was renamed as Lattice Biologics Ltd. The Company’s common shares are listed under the symbol “LBL” on the TSX Venture Exchange (“TSX-V”). In accordance with IFRS 3, Business Combination, the substance of the transaction was a reverse takeover of a non-operating company. The transaction does not constitute a business combination as Blackstone did not meet the definition of a business under the standard. As a result, the transaction was accounted for as an acquisition of a stock exchange listing with Lattice Biologics Inc. being identified as the acquirer and the equity consideration measured at fair value. Following the Qualifying Transaction, Lattice Biologics, Inc. became a wholly owned subsidiary of the Company. Lattice Biologics Inc. was incorporated on July 18, 2013; however, the entity did not commence operations until September 21, 2013. On September 20, 2013, Lattice Biologics, Inc. acquired certain assets and liabilities of International Biologics, LLC (the “Acquired Company”), a non-related, privately held corporation.

The Company’s consolidated financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company incurred a net loss of \$1.3 million for the quarter ended June 30, 2016 and has incurred losses for the past several fiscal quarters, has an accumulated deficit of \$11.1 million at June 30, 2016 (September 30, 2015 - \$4.8 million), and has a working capital deficiency of \$3.9 million at June 30, 2016 (September 30, 2015 - \$1.4 million). These conditions cast significant doubt to the Company's ability to continue as a going concern. In order to meet its obligations and realize its investment in its assets, the Company is dependent on the continued support from investors and related parties. The Company may not be able to achieve or maintain profitability and may continue to incur losses in the future. In addition, it is expected that the Company will continue to increase operating expenses as it implements initiatives to continue to grow its business.

The Company plans to continue to make investments to support the growth of the business and is expected to require additional funds to respond to business challenges, including the need to develop new services or enhance existing services, enhance operating infrastructure and acquire complementary businesses and technologies. Accordingly, the Company is subject to liquidity risk. Management will be required to continue to raise capital to develop, market and promote the Company’s products and technology, and to maintain its ongoing operations.

The Company’s registered office is located at 16701 North 90th St, Suite 101 Scottsdale, Arizona 85260, United States of America. The Company’s secondary office is located at 1413-181 University Ave, Toronto, Ontario M5H 3M7, Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Statement of Compliance

These interim condensed financial statements are unaudited and have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). These interim financial statements do not include all the disclosures required by International Financial Reporting Standards (“IFRS”) for annual financial statements and accordingly should be read in conjunction with the Company’s audited financial statements for the year ended September 30, 2015 prepared in accordance with IFRS as issued by the IASB. The financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair value, as discussed in the accounting policies below. The accounting policies have been consistently applied throughout the period unless otherwise stated. These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 29, 2016.

Lattice Biologics Ltd.
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Unaudited Condensed Interim Consolidated Notes to Financial Statements - Continued
(Expressed in US dollars)

These statements consolidate the accounts of the Company and its wholly owned subsidiary, Lattice Biologics Inc. The accounting policies of the Company's subsidiaries are aligned with IFRS. Intercompany balances and transactions are eliminated upon consolidation. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below.

Functional and Presentation Currency

These consolidated financial statements are presented in United States dollars, which is also the Company's functional currency. Unless otherwise noted as being denominated in Canadian dollars ("CDN\$"), all amounts presented herein are stated in United States dollars.

Future Accounting Changes

The following pronouncements were issued by the IASB or the IFRIC. Those pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the summary below. The following have not yet been adopted and are being evaluated to determine the resultant impact on the Company.

Financial Instruments

IFRS 9 Financial Instruments was issued in final form in July 2014 by the IASB and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements.

The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

Leases

In January 2016, the IASB issued IFRS 16 Lease, which requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with earlier adoption permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16. The Company is currently assessing the impact of IFRS 16 on the Company's consolidated financial statements along with the planned timing of our adoption of IFRS 16.

Revenue from Contracts with Customers

In May 2014, IASB issued IFRS 15 Revenue from Contracts with Customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, 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.

Lattice Biologics Ltd.
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Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
(Expressed in US dollars)

Cash

Cash includes cash on hand, unrestricted cash, and balances with banks.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is recorded as follows:

- Freezers and freeze dryers: Straight line over eight and ten years respectively
- Sensor thermometers: Straight line over ten years
- Medical tools and equipment: Straight-line over eight and ten years respectively
- Leasehold improvements: Over the lease term
- Office equipment and card system: Straight line over five and fifteen years respectively

Repair and maintenance expenditures that extend the useful life of the asset are capitalized and minor repair and maintenance costs are expensed as incurred to the statement comprehensive loss. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains or losses on disposals are determined by comparing the proceeds received to the carrying amount, and are recognized within the statement comprehensive loss.

Leases

Leases are classified as finance leases when the lease arrangement transfers substantially all of the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at fair value or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance lease liability. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the balance of the liability. Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets that are owned by the Company. The corresponding finance lease liability is reduced by lease payments, net of imputed interest. All other leases are treated as operating leases with payments on such operating leases recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Business Combinations

Acquisitions are accounted for as business combinations using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition-related transaction costs are recognized in income and comprehensive income as incurred.

When the consideration transferred in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified.

Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Lattice Biologics Ltd.
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Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
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Goodwill

Goodwill represents the excess amount of consideration given over the fair value of the underlying assets in a business combination, and is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash generating units ("CGU") that are expected to benefit from the synergies of the acquisitions. If the recoverable amount of the CGU is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to other assets of the CGU. The Company operates under one CGU.

Intangible Assets

Intangible assets are measured at fair value on acquisition less accumulated amortization and accumulated impairment losses. Amortization is recorded as follows:

- Acquired intellectual property and operating licenses: Straight-line over seven years
- Customers lists: Straight-line over three years

The estimated useful life is reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite lives are subject to annual impairment tests.

Impairment of Non-Financial Assets

The Company reviews assets such as property and equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intangible assets with indefinite lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows, or the CGU level. The recoverable amount is the greater of an asset's fair value less the cost of disposal and value in use, (being the present value of the expected future cash flows of the relevant asset or CGU), as determined by management. Impairment losses are recognized immediately in the statement of comprehensive loss. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Provisions

Provisions are recognized when present (legal or constructive) obligations as a result of a past event will lead to a probable outflow of economic resources and amounts can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered remote, no liability has been recognized.

Earnings Per Share

Basic earnings (loss) per share is calculated by dividing net earnings (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing the applicable net earnings (loss) for the period by the sum of the weighted average number of shares outstanding during the period and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. For purposes of calculating earnings (loss) per share, the number of the Company's common shares outstanding have been retroactively adjusted to reflect the Qualifying Transaction to the earliest period presented.

Lattice Biologics Ltd.
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Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
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Inventory

Inventory consists of raw materials and finished goods. Inventory is valued at the lower of cost based on the specific identification cost and net realizable value. Net realizable value is the estimated selling price less applicable selling expenses and costs to complete. If the carrying value exceeds the net realizable value, a write-down is recognized. A reserve is taken on inventory for quantities not expected to be consumed. This reserve offsets the inventory balance. There were no reversals of inventory reserves for the periods presented.

Revenue Recognition

Revenue is recognized in the statement of comprehensive loss when goods are delivered and title has passed, at which time all the following conditions are satisfied:

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

Revenue represents the amounts receivable after the deduction of discounts, other sales taxes, allowances given, provisions for chargebacks, other price adjustments and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted in light of contractual and historical information.

Financial Instruments

The Company classifies all financial instruments as held-to-maturity, available-for-sale, fair value through profit or loss (“FVTPL”), loans and receivables or other liabilities. Financial assets held-to maturity, loans and receivables and financial liabilities other than those classified as FVTPL, are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss).

Financial liabilities are classified as either financial liabilities classified as FVTPL or other financial liabilities. Financial liabilities are classified as FVTPL when the liability is either classified as held-for-trading or it is designated as FVTPL. A financial liability may be designated at FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in net income (loss). Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial liabilities are included in the initial carrying amount of the liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
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All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

Cash is reported at level 1. Convertible notes and warrants have been classified as level 3. There have been no movements or reclassifications between the two levels during the past two reporting periods. The Company has classified its financial assets and liabilities as follows:

Financial Instrument	Classification
Cash.....	FVTPL
Accounts receivable.....	Loans and receivables
Accounts payable and accrued liabilities.....	Other liabilities
Investor loans.....	Other liabilities
Convertible notes.....	FVTPL
Notes payable.....	Other liabilities
Warrant liability.....	FVTPL
Royalty funding.....	Other liabilities
Factoring advances.....	Other liabilities
Finance lease obligations.....	Other liabilities

Accounting Estimates and Judgements

The preparation of financial statements in compliance with IFRS requires the Company's management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of the Company's assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the amortization of and measurement of impairment of property and equipment and other assets, and deferred income taxes. The judgments notably relate to the determination of the resultant purchase price allocation of the International Biologics, LLC acquisition, and assessment of going concern uncertainties. The most significant estimates and judgements are described below:

- Identifying and measuring intangible assets acquired in the business combination.* The Company is required under IFRS 3 to identify any acquired intangible assets arising from the purchase of International Biologics, LLC. Management recognizes these assets when they arise from contractual or other legal rights and can be separated from the acquired business and sold. The Company identified two intangible assets: customers list and acquired intellectual property and licenses. These two intangibles were valued with valuation techniques that relied on observable and unobservable inputs.
- Inventory costing technique.* The Company uses a specific identification approach to capture the costs of raw materials and overhead to bring the inventory to its present salable condition. This specific identification approach best reflects the physical inputs of raw materials, direct labor and direct overhead.
- Determination of Cash Generating Unit and review of impairment.* The Company has determined that it presently operates as one cash generating unit and has allocated goodwill to this single cash generating unit. The Company is required to test all indefinite life intangible assets at least annually.
- Accounting for Royalty Funding.* The Company's royalty funding agreement has been accounted for as a financial liability and measured at fair value at initial recognition. The Company made this determination after reviewing the substance of the agreement and determining that the cash received at the inception of the arrangement did not represent advance payments for

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
(Expressed in US dollars)

any future sales. The Company has valued the royalty agreement at fair value when it became party to the arrangement using the prevailing discount rate at the time.

- (v) *Accounting for Convertible Notes.* The Company's convertible notes agreements have been accounted for as a financial liability and measured at fair value at initial recognition. As the conversion option was impacted by the public offering pricing, it failed the fixed for fixed criteria. Management has also designated the entire instrument as FVTPL. Accordingly, the entire instrument has been recorded at fair value (see Note 13).

3. PROPERTY AND EQUIPMENT

Property and equipment cost is summarized as follows:

	January 1, 2015			September 30, 2015			June 30, 2016
		Additions	Disposals		Additions	Disposals	
Freezers and freeze dryers.....	\$ 124,077	\$ -	\$ -	\$ 124,077	\$ -	\$ -	\$ 124,077
Sensor thermometer.....	52,393	-	-	52,393	-	-	52,393
Medical tools and equipment...	176,365	41,426	-	217,791	88,711	-	306,502
Leasehold improvements.....	326,451	-	-	326,451	-	-	326,451
Office equipment.....	29,129	-	-	29,129	-	-	29,129
Total cost.....	<u>\$ 708,415</u>	<u>\$ 41,426</u>	<u>\$ -</u>	<u>\$ 749,841</u>	<u>\$ 88,711</u>	<u>\$ -</u>	<u>\$ 838,552</u>

Property and equipment accumulated depreciation is summarized as follows:

	January 1, 2015			September 30, 2015			June 30, 2016
		Additions	Disposals		Additions	Disposals	
Freezers and freeze dryers.....	\$ 10,094	\$ 16,085	-	\$ 26,179	\$ 16,086	\$ -	\$ 42,265
Sensor thermometer.....	7,080	4,248	-	11,328	4,248	-	15,576
Medical tools and equipment...	14,427	18,581	-	33,008	21,626	-	54,634
Leasehold improvements.....	11,499	16,323	-	27,822	16,323	-	44,145
Office equipment.....	2,734	3,094	-	5,828	3,094	-	8,922
Total accumulated depreciation	<u>\$ 45,834</u>	<u>\$ 58,331</u>	<u>\$ -</u>	<u>\$ 104,165</u>	<u>\$ 61,377</u>	<u>\$ -</u>	<u>\$ 165,542</u>

Property and equipment net book value is summarized as follows:

	June 30, 2016	September 30, 2015
Freezers and freeze dryers.....	\$ 81,812	\$ 97,898
Sensor thermometer.....	36,817	41,065
Medical tools and equipment.....	251,868	184,783
Leasehold improvements.....	282,306	298,629
Office equipment.....	20,207	23,301
Total.....	<u>\$ 673,010</u>	<u>\$ 645,676</u>

Carrying amounts for property under finance leases as at June 30, 2016 were \$215,330 (September 30, 2015 - \$165,932). See Note 9 for further details.

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
(Expressed in US dollars)

4. INTANGIBLE ASSETS AND GOODWILL

Amortizable intangible asset cost is summarized as follows:

	January 1, 2015	Additions	September 30, 2015	Additions	June 30, 2016
Customer list.....	\$ 766,210	\$ -	\$ 766,210	\$ -	\$ 766,210
Intellectual property and licenses.....	970,637	-	970,637	-	970,637
Total cost.....	<u>\$ 1,736,847</u>	<u>\$ -</u>	<u>\$ 1,736,847</u>	<u>\$ -</u>	<u>\$ 1,736,847</u>

Amortizable intangible accumulated amortization is summarized as follows:

	January 1, 2015	Amortization	September 30, 2015	Amortization	June 30, 2016
Customer list.....	\$ 319,254	191,552	\$ 510,806	\$ 191,552	\$ 702,358
Intellectual property and licenses.....	173,328	103,997	277,325	103,997	381,322
Total accumulated depreciation	<u>\$ 492,582</u>	<u>\$ 295,549</u>	<u>\$ 788,131</u>	<u>\$ 295,549</u>	<u>\$ 1,083,680</u>

Amortizable intangible carrying balances are summarized as follows:

	June 30, 2016	September 30, 2015
Customer list.....	\$ 63,852	\$ 255,404
Intellectual property and licenses.....	589,315	693,312
Total.....	<u>\$ 653,167</u>	<u>\$ 948,716</u>

The Company operates in one CGU. The Company performed impairment testing on its CGU to determine whether any impairment was required on its goodwill using a fair value less costs to sell approach. The fair value of the Company was determined using the pricing of the concurrent financing that is associated with the Company's Qualifying Transaction (see Note 1).

5. INVENTORY

Inventory consists of the following:

	June 30, 2016	September 30, 2015
Unprocessed goods.....	\$ 394,709	\$ 1,614,864
Finished goods.....	1,546,968	1,340,778
Total inventory.....	<u>\$ 1,941,677</u>	<u>\$ 2,955,642</u>

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
(Expressed in US dollars)

6. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	June 30, 2016	September 30, 2015
Accounts receivable.....	\$ 606,986	\$ 779,312
Less: Allowance for doubtful accounts.....	(5,382)	(16,618)
Trade and other receivables, net.....	<u>\$ 601,604</u>	<u>\$ 762,694</u>

A portion of the accounts receivable balance is factored (see Note 10).

7. LONG TERM INVESTMENT

Among the assets acquired from International Biologics LLC, the Company acquired an 8% investment in VG Innovations (“VGI”), a third-party, privately-held Corporation. This investment was recorded at cost with a nominal value. On August 12, 2015, the Company reached an agreement with VGI and sold its 8% investment in VGI in exchange for the purchase of \$500,000 worth of bio implants product from the Company. These purchases were to take place within 12 months from August 12, 2015 (“the purchase period”), and were subject to the same technical specifications and same prices as the Company’s manufacturer prices from August 12, 2015. Minimal purchases were provided for through June 2016, at which time this purchase agreement was terminated by both parties pursuant to the terms of the agreement.

8. ACCOUNTS PAYABLE

Accounts payable consists of the following:

	June 30, 2016	September 30, 2015
Accounts payable.....	\$ 2,543,672	\$ 2,408,452
Accrued liabilities.....	1,009,292	240,962
Prepaid donor credits.....	-	(16,100)
Accounts payable and accrued liabilities.....	<u>\$ 3,552,964</u>	<u>\$ 2,633,314</u>

9. FINANCE LEASE OBLIGATION

During the period ended December 31, 2013, the Company acquired a finance lease for a sensor thermometer. The gross amount of the minimum lease payments related to the asset under finance lease was \$74,239. The lease bears interest at 19.12%. The term of the lease is for 37 monthly payments and expired in March 2016.

During the period ended December 31, 2013, the Company acquired a finance lease for medical equipment. The gross amount of the minimum lease payments related to the assets under finance lease was \$23,016. The lease bears interest at 25.88%. The term of the lease is for 37 monthly payments and expired in May 2016.

During the period ended December 31, 2013, the Company acquired a finance lease for freezers and medical equipment. The gross amount of the minimum lease payments related to the assets under finance lease was \$53,408. The lease bears interest at 22.07%. The term of the lease is for 49 monthly payments, expiring in May 2017.

During the period ended December 31, 2013, the Company acquired a finance lease for freezers and office equipment. The gross amount of the minimum lease payments related to the asset under finance lease was \$18,847. The lease bears interest at 24.21%. The term of the lease is for 37 monthly payments and expired in June 2016.

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
(Expressed in US dollars)

During the period ended December 31, 2013, the Company acquired a finance lease for freezers and medical equipment. The gross amount of the minimum lease payments related to the assets under finance lease was \$26,845. The lease bears interest at 24.55%. The term of the lease is for 36 monthly payments, expiring in October 2016.

During the period ended December 31, 2013, the Company acquired a finance lease for a freeze dryer and medical equipment. The gross amount of the minimum lease payments related to the assets under finance lease was \$97,411. The lease bears interest at 15.47%. The term of the lease is for 36 monthly payments, expiring in December 2016.

During the three months ended June 30, 2016, the Company acquired a finance lease for medical equipment. The gross amount of the minimum lease payments related to the assets under finance lease was \$89,664. The lease bears interest at 16.24%. The term of the lease is for 48 monthly payments, expiring in April 2020.

10. FACTORING ADVANCES

On April 17, 2015, the Company entered into a factoring arrangement of up to \$1.0 million (up to 85% of the face value of the accounts receivable assigned to be factored). The Company must offer a minimum of \$250,000 in accounts receivable to be factored on a monthly basis. Under the terms of the factoring agreement, the Company may be requested to repay any amounts owing plus applicable interest. The fees charged under this agreement are (i) an administrative fee of 0.25% on the face value of each account submitted; (ii) a discount fee of 0.25% for each fifteen-day period after the initial thirty-day period; (iii) a funding fee of 3.50% above the prime rate for each account purchased for which the Company has received an advance, which funding fee shall be calculated on net funds employed and shall in no event be less than 6.75%. The credit facility is secured by the Company's accounts receivable. As part of covenants of the agreement, the Company must maintain a tangible net worth of more than negative \$3,500,000. At June 30, 2016, the Company was in violation of this covenant. This arrangement is being recorded as a financing from the factoring company and factoring costs are being charged to operations as incurred. At June 30, 2016, the amounts advanced under this facility totaled \$207,738 (September 30, 2015 – \$268,614).

11. OFFICER LOANS

During the period ended December 31, 2013, an Officer of the Company loaned the Company \$75,000. In the year ended December 31, 2014, the same Officer loaned an additional \$825,000 bringing the total loan value to \$900,000. This loan bears interest at 20% per annum and has a maturity date of August 1, 2017. This loan is secured by all assets of the Company. The loan's carrying value at June 30, 2016, is \$942,566 (September 30, 2015 - \$874,243), with an additional \$63,361 of unpaid accrued interest included in accounts payable and accrued liabilities at June 30, 2016.

During the nine month period ended September 30, 2015, another Officer of the Company loaned the Company \$150,000. In the quarter ending December 31, 2015, the same Officer loaned an additional \$175,000 bringing the total loan value to \$325,000. This loan also bears interest at 20% per annum and has a maturity date of August 1, 2017. This loan is secured by all assets of the Company. The loan's carrying value at June 30, 2016 is \$360,356 (September 30, 2015 - \$157,976), with an additional \$24,224 of unpaid accrued interest included in accounts payable and accrued liabilities at June 30, 2016.

During August 2016, the Company and the holders of the officer loans described above agreed to convert the principal and interest due at June 30, 2016 into shares of the Company's common stock (see Note 21).

12. NOTES PAYABLE

As at September 20, 2013, the Company acquired a loan from an Officer of the Acquired Company. This note had an unsecured value of \$2,200,000, is non-interest bearing, and was valued using a discount rate of 8%. This loan originally had a maturity date of August 31, 2015; however, it was restructured on May 6, 2015 to extend the maturity date to February 2017. The restructured note remained non-interest bearing; however, the payment terms were restructured resulting in 22 monthly instalments of \$50,000, which commenced on May 15, 2015. At the conclusion of the 22nd payment, the entire amount due and owing under the note shall be deemed paid in full. This loan is secured by the Company's inventory, equipment and accounts receivable. This note is currently in default as the Company has not remitted the monthly payment since December 2015 due to the working capital deficiency. The note's carrying value at June 30, 2016 is \$740,228 (September 30, 2015- \$791,985).

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
(Expressed in US dollars)

On July 17, 2014, a non-related, third party vendor, LifeShare Transplant Donor Services, converted their outstanding vendor balance of \$615,819 into a promissory note with a maturity date of December 26, 2014, which bears security over all assets held by the Company. The Company was not able to repay the loan by December 26, 2014 but was able to restructure the note on May 8, 2015. The amended note bears interest at 1.5% compounded monthly, and featured two balloon payments (\$250,000 in May 2015, and the residual balance on maturity in August 2015). As part of this restructure, Lifeshare still bears security over all assets except the Company's accounts receivable, which was released after the Company met the initial \$250,000 payment in May 2015. The Company was able to meet the payment of \$250,000 in May 2015 but was not able to make the August 2015 payment. The Company restructured the note once again on December 29, 2015 resulting in \$50,000 due on or before December 31, 2015, and the remaining principal plus accrued interest split between two payments made on March 31, 2016 and June 30, 2016. This note is currently in default as the Company was not able to make the payment due on March 31, 2016 or June 30, 2016 due to the working capital deficiency. The note's carrying value at June 30, 2016 is \$273,056 (September 30, 2015- \$304,411).

On June 26, 2015, the Company secured a note from Redwood Fund, LP, a non-related Company, in the amount of \$287,356 with an original issue discount of 13% (a resultant amount of \$250,000). This note bears interest at 24% and security over all assets held by the Company. In accordance with the terms of the note, the Company is currently making monthly payments of 1/5 of the interest incurred. This loan was previously due during June 2016, but has been amended during June 2016 and now requires payment in full during September 30, 2016 of all outstanding principal and interest balances. The note's carrying value at June 30, 2016 is \$246,918 (September 30, 2015- \$254,741). The Company has made payments totaling \$180,000 from July 1, 2016 to August 29, 2016 and is required to make additional payments totaling \$120,000 during September 2016.

On July 31, 2015, the Company secured a note from Grenville Royalty Corp ("Grenville", a non-related Company) in the amount of \$700,000, which bears interest of 12.50%; however, no payments of principal or interest were due until July 31, 2016. This note is secured by all assets of the Company pursuant to a General Security Agreement dated July 31, 2015 between the Company and Grenville. As a covenant associated with the loan, the Company granted 500,000 warrants at an exercise price of \$0.60 on December 23, 2015, exercisable for a period of 12 months following the date of completion of the Qualifying Transaction. At any time on or after July 31, 2016, the outstanding debt may be converted into additional royalty interests (see Note 15). The note's carrying value as at June 30, 2016 is \$779,445 (September 30, 2015- \$669,762). No payments were made on this note from July 1, 2016 to August 29, 2016 and the Company obtained a waiver for its default related to its failure to make required payments under this note payable when due. Management is currently in discussions with Grenville regarding the timing of payments due under this note payable.

During February and April 2016, Grenville loaned the Company an additional \$150,000 and \$100,000, respectively. These loans bear interest at 10.50% per annum and have maturity dates of February 5, 2017 and April 6, 2017, respectively. No principal or interest amounts are due until the maturity dates of these loans. The loans may be prepaid by the Company in whole, or in part, without notice, penalty or bonus. The carrying value of these notes totaled \$259,345 at June 30, 2016.

13. CONVERTIBLE NOTES

On January 9, 2015, the Company issued convertible notes to four separate investors totaling \$1,050,000. These notes bear interest at 24% and are due February 1, 2018. The holders of the convertible notes may elect to convert the notes into common shares of the Company. Monthly payments equal to the amount of all accrued interest on the then outstanding principal balance are due and payable in arrears on the first day of each month (for the immediate preceding month) beginning March 1, 2015. These convertible notes have a maturity date of February 1, 2018; however the notes can be called immediately upon the closing of an underwritten public offering of the Company's common stock. In the event of a public offering before the maturity date, the aggregate note amount is convertible at the holder's option into a number of shares of common stock equal to the quotient of the Aggregate note amount divided by the price per share of the common stock offered to the public, and then 70% of the public offered price. Upon such conversion, no amounts are due the holder of the note, including, but not limited to, any accrued interest under the note.

On December 23, 2015, concurrent with the Qualifying Transaction, one of the note holders (with a principal balance of \$500,000) converted their respective note into shares of the Company (see Note 16). On December 23, 2015, the remaining note holders (in the aggregate amount of \$550,000) relinquished their conversion rights to their notes, effectively rendering the amounts due as promissory notes. Upon both the conversion and the relinquishment of conversion rights taking place, a loss of \$61,900 was realized as a fair value adjustment to the carrying value of the notes. At June 30, 2016, these notes were being carried at the face value of \$550,000, and are reflected as long-term notes payable.

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
(Expressed in US dollars)

14. Warrant Liability

The Company's outstanding warrants have been classified as liabilities in the accompanying Unaudited Condensed Interim Consolidated Statement of Financial Position as the Company's functional currency is the United States dollar while the strike price of the warrants is denominated in Canadian dollars. Changes in the fair value of these warrants are recognized as income or loss within the Unaudited Condensed Interim Consolidated Statement of Comprehensive Loss. Warrants to acquire voting common shares at June 30, 2016 were as follows:

Date Issued	Exercise Price (CDN\$)	Date of Expiry	Outstanding and Exercisable
December 23, 2015	\$ 0.60	December 23, 2016	2,616,999
December 23, 2015	0.60	December 23, 2017	182,530
December 23, 2015	0.60	December 22, 2016	500,000
March 31, 2016	0.30	March 31, 2019	663,129
June 29, 2016	0.20	June 29, 2019	843,377
			<u>4,806,035</u>

The fair value of these warrants of \$133,494 was estimated using the Black Scholes model with the following significant assumptions:

Risk-free interest rate (%).....	0.54%
Expected dividend yield (%).....	0.00%
Expected stock price volatility (%).....	61%
Weighted average warrant life in years.....	1.7
Weighted average exercise price (CDN\$).....	\$0.49
Weighted average grant date fair value (CDN\$).....	\$0.02

Expected volatility was estimated by reference to comparable listed entities including those of which the Company's share price was based on. No changes in the fair value of these warrants have been recognized to June 30, 2016.

15. ROYALTY FUNDING

During the year ended December 31, 2014, the Company secured an advance of \$2,000,000 from Grenville, in exchange for a gross sales royalty payable. On this advance, each monthly royalty payment will be equal to \$41,667 (a "Minimum Monthly Payment") payable up to December 31, 2015. Effective January 1, 2016, the royalty rate will be determined based on the greater of the Minimum monthly payment, and a sliding scale between 2.74% and 6% of revenue. If revenue for the 2015 calendar year is more than \$15,000,000, the royalty rate will be 2.74%; if 2015 revenues are less than \$8,000,000 the royalty rate will be 6%; and if revenue is between \$8,000,000 and \$15,000,000 the royalty rate is calculated on a proportional basis.

On May 8, 2015, Grenville elected to purchase an additional royalty from the Company. The aggregate funds advanced increased from \$2,000,000 to \$3,000,000. The minimum monthly payment increased to \$62,500.

On August 1, 2015, Grenville adjusted the Minimum Monthly Payment ("Secondary Minimum Monthly Payment") from \$62,500 to \$31,250, which will be applicable up to December 31, 2015. Effective January 1, 2016 to July 31, 2016, the Company will pay a monthly royalty payment which shall be the greater of the Secondary Minimum Monthly Amount of \$31,250 and a sliding scale between 1.37% and 3% of monthly revenue. After July 31, 2016, the applicable royalty rate will be determined based on the greater of the Minimum Monthly Payment and a sliding scale between 2.74% and 6% of revenue. If revenues for the 2015 calendar year are more than \$15,000,000 the royalty rate will be 2.74%; if 2015 revenues are less than \$8,000,000, the royalty rate will be 6%; and if revenues are between \$8,000,000 and \$15,000,000 the royalty rate will be calculated on a proportional basis. The Company is currently in discussions with Grenville regarding the timing and amounts due under this agreement.

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
(Expressed in US dollars)

The Company has the right to buy down 50% (and no more or less) for the aggregate installment amount advanced to the Company multiplied by 50%, once Grenville has received aggregate royalty payments of \$6,000,000. If the buy-down option is exercised and completed, the aggregate installment amount and Minimum Monthly Payment will thereafter be reduced by 50%. The Company also has the right to buyout the royalty in the event a change of control of the Company or a sale of substantially all of the assets of the Company. The buyout amount would equal the greater of (i) 2x the Aggregate installment amount or (ii) a formula determined by the Aggregate Installment Amount divided by \$20,000,000 multiplied by 0.8 multiplied by the net equity value of the Company (or the purchase price in the case of an asset sale), as determined by the royalty agreement.

The royalty funding has been reflected as perpetual debt for accounting purposes. Until such time as the Company buys out all or a portion of the royalty, the principal will continue to be reflected in the original funded amount, less any transaction costs which will be amortized on an effective yield basis. A portion of this principal amount will be shown as current, reflecting the minimum payments due within the next fiscal year (see Note 18).

16. SHARE CAPITAL

Authorized and Issued Share Capital

The Company is authorized to issue an unlimited amount of voting common shares without par value. Activity for the Company's share capital for the nine months ended June 30, 2016 is summarized as follows:

	Shares	Amount
Balances, October 1, 2015.....	14,699	\$ 913,845
Share consolidation (i).....	(1,987)	-
Share issuance (i).....	1,987	1,081,161
Reverse takeover adjustment (ii).....	39,607,192	837,230
Shares issued through private placement (iii).....	5,234,000	1,083,856
Shares issued to convertible noteholder (iv).....	3,174,603	500,000
Shares issued to Sponsor (v).....	392,489	84,448
Shares issued through private placement (vi).....	1,326,258	243,992
Shares issued through private placement (vii).....	1,686,750	203,836
Balances, June 30, 2016.....	<u>51,435,991</u>	<u>\$ 4,948,368</u>

- (i) On October 1, 2015, Lattice performed a share consolidation in which it reduced its share capital by 1,987 shares on a pro-rata basis from its existing shareholders. On the same day, the Company issued 1,987 shares to certain employees and a Director of the Company. These shares were issued prior to the Qualifying Transaction and translated into 4,830,060 shares of the Company, post consolidation, on December 23, 2015. These shares were valued at CDN\$0.30 post consolidation.
- (ii) On December 23, 2015, upon the completion of the Qualifying Transaction, the former shareholders of Lattice Biologics, Inc. received 35,730,750 shares and the former shareholders of Blackstone retained 3,891,141 shares. All shares issued to these shareholders were valued at CDN\$0.30 per share post the completion of the Qualifying Transaction.
- (iii) On December 23, 2015, concurrent with the Qualifying Transaction, the Company closed a private placement, whereby the Company issued 5,234,000 common shares at a price of CDN\$0.30 per share for proceeds of \$1,126,163. In conjunction with the offering, the Company issued 2,616,999 warrants with an exercise price of CDN\$0.60 per share, expiring 12 months from the date of issuance. The warrants were valued at \$26,894. The Company also issued 182,530 finders' warrants, with an exercise price of \$0.60 CDN expiring two years following the date of issuance. The finders' warrants were valued at \$5,135. The fair value of warrants and broker warrants, have been applied against the proceeds of the issuance of the securities.
- (iv) On December 23, 2015, concurrent with the Qualifying Transaction and described further in Note 13, one of the convertible note holders of the Company enacted their conversion rights to convert the face value of the note of \$500,000. The note converted into 3,174,603 shares, which were valued at CDN\$0.21 per share post the completion of the Qualifying Transaction.

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
(Expressed in US dollars)

- (v) On December 23, 2015, concurrent with the Qualifying Transaction, the Company issued 392,489 shares to a service provider for acting as the Sponsor for the Transaction. The shares were valued at CDN\$0.30 per share post the completion of the Qualifying Transaction.
- (vi) On March 31, 2016, the Company closed a private placement, whereby the Company issued 1,326,258 units at a price of CDN\$0.30 per unit, with each unit consisting of one common share and ½ warrant, for aggregate gross proceeds of \$299,154. The 663,129 warrants issued under this offering have an exercise price CDN\$0.30 per share and expire 36 months from the date of issuance. The common shares and warrants were allocated \$243,992 and \$55,162 of the proceeds, respectively.
- (vii) On June 29, 2016, the Company closed a private placement, whereby the Company issued 1,686,750 units at a price of CDN\$0.20 per unit, with each unit consisting of one common share and ½ warrant, for aggregate gross proceeds of \$260,000. The 843,377 warrants issued under this offering have an exercise price CDN\$0.20 per share and expire 36 months from the date of issuance. The common shares and warrants were allocated \$218,836 and \$41,164 of the proceeds, respectively.

Share Purchase Options

Under the common share option plan (“Share Option Plan”), the Company may grant options to acquire up to 10% of the issued and outstanding common shares of the Company to directors, officers, employees, partners and service providers of the Company. The related vesting period over which share-based compensation expense is determined by the Company at the time of grant. Each share option awarded under the Share Option Plan is equity-settled and the share-based compensation expense is based on the fair value estimate on the business day prior to the grant date.

There were no share purchase options outstanding as at June 30, 2016.

17. INCOME TAXES

Information on statutory tax rates and deferred taxes is outlined in the Company’s September 30, 2015 audited financial statements.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The carrying amount of cash, accounts receivables, accounts payable and accrued liabilities, due to related parties and other payables approximate their fair values due to the short-term maturities of these instruments. The long-term portions of finance lease obligation, officer loans, notes payable, and royalty funding have been discounted at a rate that approximates current market rates and therefore, approximates fair values.

Financial Risk Management

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), fair value risk, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

Market Risk

Currency risk: The Company’s revenues, expenses and financing are primarily denominated in US dollars. There is minimal exposure to currency risk.

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
(Expressed in US dollars)

Interest rate risk: Interest rate risk is the risk that the future cash flows or the fair value of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Company's debt is at fixed rates and due in the short term. Accordingly, there is limited exposure to cash flow or price interest rate risk.

Credit Risk

In the three and nine month periods ended June 30, 2016, the Company has two customers that accounted for more than 10% of sales (period ended September 30, 2015 – two customers). The Company mitigates this risk by evaluating the outstanding balances on a regular basis and abiding by the credit limit that is dictated by the customer's credit rating. At June 30, 2016, the Company has \$178,893 (September 30, 2015 - \$271,023) of receivables past due.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

At June 30, 2016, the Company has current liabilities of \$6.8 million (September 30, 2015 - \$5.2 million) due within 12 months and has cash of \$0.3 million (September 30, 2015 – less than \$0.1 million) to meet its current obligations. At June 30, 2016, the Company has a working capital deficiency of \$3.9 million (September 30, 2015 - \$1.4 million) and accordingly, the Company is subject to liquidity risk. Management plans to continue to raise capital to develop, market and promote its products and technology to maintain its ongoing operations.

Capital Management

The Company's objective is to develop a strong capital base to sustain future development and growth of the business. The Company manages its capital by maintaining a flexible capital structure which optimizes the cost of capital at an acceptable level of risk and makes adjustments on it in the light of changes in economic conditions and the risk characteristics of its underlying assets. The Company's capital base is currently represented by shareholders' equity, officer loans, notes payable, and royalty funding. Management reviews the Company's business plans as part of its strategic initiatives in conjunction with its financial forecast. There has been no change in the capital management policies of the Company during the current fiscal year.

The Company regularly monitors and reviews the amount of capital in proportion to risk and future development. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company has no additional externally imposed capital requirements other than as disclosed in Note 10.

The Company's debt and royalty funding obligations are due as follows for the years ending June 30:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Thereafter</u>
Notes payable.....	\$ 2,298,992	\$ 550,000	\$ -	\$ -	\$ -	\$ -
Officer loans.....	-	1,302,922	-	-	-	-
Accounts payable and accrued liabilities.....	3,552,964	-	-	-	-	-
Factoring advances.....	207,738	-	-	-	-	-
Finance leases.....	40,651	16,353	18,219	15,729	-	-
Royalty (i).....	718,750	750,000	750,000	750,000	750,000	750,000/annum

(i) Based on minimum royalty (see Note 15)

Lattice Biologics Ltd.
(formerly Blackstone Ventures Inc.)
Unaudited Condensed Interim Consolidated Notes to Financial Statements – Continued
(Expressed in US dollars)

19. COMMITMENTS AND CONTINGENCIES

Commitments

The Company is committed to leases of its premises and equipment. Minimum lease payments for the remainder of fiscal 2016 and successive fiscal years are as follows:

	Remainder of 2016	2017	2018	2019	2020	Thereafter	Total
Equipment.....	\$ 5,709	\$ 22,836	\$ 22,836	\$ 3,806	\$ -	\$ -	\$ 55,187
Premises.....	66,900	270,439	276,765	264,171	266,914	470,625	1,615,814
Consulting fees.....	45,000	-	-	-	-	-	45,000

Contingencies

On September 17, 2015, DCI Donor Services, Inc. (“DCIDS”) filed a complaint against the Company in the Superior Court of the State of Arizona in and for the county of Maricopa. DCIDS alleges that the Company owes DCIDS \$187,800 for services previously provided by DCIDS in connection with the procurement of tissue. The Company and DCIDS settled this matter in the third quarter of fiscal 2016, and in accordance with this settlement the Company paid DCIDS \$88,000 in July 2016 and is required to make an additional payment of \$89,000 on August 31, 2016 in full satisfaction of this matter. These amounts were accrued at June 30, 2016 in accounts payable and accrued liabilities on the accompanying Unaudited Condensed Interim Consolidated Statement of Financial Position.

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, vendors and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

20. RELATED PARTY TRANSACTIONS

For the nine months ended June 30, 2016, two of the Company’s officers elected to defer payment of their salaries totaling \$300,000. At June 30, 2016, these officers are due a total of \$360,000 for deferred salaries, inclusive of amounts that were deferred from the prior period ended September 30, 2015, which is included in accounts payable and accrued liabilities on the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position. The Company also has notes payable due these two officers, which are described in Note 11.

21. SUBSEQUENT EVENTS

During August 2016, the Company closed a private placement, whereby the Company issued 1,602,725 units at a price of CDN\$0.20 per unit, with each unit consisting of one common share and ½ warrant, for aggregate gross proceeds of \$243,501. The 801,363 warrants issued under this offering have an exercise price CDN\$0.20 per share and expire 36 months from the date of issuance.

During August 2016, the Company finalized agreements to convert the principal and accrued interest on the officer loans described in Note 11 totaling \$1,390,507 to common shares at a conversion price of CDN\$0.21 per share.