KALYTERA THERAPEUTICS, INC.
(formerly Santa Maria Petroleum Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016 and 2015

(U.S. dollars in thousands)

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Independent Auditors' Report

To the Shareholders of

KALYTERA THERAPEUTICS, INC.

We have audited the accompanying consolidated financial statements of Kalytera Therapeutics, Inc. (the Company), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kalytera Therapeutics, Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1a. in the consolidated financial statements which indicates that the Company has incurred losses from operations since its inception, and as of December 31, 2016, the Company has an accumulated deficit of approximately US $12.9 million. These conditions, along with other matters as set forth in Note 1a. indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Tel-Aviv, Israel
May 1, 2017

"Kost Forer Gabbay & Kasierer"
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	Note	December 31, 2016	December 31, 2015
ASSETS			
Current assets:			
Cash and cash equivalents		673	622
Other receivables and prepaid expenses	5	4,141	-
		4,814	622
Non-current assets		-	19
Total assets		4,814	641
LIABILITIES AND EQUITY			
Current Liabilities:			
Accounts payable		1,351	35
Other payables and accrued expenses		546	-
Liability related to warrants	6	-	165
Total current liabilities		1,897	200
EQUITY	5		
Share capital		-	-
Contributed surplus		15,994	1,964
Accumulated deficit		(13,077)	(1,523)
Total equity		2,917	441
Total liabilities and equity		4,814	641

The accompanying notes are an integral part of the consolidated financial statements.

May 1, 2017	*"David Stefansky"*	*"Robert Farrell"*
Date of approval of the financial statements	David Stefansky Director	Robert Farrell Director and CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

U.S. dollars in thousands, except per share data

	Note	Year ended December 31, 2016	2015
Operating expenses:			
Research and development expenses		1,622	629
General and administrative expenses		3,451	775
Expenses in connection with reverse merger	5	6,923	-
Total operating expenses:		(11,996)	(1,404)
Operating loss		(11,996)	(1,404)
Finance expense, net		(187)	-
Revaluation of warrants (income)	6	629	-
Loss before income taxes		(11,554)	(1,404)
Income taxes	8	-	-
Net loss and comprehensive loss		(11,554)	(1,404)
Basic and diluted loss per share (in US dollars)		(0.39)	(0.07)
Weighted average number of Common shares outstanding		29,407,922	21,043,842

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Number of Common Shares	Contributed surplus	Accumulated deficit	Total Equity
Balance as of January 1, 2015	15,438,171	$ 175	$ (119)	$ 56
Issuance of Common shares in January 2015	771,909	25	-	25
Issuance of Common shares in March and April 2015	2,436,336	505	-	505
Issuance of Common shares in June 2015	4,940,215	400	-	400
Issuance of Common shares for services in November 2015	622,310	142	-	142
Issuance of Common shares in December 2015, net of issuance costs of $53	2,377,478	551	-	551
Share-based compensation	-	166	-	166
Net loss and comprehensive loss	-	-	(1,404)	(1,404)
Balance as of December 31, 2015	26,586,419	$ 1,964	$ (1,523)	$ 441

	Number of Common Shares	Contributed surplus	Accumulated deficit	Total Equity
Balance as of January 1, 2016	26,586,419	$ 1,964	$ (1,523)	$ 441
Issuance of Common shares in January and February 2016	710,156	156	-	156
Issuance of Common shares in July-September 2016, net of issuance costs of $172	4,666,465	1,151	-	1,151
Issuance of Common shares for services in October 2016	73,975	24	-	24
Issuance of Common shares for services in December 2016	535,802	175	-	175
Issuance of Common shares for warrants surrendered in reverse merger	7,993,576	2,007		2,007
Issuance of Common shares to SMP shareholders in reverse merger	18,095,162	5,485	-	5,485
Issuance of Common shares in December 2016, net of issuance costs of $1,519	20,833,333	4,805	-	4,805
Buyback of Common stock in reverse merger	(946,876)	(307)	-	(307)
Share-based compensation to advisor	-	86	-	86
Share-based compensation	-	448	-	448
Net loss and comprehensive loss	-	-	(11,554)	(11,554)
Balance as of December 31, 2016	78,548,012	$ 15,994	$ (13,077)	$ 2,917

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2016	Year ended December 31, 2015
Cash flows from operating activities:		
Net loss	(11,554)	(1,404)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	448	166
Shares issued for services	285	142
Amortization and write-off of non-current asset	19	1
Increase in other receivables and prepaid expenses	(22)	-
Increase (decrease) in trade payables	1,316	(36)
Increase in other payables and accrued expenses	320	-
Adjustment for non-cash costs in connection with merger	6,923	-
Liability related to warrants	629	(1)
Net cash used in operating activities	(1,636)	(1,132)
Cash flows from investing activities:		
Purchase of non-current asset	-	(20)
Net cash used in investing activities	-	(20)
Cash flows from financing activities:		
Net proceeds from issuance of Common shares and warrants, net of buybacks	1,687	1647
Net cash provided by financing activities	1,687	1,647
Increase in cash and cash equivalents	$ 51	$ 495
Cash and cash equivalents at the beginning of the year	$ 622	$ 127
Cash and cash equivalents at the end of the year	$ 673	$ 622
Non-cash transactions:		
Receivable for Common shares issued	$ 4,119	$ -
Issuance of common shares for warrants surrendered in reverse merger	$ 2,007	$ -

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 1:- GENERAL

a. Corporate information

Kalytera Therapeutics, Inc. Canada (“Kalytera”, “We” or “the Company”) is a Canadian entity organized under the laws of British Columbia with its principal office in Beverly, Massachusetts, United-States. The Company holds the entire outstanding share capital of Kalytera Therapeutics, Inc. ("Kalytera US"), incorporated on July 18, 2014 under the laws of the State of Delaware, and the entire share capital of Kalytera Therapeutics Israel Ltd. ("Kalytera IL"), incorporated on September 4, 2016 (together, "the subsidiaries"). Kalytera and the subsidiaries are hereinafter referred to as the Group.

On December 30, 2016, the Company completed a reverse merger transaction with Santa Maria Petroleum Inc. ("SMP") that resulted in the Company becoming a publicly listed company on the Toronto Stock Exchange Venture Exchange (TSXV) under the ticker symbol KALY (see Note 5 for further details of the reverse merger).

Kalytera is a clinical-stage specialty pharmaceutical company developing a portfolio of cannabinoid, cannabinoid-like, and endocannabinoid-like pharmaceutical products. Kalytera is specifically focused on developing the following products: (1) cannabidiol (“CBD”); (2) proprietary CBD prodrugs; and (3) cannabinoid-like and endocannabinoid like compounds. To expedite regulatory approval and commercialization, Kalytera intends to initially focus on the development of CBD, a non-psychoactive cannabis constituent. A large body of research supports CBD’s safety profile.

The Company’s consolidated financial statements are prepared using generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has not yet generated revenues and has incurred losses from operations since its inception. As of December 31, 2016, the Company has an accumulated deficit of $12,897. Continuation as a going concern is dependent upon obtaining additional capital and upon the Company’s attaining profitable operations. The Company will require a substantial amount of additional funds to complete the development of its products, to build a sales and marketing organization, and to fund additional losses, which the Company expects to incur over the next few years. The management of the Company intends to seek additional funding through private and public placement offerings, which will be utilized to fund product development and continue operations. The Company recognizes that, if it is unable to raise additional capital, it may find it necessary to substantially reduce or cease operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result from the outcome of this uncertainty.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 1:- GENERAL (Cont.):

b. Approval of the consolidated financial statements

These consolidated financial statements of the Company were authorized for issue by the board of directors on May 1, 2017.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB").

The Company's financial statements are prepared on a historical cost basis except for certain financial instruments that are measured at fair value, as detailed in the Company’s accounting policies.

The preparation of the financial statements requires management to make critical accounting estimates as well as exercise judgment in the process of adopting significant accounting policies. The matters which required the exercise of significant judgment and the use of estimates, which have a material effect on amounts recognized in the financial statements, are described in Note 3.

b. Reverse merger:

The transaction in which the former shareholders of Kalytera US ("legal subsidiary") became the majority shareholders of the public entity (formerly -Santa Maria Petroleum Inc.- the "legal parent") is accounted for as a reverse merger. As the legal parent had no operating business nor any significant net assets at the date of the merger, the consolidated financial statements of the legal parent reflect the historical financial statements of the legal subsidiary, together with a deemed issuance of shares, equivalent to the shares held by the former shareholders of the legal parent, and a re-capitalization of the equity of the legal subsidiary. The deemed issuance of shares is, in effect, an equity-settled share-based payment transaction whereby the legal subsidiary has paid for the service of obtaining a stock exchange listing for its shares. The cost of obtaining the listing, based on the fair value of the deemed issuance of shares, is recorded in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (the "subsidiaries"). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the

financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by the Company and the subsidiaries. Intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

d. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The functional currency of the Company and its subsidiaries and the presentation currency of the financial statements is the U.S. dollar.

The Company and its subsidiaries determine the functional currency of each entity, and this currency is used to separately measure each Group entity's financial position and operating results.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange rate differences are recognized in profit or loss. Non-monetary assets and liabilities measured at historical cost in foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

e. Cash and cash equivalents:

Cash and equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Income taxes:

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes, except for temporary differences related to investments in subsidiaries, to the extent that it is probable that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred taxes are measured at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized in other comprehensive income or in equity.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Temporary differences and loss carry-forward balances for which deferred tax assets have not been recognized are reviewed at the end of each reporting period and a deferred tax asset is recognized to the extent that their realization is probable.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Financial instruments:

Warrant liability:

Warrants that provide the holders with an option for cashless exercise are considered a derivative liability and are classified as financial liabilities at fair value through profit or loss. Accordingly, these warrants are measured at fair value and the changes in fair value in each reporting period are recognized in profit or loss.

h. Issue of a unit of securities:

The issue of a unit of securities (Common stock and warrants) involves the allocation of the proceeds received (before issue costs) to the securities issued in the unit. Fair value is determined for the warrants (derivative liability) that are subsequently measured at fair value in each period. The balance of the gross proceeds is allocated to the Common stock (equity instruments). Issue costs are allocated to each component pro rata to the amounts determined for each component in the unit.

i. Fair value measurement:

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.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

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.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group 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.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

is significant to the entire fair value measurement:

Level 1	-	quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	-	inputs other than quoted prices included within Level 1 that are observable directly or indirectly.
Level 3	-	inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

j. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

k. Research and Development:

Research and development costs are expensed except in cases where development costs meet certain identifiable criteria for capitalization. For all periods presented, development costs incurred have not met the criteria for capitalization.

l. Share based payment:

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at the grant date. The fair value is determined using an acceptable option pricing model.

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments. In cases where the fair value of the goods or services received as consideration for equity instruments cannot be measured, they are measured by reference to the fair value of the equity instruments granted.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period in which the performance and/or service

conditions are satisfied, ending on the date on which the relevant employees become fully entitled to the award (the "vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or income recognized in profit or loss represents the change between the cumulative expense recognized at the end of the reporting period and the cumulative expense recognized at the end of the previous reporting period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described above.

m. Earnings (loss) per share:

Earnings (loss) per share are calculated by dividing the net income (loss) attributable to equity holders of the Company by the weighted number of Common shares outstanding during the period. Potential Common shares (convertible securities such as convertible debentures, options and warrants) are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share. Potential Common shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. For the years 2016 and 2015, all outstanding options were excluded from the computation of diluted earnings per share as their effect is antidilutive (reduce loss per share).

NOTE 3:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUPMTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods. Management has applied significant estimates and assumptions related to the following:

Fair value of stock options

Determining the fair value of stock options on the grant date, including performance based options, requires judgment related to the choice of a pricing model, the estimation of stock price volatility and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's reported operating results, or components of equity. The Company uses the Black-Scholes option pricing model to estimate fair value of stock options. The key assumptions used in the model are the expected future volatility in the price of the Company's shares and the expected life of the stock options.

Warrant liability

Warrants issued pursuant to private placements in 2015 and 2016 that are exercisable in cash or on a cashless basis and contain non-standard anti-dilution protection provisions resulting in a variable number of shares being issued are considered a liability and therefore measured at fair value. The Company uses the Black-Scholes option pricing model to estimate fair value at each reporting date. The key assumptions used in the model are the expected future volatility in the price of the Company's shares and the expected life of the warrants.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

The IASB has issued the following major standards that are not yet effective: IFRS 9, "Financial Instruments", IFRS 15, "Revenue from Contracts with Customers", and IFRS 16, "Leases". IFRS 9 and IFRS 15 are effective for periods commencing from January, 1, 2018, and IFRS 16 is effective for periods commencing from January 1, 2019. At this stage, these standards are not expected to have a significant impact on the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 5:- EQUITY

As described in Note 2b., as a result of the reverse merger, the equity of the Company reflects the historical share capital of the legal parent, retroactively adjusted to reflect the equity transactions of the Company. As part of the reverse merger process, the Articles of the legal parent were amended such that the unissued Class A and Class B preferred shares were cancelled. The share capital of the Company as of December 31, 2016 and 2015 is as follows:

	Authorized		Issued and outstanding	
	December 31,		December 31,	
	2016	2015	2016	2015
	Number of shares			
Common shares with no par value	unlimited	unlimited	78,548,012	26,586,419

In January 2015, the Company entered into a Share Purchase Agreement (the "SPA") with an investor. The SPA provided for the issuance of 771,909 Common shares of the Company against an aggregate purchase price of $25.

In January 2015, the Company entered into an oral Share Purchase Agreement (the "SPA") with certain investors. The SPA provided for the issuance of 4,940,215 Common shares of the Company, against an aggregate purchase price of $400. The final agreement was signed in June 2015.

In March and April 2015, the Company entered into a Share Purchase Agreement (the "SPA") with certain investors. The SPA provided for the issuance of 2,436,336 Common shares of the Company, against an aggregate purchase price of $505.

In November 2015, the Company issued 622,310 Common shares as consideration for services received by the Company. The fair value of the services received was $142.

In December 2015, the Company issued 2,377,478 units in a private placement for gross proceeds of $770. Each unit consisted of one Common share and one warrant. Each warrant is exercisable into a Common share at a price of $0.49 for a period of 5 years from the date of issuance. An additional 24,701 warrants with the same terms were issued as compensation for the private placement. Of the $770 gross proceeds, $166 was allocated to the warrants which were recorded as a derivative liability. An additional $53 of share issuance costs were netted against share capital.

In January and February 2016, the Company issued 710,156 units for gross proceeds of $230. Each unit consisted of one Common share and one warrant. Each warrant is exercisable into a Common share at a price of $0.49 for a period of 5 years from the date of issuance. Of the $230 gross proceeds, $74 was allocated to the warrants which were recorded as a derivative warrant liability.

NOTE 5:- EQUITY (Cont.)

In July through September 2016, the Company issued 4,666,465 units in a private placement for gross proceeds of $2,267. Each unit consisted of one Common share and one warrant. Each warrant is exercisable into a Common share at a price of $0.65 for a period of 5 years from the date of issuance. An additional 1,087,676 finder warrants with the same terms were issued as compensation for the private placement in the amount of $188 which were recorded as a derivative warrant liability. Of the $2,267 gross proceeds, $755 was allocated to the warrants which were recorded as a derivative warrant liability. Issuance costs of $360 were netted against share capital and $180 were recorded in profit or loss. In addition in October 2016, the Company issued 73,975 units for legal services at a fair value of $36, of which $12 was recorded as a derivative warrant liability in respect of the warrants issued.

In December 2016, the Company issued 535,802 Common shares as consideration for services received by the Company. The fair value of the services received was $175.

On December 30, 2016, Kalytera US completed a reverse merger transaction (the "reverse merger transaction") with SMP. In connection with the reverse merger transaction the Company recorded as part of its operating expenses $4,872 in respect of the issuance of 16,051,385 Common shares to the shareholders of SMP, $613 in respect of issuance of 2,043,777 Common shares as a finder fee of SMP and $1,438 in respect of modification of warrant terms according to the Warrant Exchange Agreement discussed below.

A newly incorporated subsidiary of SMP and Kalytera US merged, with Kalytera US surviving the merger as a wholly-owned subsidiary of the Company. Former Kalytera US security holders received replacement Common shares and stock options of the Company in exchange for Common stock, warrants convertible to Common stock, and stock options of Kalytera US at an exchange ratio of 1 to 1.54381711 post-merger share. Of the outstanding Kalytera US Common stock balance prior to the merger of 21,098,883 (pre-merger) shares, 613,334 (pre-merger) shares of Common stock were bought back by the Company from shareholders at their original cost and 20,485,549 (pre-merger) shares of Common stock of Kalytera US were exchanged into 31,625,941 Common shares of the Company. As a result of the buyback of the shares, the Company recorded a decrease to contributed surplus of $307.
In addition, the Company entered into a Warrant Exchange Agreement with the holders of the outstanding balance of warrants issued by Kalytera US, whereby prior to the closing of the reverse merger, the holders of the warrants (excluding warrants bought back by the Company – see below) tendered their warrants to the Company which were automatically converted into and exchanged at the above exchange ratio for fully-paid and non-assessable Common shares of the Company with no additional consideration paid by the warrant holders. Therefore, the exchange is considered to be a modification to the original terms of the warrants, and an expense in connection with the merger of $1,438 was recorded in profit or loss. Of the outstanding warrant balance prior to the merger of 5,791,134 (pre-merger) warrants, 613,334 (pre-merger) warrants were bought back by the Company from their holders and 5,177,800 (pre-merger) warrants of Kalytera US were exchanged for 7,993,576 Common shares of the Company that are subject to a one year lock-up period in accordance with the Warrant Exchange Agreement. As a result of the conversion of the warrants, the Company increased equity by $2,007 and eliminated the liability related to warrants.

NOTE 5:- EQUITY (Cont.)

Upon completion of the transaction, the former shareholders of Kalytera US became the controlling shareholders of the Company. This type of share exchange, referred to as a reverse takeover ("RTO"), deems Kalytera US to be the continuing entity for accounting purposes. Accordingly, the transactions in equity prior to the RTO are those of Kalytera US retroactively adjusted (re-capitalization) to reflect the merger exchange ratio described above.

Concurrently with this merger, the Company completed a private placement raising gross proceeds of CAD$8,333 ($6,324) through the sale of 20,833,333 subscription receipts for Common shares of the Company at CAD$0.40 per subscription receipt. Pursuant to their terms, the subscription receipts were automatically converted into Common shares of the Company upon closing of the merger transaction. Of the total consideration of $6,324, an amount of $4,119 was received by the Company in January 2017 and recorded as a receivable as of December 31, 2016. Issuance costs of $1,519 were offset against share capital. In connection with the private placement, the Company issued 1,370,834 broker warrants to an agent in consideration of services performed in the private placement, with each warrant having an exercise price of CAD$0.40 for one Common share and exercisable for a period of 24 months following the closing of the Merger. The broker warrants in the amount of were recorded in equity. These warrants are outstanding as of December 31, 2016.

Stock options:

Pursuant to Board of Directors and stockholder approval on November 16, 2015, the Company adopted its 2015 Long-Term Incentive Plan (the “Plan”) whereby it reserved for issuance 3,537,995 Common shares of the Company (the “Stock Options Pool”), for the purpose of granting stock options awards under the Plan. The purpose of the Plan is to provide directors, officers and employees of, and consultants, to the Company with additional incentives by increasing their ownership interest in the Company. Directors, officers, employees and consultants of the Company are eligible to participate in the Plan. On September 21, 2016, the Board of Directors approved an increase in the number of Common shares reserved for issuance under the Plan from 3,537,995 shares to 7,719,086 shares.

Upon consummation of the merger transaction on December 30, 2016, all Kalytera US stock options that were issuable pursuant to the Plan were exchanged, pursuant to the terms of the merger, for options to purchase Common shares of the Company pursuant to the stock option plan of SMP having substantially similar terms. In aggregate 5,532,966 stock options of the Company were issued in exchange. Exercise prices revised to reflect the value of a new Common stock of the company by dividing the exercise price per share at which such Kalytera Option was exercisable immediately prior to the Merger, by 1.54381711. The stock option plan of SMP (the current stock option plan of the Company) was approved prior to the closing of the merger by the board of directors of SMP on November 11, 2016 and by the shareholders of SMP on December 12, 2016. The number of Common shares reserved for issuance under such stock option plan is equal to 20% of the number of issued and outstanding Common shares of the Company as of the closing of the merger (being 15,709,602 Common shares).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 5:- EQUITY (Cont.)

The following table summarizes the stock option activity for the period January 1, 2015 through December 31, 2016:

	December 31, 2016	
	Amount	Weighted average exercise price
Options outstanding at January 1, 2015	-	$ -
Granted	2,050,538	$ 0.18
	-	
Options outstanding at December 31, 2015	2,050,538	$ 0.18
Granted	3,482,428	$ 0.49
Granted to former holders of SMP upon merger	3,629	$ 27.60
Granted following merger	4,701,360	$ 0.30
Options outstanding at December 31, 2016	10,237,955	

The weighted average remaining contractual life of options outstanding at December 31, 2016, was 8.94 years.

In 2015, 2,050,538 stock options were granted, with 835,501 of these options vested upon grant date. The remaining options are vesting over 1 to 4 years. The options had an aggregate grant fair date value of $355 as of the grant date.

In 2016 prior to the merger on December 30, 2016, 3,482,428 stock options were granted, with 930,374 of these options vested upon grant date. On December 30, 2016, all 5,532,966 outstanding stock options of Kalytera US were converted into stock options of the Company. In addition, the Company issued 3,629 stock options to former holders of Santa Maria stock options that expire in April 2017. Furthermore, the Company issued on December 30, 2016, 1,520,661 stock options to directors and 3,180,699 stock options to its Chief Executive Officer, vesting over 2 to 3 years or based on performance-based criteria. The options had an aggregate grant date fair value of $1,786 as of the grant date.

The Company recognized expenses of $448 and $166 related to stock options during the years ended December 31, 2016 and 2015.

U.S. dollars in thousands

NOTE 5:- EQUITY (Cont.)

The fair value of the stock options is estimated at the grant date using Black & Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs used for calculation of fair value of the options:

	Year ended December 31, 2016	Year ended December 31, 2015
Expected volatility	80%	50%
Exercise price	\$0.49-\$0.65	\$0.21-\$0.33
Risk-free interest rate	2.2%	0.62%
Dividend yield	0%	0%
Expected life (years)	10	10

The Company considers expected volatility of the shares of comparable companies and its Common shares in estimating its future stock price volatility. The risk-free interest rate for the expected life of the warrants was based on the yield available on US government benchmark bonds with an approximate equivalent remaining term at the time of the grant. The expected life is based on the contractual term. The share price was based on the last financing round.

NOTE 6:- WARRANT LIABILITY

In conjunction with the sale of Common shares during the year ended December 31, 2015, the Company issued 2,377,478 warrants to purchase Common shares with an exercise price of \$0.49 per Common share and expiring five years from the date of issuance. The warrants contain anti-dilution protection provisions and the holders of the warrants issued pursuant to the private placement may elect, in lieu of exercising the warrants for cash, a cashless exercise option to receive Common stock equal in fair value to the difference between the market price of the Common stock and the exercise price of the warrant multiplied by the number of warrants to be exercised. If a warrant holder exercises this option, there will be variability in the number of shares issued per warrant. In accordance with IFRS, a contract to issue a variable number of shares fails to meet the definition of equity and must instead be classified as a liability and measured at fair value with changes in fair value recognized in the consolidated statements of operations and comprehensive loss at each period-end. The liability will ultimately be converted into the Company’s equity (Common stocks) when the warrants are exercised, or will be extinguished on the expiry of the outstanding warrants.

In conjunction with the sale of Common shares in 2016, the Company issued additional 6,562,973 warrants to purchase Common shares with exercise prices ranging from \$0.49 to \$0.65 and expiring five years from the date of issuance similar to the issuances in 2015. The remaining warrants to purchase Common shares of the Company were fully converted into Common shares upon the merger and the remaining liability balance in respect of the warrants was reclassified to equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 6:- WARRANT LIABILITY (Cont.)

The Company uses the Black-Scholes option pricing model to estimate fair value. The following weighted average assumptions were used to estimate the fair value of the derivative warrant liability on:

	December 31, 2016	December 31, 2015
Expected life of warrants	3.7 years	5 years
Expected volatility	80%	50%
Expected dividend yield	0%	0%
Risk-free interest rate	2.2%	0.62%
Market price of Common share	\$0.30	\$0.50
Exercise price	\$0.49	\$0.49

The Company considers expected volatility of the shares of comparable companies and its Common shares in estimating its future stock price volatility. The risk-free interest rate for the expected life of the options was based on the yield available on US government benchmark bonds with an approximate equivalent remaining term at the time of the grant. The expected life is based on the contractual term.

The Company recorded a derivative warrant liability of \$166 related to the issuance of warrants upon initial recognition in 2015. The Company recorded a warrant liability of \$1,017 for those warrants issued in 2016. In 2016, the Company recorded income of \$629 due to the revaluation of the warrants.

NOTE 7:- COMMITMENTS AND CONTINGENCIES

In connection with the Company's Exclusive License Agreement from February 14, 2015, amended on May 10, 2016, with Yissum Research Development Company of the Hebrew University of Jerusalem, Ltd, the Company is obligated to pay milestone payments consisting of (i) \$100 upon submission of the first IND, \$250 upon dosing the first patient in the first Phase I clinical trial for each product made with the Licensed Rights and \$500 upon dosing the first patient in the first Phase III clinical trial for each product made with the Licensed Rights; (ii) royalties of 3% of Net Sales, as defined in the agreement, during each payment period during the term, which shall be reduced to 1.5% of Net Sales for products sold upon the expiration of the last Valid Claim, as defined in the agreement, anywhere in the world; (iii) sublicense fees of 5% of all non-sales related consideration received from a sub-licensee, or an option for a sub-licensee that commercially markets or sells products in exchange for consideration; and (v) provide \$250 in research funding relating to certain compounds.

NOTE 7:- COMMITMENTS AND CONTINGENCIES (Cont.)

On April 11, 2016, Kalytera entered into an amended and restated research, assignment and revenue sharing agreement with Ramot at Tel Aviv University Ltd. ("Ramot") (the “RARS Agreement”). Pursuant to the RARS Agreement, Ramot agrees to provide certain research services to Kalytera through Tel Aviv University. Ramot has irrevocably assigned the Research Results, as defined in the RARS Agreement, to Kalytera in exchange for royalty payments, License Receipts, and milestone payments. Kalytera will pay royalties, beginning April 11, 2016 and continuing on a country-by-country basis for a period of 15 years from the date of the first commercial sale of a product in the county. The royalties will be computed as a percentage of Net Sales. Kalytera will pay Ramot a percentage of all License Receipts. Finally, Kalytera will pay milestone payments, within 30 days of receipt of a regulatory approval required to sell a product in each of the United States, Europe or Asia. The term of the agreement began on the execution date and continues in full force and effect until the expiration of Kalytera’s payment obligations.

NOTE 8:- INCOME TAXES

The Company is subject to income tax in the U.S. and Israel, and certain state jurisdictions. Income taxes have not been recognized in profit and loss, as the Company has been incurring losses since inception, and it is not probable that future taxable profits will be available against which the accumulated tax losses can be utilized.

As of December 31, 2016, the Company estimated U.S. federal and state income tax net operating loss (NOL) carry forwards of approximately $389, which will expire in 2035 and 2036.

NOTE 9:- FINANCIAL RISK FACTORS

Financial risk factors:

The Company’s risk exposure and the impact on the Company’s financial instruments are summarized below:

(a) Credit risk:

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents. The Company’s cash balances were held at a major US bank. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

(b) Liquidity risk:

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. All of the Company’s financial liabilities are due within one year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 10:- RELATED PARTY DISCLOSURE

The following table summarizes balances with related parties in the consolidated statements of financial position:

	December 31,	
	2016	2015
Other accounts receivable	$ 13	$ -
Other payables and accrued expenses - Unpaid board members fees	$ 150	$ 10

The following table summarizes compensation to key management personnel and transactions with related parties in the consolidated statements of profit or loss and other comprehensive income:

	December 31,	
	2016	2015
Board Member Fees	$ 172	$ 20
Officer Salaries & Benefits and board member fees	155	-
Officer Consulting Fees	423	140
Share-based compensation	20	21
Total	$ 770	$ 181

The Company has entered into service agreements with Salzman Capital Ventures Ltd., a company controlled by the Chief Executive Officer. The service provider will make available for the Company certain office space, service of certain employees, administrative support and supplies, computers and communication equipment. The agreement continues in effect until December 7, 2017, unless extended by mutual written agreement signed by both Parties. The monthly fee currently ranges from $20 to $35 and may change from month to month as dependency on the services received changes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- SUBSEQUENT EVENTS

a. In February 2017, the Company completed a brokered private placement offering (the "Offering") of its Common shares. As part of the Offering, the Company issued 33,333,333 Common shares for aggregate gross proceeds of CAD$15,000,000. The first tranche of the Offering closed on February 7, 2017 for gross proceeds of CAD$13,424,985 and the second tranche of the Offering closed on February 17, 2017 for gross proceeds of CAD$1,575,015. In connection with the Offering, the Company paid its agents a cash commission equal to 7% of the gross proceeds of the Offering and issued 2,333,333 broker warrants, each of which is exercisable to acquire one Common share at the Offering Price of CAD$0.45 until two years following the applicable closing of the Offering. As part of the Offering, the Company has agreed that it will use commercially reasonable efforts to appoint a nominee of the largest subscriber in the Offering, to the Company's Board of Directors, following the closing of the Offering. All securities issued in connection with the Offering are subject to a regulatory hold period of four months and a day from the date of issuance in accordance with applicable Canadian securities laws.

b. On February 15, 2017, the Company completed the acquisition (the "Acquisition") of Talent Biotechs Ltd. ("Talent"), a privately held Israeli-based company developing a drug, based on cannabis plant, for treatment and prevention of Graft-Versus-Host Disease (GVHD) caused after transplant of bone marrow in patients with leukemia. The consideration for the Acquisition will comprise a combination of cash, securities, and future contingent payments to Talent's shareholders. Upon the acquisition, the Company has made cash payments to Talent's former shareholders totaling $10,000 and issued 17,301,208 Common shares to Talent's former shareholders, which securities are subject to a contractual holding period expiring December 30, 2017. The remainder of the consideration, shall be made payable subject to the completion of certain milestones in relation to development and commercialization. If those milestones are met, the Company will pay up to $20,000 in aggregate future contingent payments and shall also issue to Talent former shareholders an additional 2,883,535 shares of Common stock upon the completion of the first Phase 2b clinical study, and a further additional 2,883,535 Common shares upon the issuance of the first patent by the USPTO or EU with respect to certain assets of Talent acquired in connection with the Acquisition. The former shareholders of Talent shall also receive additional earn-out payments equal to 5% of the aggregate annual net sales of all products covered by patent rights included in the business of Talent for the period until the later of (a) the expiration or invalidation of the applicable patent, or abandonment of all such patent applications, and (b) such time as the Company, is no longer owed any payments from any permitted sub-licensee in relation to the sale of such covered product. As of the date of approval of these financial statements, the Company has not completed the identification and analysis of the assets acquired and liabilities assumed nor has it determined the fair value of all the components of the total consideration, including contingent consideration, to be transferred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- SUBSEQUENT EVENTS (Cont.)

c. In connection with the acquisition of Talent, in February 2017 Talent received a claim letter from a former finder (the "Finder"). The Finder claims for a finder fee based on a percentage in the low single digits of the consideration price paid to Talents' shareholders' in the acquisition. The Company's management continues to assess this matter, , but the current assessment of management is that the likelihood of this matter having a material effect on the consolidated financial position or consolidated statements of profit or loss and other comprehensive income of the Company is remote.

d. In connection with an obligation of the Company to issue 415,642 common shares in respect of a consulting fee of approximately $85 for services provided and recorded in the financial statements in a prior year, the Company agreed in April 2017 to settle the obligation by the payment of cash of 50% of the fee and the balance in stock options. The terms of the stock options have not yet been determined by the Board of Directors.

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