

**CanaQuest Medical Corporation
(formerly Algae Dynamics Corp.)**

**Condensed Interim Financial
Statements as at Quarter 1 – June
30, 2018**

CanaQuest Medical Corporation (formerly Algae Dynamics Corp.)
Condensed Interim Balance Sheets
Stated in Canadian Dollars
(Unaudited)

Assets	June 30, 2018	March 31, 2018
Current assets:		
Cash and cash equivalents	\$ -	\$ 8
Accounts receivable, net	-	1,380
Prepaid expenses	4,151	25,311
Prepaid management fees - related parties	-	51,499
Total current assets	4,151	78,198
Equipment and leasehold improvements, net	30,388	32,121
Total assets	\$ 34,539	\$ 110,319
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Bank overdraft	\$ 5,008	\$ -
Accounts payable and accrued liabilities	634,020	584,522
Advances - related parties	20,567	-
Term loan - related party	52,000	52,000
Convertible notes - net of unamortized discount of \$3,248 and \$27,361 at June 30, 2018 and March 31, 2018, respectively	62,592	101,579
Convertible note derivative liabilities	27,920	118,676
Warrant derivative liabilities	106,451	91,474
Total current liabilities	908,558	948,251
Going Concern		
Commitments and Contingencies	-	-
Stockholders' Deficiency:		
Common stock; no par value; unlimited shares authorized; 17,698,585 and 16,600,435 shares issued and outstanding at June 30, 2018 and March 31, 2018, respectively	4,723,766	4,585,877
Additional paid-in capital	1,674,158	1,631,025
Equity to be issued	99,275	165,074
Accumulated deficiency	(7,371,218)	(7,219,908)
Total stockholders' deficiency	(874,019)	(837,932)
Total liabilities and stockholders' deficiency	\$ 34,539	\$ 110,319

See accompanying notes

CanaQuest Medical Corporation (formerly Algae Dynamics Corp.)
Condensed Interim Statements of Operations
Stated in Canadian Dollars
(Unaudited)

	Three months ended June 30,	
	2018	2017
Revenue	\$ -	\$ -
Operating costs:		
Application and membership fees	125	3,406
Bad debt recovery	(9,357)	(3,270)
Business development	2,037	422
Deferred share units issued for compensation	15,785	-
Depreciation	1,734	3,927
Foreign exchange gain	1,344	(5,056)
Management fee (recovery)	45,461	(8,125)
Occupancy	11,356	8,315
Office	4,279	2,936
Professional fees (recovery)	34,103	(16,504)
Research and development	60,200	85,000
Stock-based compensation	27,348	18,192
Telephone and internet	2,374	3,791
Travel	2,389	5,398
Total operating expenses	<u>199,178</u>	<u>98,432</u>
Loss from operations	<u>(199,178)</u>	<u>(98,432)</u>
Other income (expense):		
Amortization of debt discount	(24,175)	(73,042)
Change in fair value of convertible note derivative liability	90,756	61,047
Change in fair value of warrant derivative liability	(14,977)	-
Interest expense	(3,736)	(2,039)
Total other income (expense)	<u>47,868</u>	<u>(14,034)</u>
Net loss	<u>\$ (151,310)</u>	<u>\$ (112,466)</u>
Net loss per share - basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding - basic and diluted	<u>17,226,832</u>	<u>13,337,521</u>

See accompanying notes

CanaQuest Medical Corporation (formerly Algae Dynamics Corp.)
Condensed Interim Statement of Stockholders' Deficiency
 Stated in Canadian Dollars
 (Unaudited)

	<u>Common Shares</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Equity to be Issued</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Deficiency</u>
Balance, March 31, 2018	16,600,435	\$4,585,877	\$1,631,025	\$ 165,074	\$ (7,219,908)	\$ (837,932)
Stock-based compensation	-	-	27,348	-	-	27,348
Deferred share units issued for compensation	-	-	15,785	-	-	15,785
Common stock issued to settle equity to be issued	1,098,150	137,889	-	(137,889)	-	-
Common stock issued for settlement of convertible notes and interest	-	-	-	72,090	-	72,090
Net loss	-	-	-	-	(151,310)	(151,310)
Balance, June 30, 2018	<u>17,698,585</u>	<u>\$4,723,766</u>	<u>\$1,674,158</u>	<u>\$ 99,275</u>	<u>\$ (7,371,218)</u>	<u>\$ (874,019)</u>

See accompanying notes

CanaQuest Medical Corporation (formerly Algae Dynamics Corp.)
Condensed Interim Statements of Cash Flows
 Stated in Canadian Dollars
 (Unaudited)

	Three months ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net loss	\$ (151,310)	\$ (112,466)
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization of debt discount	24,175	73,042
Non-cash interest	3,667	-
Bad debt recovery	9,357	-
Depreciation	1,733	3,927
Fair value of shares issued for compensation	-	86,372
Stock-based compensation	27,348	18,192
Deferred share units issued for compensation	15,785	-
Professional fees (recovery)	-	(13,898)
Change in fair value of convertible note derivative liability	(90,756)	-
Change in fair value of warrant derivative liability	14,977	(179,358)
Foreign exchange	1,344	(5,056)
Change in operating assets and liabilities:		
Prepaid expenses	21,160	(41,867)
Accounts receivable	(7,977)	(1,372)
Accounts payable and accrued expenses	53,415	129,243
Net cash used in operating activities	<u>(77,082)</u>	<u>(43,241)</u>
Cash Flows from Financing Activities:		
Bank overdraft	5,008	-
Advances from related parties	136,140	6,775
Repayment to related parties	(64,074)	-
Proceeds from the issuance of convertible notes	-	37,932
Net cash provided (used in) by financing activities	<u>77,074</u>	<u>44,707</u>
Net change in cash and cash equivalents	(8)	1,466
Cash and cash equivalents, beginning of period	8	87
Cash and cash equivalents, end of period	<u>\$ -</u>	<u>\$ 1,553</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during period for:		
Interest paid	\$ 69	\$ -
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
NON-CASH FINANCING ACTIVITIES		
Common stock issued to settle equity to be issued	<u>\$ 137,889</u>	<u>\$ -</u>
Common stock issued for settlement of convertible notes and interest	<u>\$ 72,090</u>	<u>\$ -</u>

See accompanying notes

1) Nature of the Business and Going Concern

CanaQuest Medical Corporation (formerly Algae Dynamics Corp.) (the “Company”) was incorporated under the Canada Business Corporations Act on October 7, 2008. On January 30, 2019, the Company amended its Articles of Incorporation to change its name to CanaQuest Medical Corporation.

The Company is conducting research through sponsored research agreements with two universities to support development of health products utilizing cannabis and algae oil. The Company’s planned principal operations are the development and sale of health products, design and development of a facility to extract botanical oils, and design, engineering and manufacturing of a proprietary algae cultivation system for the high-volume production of pure contaminant-free algae biomass.

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

These unaudited condensed interim financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company is in the development stage and has not yet realized profitable operations and has relied on non-operational sources to fund operations. The Company has suffered recurring losses and additional future losses are anticipated as the Company has not yet been able to generate revenue. In addition, as of June 30, 2018, the Company has a working capital deficiency of \$904,407 and an accumulated deficit of \$7,371,218. The Company’s ability to continue as a going concern is dependent on successfully executing its business plan, which includes the raising of additional funds. The Company will continue to seek additional forms of debt or equity financing, but it cannot provide assurances that it will be successful in doing so. These circumstances raise substantial doubt as to the ability of the Company to meet its obligations as they come due and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. Such adjustments could be material.

2) Presentation of Financial Statements

Basis of Presentation

The unaudited condensed consolidated financial statements of the Company for the three months ended June 30, 2018 and 2017 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-K. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the financial position and the results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full fiscal year. The balance sheet information as of March 31, 2018 was derived from the audited financial statements included in the Company’s financial statements as of and for the fiscal year ended March 31, 2018 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on January 30, 2019. These financial statements should be read in conjunction with that report.

Estimates

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

Loss per Share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method and reflects the potential dilution of securities by including warrants and contingently issuable shares, if any, in the weighted average number of common shares outstanding for a year, if dilutive. In a loss year, dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Accordingly, for the three months ended June 30, 2018 and 2017, the basic loss per share was equal to diluted loss per share as there were no dilutive securities.

At June 30, 2018 and March 31, 2018, we excluded the outstanding securities summarized below, which entitle the holders thereof to acquire shares of common stock as their effect would have been anti-dilutive:

	June 30, 2018	March 31, 2018
Common stock issuable upon conversion of convertible notes and settlement of warrants	2,144,179	2,903,500
Common stock issuable to satisfy equity to be issued obligations	660,000	1,198,150
Common stock issuable to satisfy exercisable stock option obligations	1,129,584	1,044,584
Common stock issuable to settle deferred stock units	4,712,285	4,507,740
Total	8,645,998	9,653,974

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which was subsequently amended by ASU 2018-10, ASU 2018-11 and ASU 2018-20 (collectively, Topic 842). Topic 842 will require the recognition of a right-of-use asset and a corresponding lease liability, initially measured at the present value of the lease payments, for all leases with terms longer than 12 months. For operating leases, the asset and liability will be expensed over the lease term on a straight-line basis, with all cash flows included in the operating section of the statement of cash flows. For finance leases, interest on the lease liability will be recognized separately from the amortization of the right-of-use asset in the statement of comprehensive income and the repayment of the principal portion of the lease liability will be classified as a financing activity while the interest component will be included in the operating section of the statement of cash flows. Topic 842 is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. Topic 842 allows for a cumulative-effect adjustment in the period the new lease standard is adopted and will not require restatement of prior periods. The Company is in the process of evaluating the impact of Topic 842 on the Company's financial statements and disclosures, though the adoption is expected to result in an increase in the assets and liabilities reflected on the Company's balance sheets.

In June 2018, the FASB issued ASU 2018-07, “*Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.*” The ASU expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The ASU also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Revenue from Contracts with Customers (Topic 606). The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently assessing the effect that the ASU will have on our financial position, results of operations, and disclosures.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company’s present or future consolidated financial statements.

3) Equipment and Leasehold Improvements

	June 30, 2018		March 31, 2018	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Computer equipment	\$ 3,558	\$ 2,892	\$ 3,558	\$ 2,838
Production equipment	67,367	43,272	67,367	42,004
Leasehold improvements	42,290	36,663	42,290	36,252
Total	\$ 113,215	\$ 77,167	\$ 113,215	\$ 81,094
Net carrying amount		\$ 30,388		\$ 32,121

During the three month period ended June 30, 2018 and 2017, the Company recorded depreciation expense of \$1,734 and \$3,927, respectfully, in the condensed statements of operations.

4) Term Loan – Related Party

Term loan issued May 4, 2016

The Company issued a term loan (“Loan”) for bridge financing to a sibling of one of the officers (“Holder”) of the Company. The issue price of the Loan is \$40,000 with a face value of \$52,000. The Loan is unsecured, non-interest bearing and has a maturity date of August 28, 2016. The \$12,000 Loan premium was recorded in accordance with the interest rate method from the issue date to the original maturity date. After issue of the loan, the Holder agreed to extend the maturity date of the Loan to November 30, 2016, followed by a second extension to February 28, 2017, followed by a further extension to November 30, 2017, and followed by a further indefinite extension until the Company has the appropriate liquidity to repay the face value of the Loan. Otherwise the terms of the loan are unchanged. During the three months ended June 30, 2018 and 2017, the Company recorded amortization of debt discount of \$NIL (2017 - \$1,902).

5) Convertible Notes

The carrying values of the Company's secured convertible notes consist of the following as of June 30, 2018 and March 31, 2018, respectively:

	<u>June 30, 2018</u>	<u>March 31, 2018</u>
USD\$50,000 face value convertible note due June 21, 2018 (a)	\$ -	\$ 64,470
USD\$50,000 face value convertible note due July 25, 2018 (b)	65,840	64,470
Unamortized debt discount	(3,248)	(27,361)
	<u>\$ 62,592</u>	<u>\$ 101,579</u>

On June 21, 2017, the Company commenced a planned financing of up to USD\$500,000 of one-year 12% convertible notes. The notes are convertible at the option of the holder into common shares of the Company at a price of USD\$0.25 per share, and are subject to mandatory conversion if the volume-weighted trading price of the common shares is greater than USD\$1.00 per share for twenty consecutive trading days so long as the underlying shares may be resold in compliance with the registration requirements of the Securities Act of 1933, as amended. In addition, the Company shall issue pro rata to the purchasers of the first USD\$100,000 of notes an aggregate of 200,000 common shares as a commitment fee. The Company received total cash proceeds of \$128,986 (USD \$100,000) from convertible notes issued on June 21, 2017 and July 25, 2017 as a result of this planned financing.

The Company has evaluated the terms and conditions of the secured convertible notes under the guidance of ASC 815. Because the economic characteristics and risks of the equity-linked conversion options are not clearly and closely related to a debt-type host, the conversion features require classification and measurement as derivative financial instruments.

The discount to the carrying value of the convertible notes is being amortized as amortization of debt discount over the term of the convertible notes using the effective interest rate method.

(a) Convertibles Note – issued July 25, 2017

On July 25, 2017, the Company issued a convertible note for total cash proceeds of \$62,535 (USD\$50,000). In conjunction with these convertible notes the Company also granted 200,000 common share purchase warrants. Each warrant is exercisable into one common share at USD\$0.50 for a period of five years. The Company has concluded that the embedded conversion option and warrants are not indexed to our stock due to the down-round protection features afforded to the holder and foreign exchange rate fluctuations. Therefore, the embedded conversion option and warrants are subject to classification in the financial statements in liabilities at fair value both at inception and subsequently pursuant to ASC 815. During the three months periods ended June 30, 2018 and 2017, the Company recorded an amortization of debt discount of \$11,595 and \$NIL, respectively.

On July 25, 2018, the Company agreed to fully settle the convertible note and accrued interest totaling \$73,293 by agreeing to an obligation to issue 560,000 shares of common stock at a conversion price of USD\$0.10 per share. The conversion price of USD\$0.25 per share of these notes were reduced to USD\$0.10 per share due to the down-round features of the note. During the period of August to November 2017, the Company issued other convertible notes with a conversion price of USD\$0.10 per share.

(b) Convertible Notes – issued June 21, 2017

On June 21, 2017, the Company issued two convertible notes for total cash proceeds of \$66,451 (USD\$50,000). In conjunction with these convertible notes the Company also granted 200,000 common share purchase warrants. Each warrant is exercisable into one common share at USD\$0.50 for a period of five years. The Company has concluded that the embedded conversion option and warrants are not indexed to our stock due to the down-round protection features afforded to the holder and foreign exchange rate fluctuations. Therefore, the embedded conversion option and warrants are subject to classification in the financial statements in liabilities at fair value both at inception and subsequently pursuant to ASC 815. During the three months periods ended June 30, 2018 and 2017, the Company recorded an amortization of debt discount of \$12,580 and \$1,741, respectively.

On June 21, 2018, the Company fully settled these convertible notes and accrued interest totaling \$72,090 by agreeing to an obligation to issue 560,000 shares of common stock at a conversion price of USD\$0.10 per share. The conversion price of USD\$0.25 per share of these notes were reduced to USD\$0.10 per share due to the down-round features of the note. During the period of August to November 2017, the Company issued other convertible notes with a conversion price of USD\$0.10 per share.

(c) Convertible Note – issued February 14, 2017

On February 14, 2017, the Company issued a \$65,350 (USD\$50,000) face value convertible note, due August 15, 2017 to Salamon Partners LLC (“Salamon”) for net proceeds of USD\$47,500, which consisted of the principal amount, net of transaction cost of USD\$2,500. The Salamon Note accrues interest at 12% per annum, payable in cash at maturity. However, the principal amount, plus accrued interest, may be converted at the option of the holder at any time during the term to maturity into shares of our common stock at a variable conversion price of 65% of market per share subject to adjustment for capital reorganization events and subsequent sales by the Company of shares of its common stock at a price per share below the conversion price of the Salamon note. The Salamon Note also embodies certain traditional default provisions that are linked to credit or interest risks, such as bankruptcy proceedings, liquidation events and corporate existence. The Company has concluded that the embedded conversion option is not indexed to our stock due to the variability in the conversion price and the down-round protection features afforded to the holder as well as the foreign exchange rate fluctuations. Therefore, the embedded conversion option is subject to classification in the financial statements in liabilities at fair value both at inception and subsequently pursuant to ASC 815. On August 15, 2017, the Company fully settled the note for \$67,591 (USD\$53,000) in cash which consisted of the principal amount due \$63,775 (USD\$50,000) plus accrued interest \$3,816 (USD\$3,000). During the three months ended June 30, 2018 and 2017, the Company recorded amortization of debt discount of \$NIL and \$33,623, respectively.

(d) Convertible Note – issued November 18, 2016

On November 18, 2016, the Company issued a \$76,382 (USD\$56,000) face value secured convertible note, due August 18, 2017 to GHS Investments, LLC (“GHS”) for net proceeds of USD \$50,000. The GHS Note is secured and accrues interest at 12% per annum, payable in cash at maturity. However, the principal amount, plus accrued interest, may be converted at the option of the holder at any time during the term to maturity into shares of our common stock at variable conversion price of 62% of market per share subject to adjustment for capital reorganization events and subsequent sales by the Company of shares of its common stock price per share below the conversion price of the GHS note. The GHS Note also embodies certain traditional default provisions that are linked to credit or interest risks, such as bankruptcy proceedings, liquidation events and corporate existence. The Company has concluded that the embedded conversion option is not indexed to our stock due to the variability in the conversion price and the down-round protection features afforded to the holder as well as the foreign exchange rate fluctuations. Therefore, the embedded conversion option is subject to classification in the financial statements in liabilities at fair value both at inception and subsequently pursuant to ASC 815. The Company paid in cash to GHS \$31,832 in August 2017 and \$84,411 in November 2017 to fully settled the convertible note. During the three months ended June 30, 2018 and 2017, the Company recorded amortization of debt discount of \$NIL and \$35,776, respectively.

6) Derivative Liabilities

The carrying value of the convertible note derivative liabilities and warrant derivative liabilities are recorded on the balance sheet, with changes in the carrying value being recorded as change in fair value of derivative liabilities on the statements of operations. The components of the convertible note derivative liabilities and warrant derivative liabilities as of June 30, 2018 and March 31, 2018 respectively are:

Financing giving rise to derivative financial instruments	June 30, 2018		March 31, 2018	
	Indexed Shares	Fair value	Indexed Shares	Fair Value
Convertible note derivative liabilities:				
June 21, 2017 convertible	-	\$ -	780,743	\$ 59,490
July 25, 2017 convertible	794,129	27,920	772,757	59,186
Warrant derivative liabilities:				
June 21, 2017	200,000	16,186	200,000	15,423
July 25, 2017	200,000	16,249	200,000	18,051
Midtown warrants	900,000	70,626	900,000	54,000
Connectus warrants	50,000	3,390	50,000	4,000
	<u>2,144,179</u>	<u>\$ 134,371</u>	<u>2,903,500</u>	<u>\$ 210,150</u>

Fair Value Considerations

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. As presented in the tables below, this hierarchy consists of three broad levels:

Level 1 valuations: Quoted prices in active markets for identical assets and liabilities.

Level 2 valuations: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs or significant value drivers are observable.

Level 3 valuations: Significant inputs to valuation model are unobservable.

The Company follows the provisions of ASC 820 with respect to our financial instruments. As required by ASC 820, assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. The derivative financial instruments which are required to be measured at fair value on a recurring basis under of ASC 815 as of June 30, 2018 and March 31, 2018 respectively. Convertible note derivative liabilities and warrant derivative liabilities are classified as Level 3 within the fair value hierarchy. The Company's computation of expected volatility at June 30, 2018 and March 31, 2018 is based on the historical stock price of the Company over the period equal to the expected life of the conversion features and warrants. The Company's computation of expected life is calculated using the contractual life.

	Fair Value at June 30, 2018	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Derivative liabilities	\$ 134,471	\$ -	\$ -	\$ 134,471

The convertible note derivative liabilities and warrant derivative liabilities are valued using a binomial-lattice-based valuation model. The lattice-based valuation technique was utilized because it embodies all the requisite assumptions (including the underlying price, exercise price, term, volatility, and risk-free interest-rate) that are necessary to fair value these instruments. For forward contracts that contingently require net-cash settlement as the principal means of settlement, the Company projects and discounts future cash flows applying probability-weighted to multiple possible outcomes. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques are highly volatile and sensitive to changes in the trading market price of our common stock. Because derivative financial instruments are initially and subsequently carried at fair values, the income will reflect the volatility in these estimate and assumption changes.

(a) Convertible Note Derivative Liabilities

The following table sets forth the range of inputs for each significant assumption:

	June 30, 2018	March 31, 2018
Stock Price	\$0.08 USD	\$0.09 USD
Risk free rate	2.33%	2.09%
Expected volatility	276%	304% -340%
Conversion/Exercise price	\$0.07 USD	\$0.07 USD
Expected dividend rate	0%	0%
Expected life (in years)	0.07	0.22 – 0.32

CanaQuest Medical Corporation (formerly Algae Dynamics Corp.)
Notes to the Condensed Interim Financial Statements (Stated in Canadian Dollars) (Unaudited)
June 30, 2018 and 2017

The following table represents the Company's convertible note derivative liability activity for the three months ended June 30, 2018 and 2017 respectively:

	June 30, 2018	June 30, 2017
Convertible note derivative liability balance, beginning of period	\$ 118,676	\$ 260,677
Issuance of derivatives liability, during the period	-	19,196
Change in fair value of derivative liability, during the period	(90,756)	(62,081)
Convertible note derivative liability balance, end of period	<u>\$ 27,920</u>	<u>\$ 217,762</u>

(b) Warrant Derivative Liabilities

The following table sets forth the range of inputs for each significant assumption:

	June 30, 2018	March 31, 2018
Stock Price	\$0.08 USD	\$0.09 USD
Risk free rate	2.14% - 2.73%	1.44% - 2.56%
Expected volatility	228% - 296%	126% - 228%
Conversion/Exercise price	\$0.04 USD - \$0.65 USD	\$0.04 USD - \$0.65 USD
Expected dividend rate	0%	0%
Expected life (in years)	0.50 - 4.07	0.75 - 4.32

The following table represents the Company's warrant derivative liability activity for the three months ended June 30, 2018 and 2017 respectively:

	June 30, 2018	June 30, 2017
Warrant derivative liability balance, beginning of period	\$ 91,474	\$ 236,200
Issuance of derivatives liability, during the period	-	27,152
Change in fair value of derivative liability, during the period	14,977	(147,797)
Warrant derivative liability balance, end of period	<u>\$ 106,451</u>	<u>\$ 115,555</u>

CanaQuest Medical Corporation (formerly Algae Dynamics Corp.)
Notes to the Condensed Interim Financial Statements (Stated in Canadian Dollars) (Unaudited)
June 30, 2018 and 2017

As at June 30, 2018, the following warrants were outstanding:

Expiration Date	Number of Warrants	Number of Warrants Exercisable	Weighted Average Exercise Price	Grant Date Fair Value - Equity
June 21, 2022	200,000	200,000	\$ USD\$0.50 \$ CAD\$0.66	\$ -
July 25, 2022	200,000	200,000	\$ USD\$0.50 \$ CAD\$0.66	-
January 17, 2022	900,000	900,000	\$ USD\$0.65 \$ CAD\$0.86	-
December 31, 2018	275,000	50,000	\$ USD\$0.04 \$ CAD\$0.05	-
	<u>1,575,000</u>	<u>1,350,000</u>	<u>\$ CAD\$0.67</u>	<u>\$ -</u>

The continuity of warrants for the period ended June 30, 2018 as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, March 31, 2018	1,575,000	\$ 0.64
Issued	-	\$ -
Expired, unexercised	-	\$ -
Balance, June 30, 2018	<u>1,575,000</u>	<u>\$ 0.67</u>

7) Capital Stock

(a) Common Shares

Authorized

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

Issued and Outstanding

On May 9, 2018, the Company issued 996,424 shares of common stock to satisfy obligations under share subscription agreements of \$124,827 for settlement of convertible notes included in equity to be issued.

On May 10, 2018, the Company issued 101,726 shares of common stock to satisfy obligations under share subscription agreements of \$13,062 for settlement of convertible notes included in equity to be issued.

Equity to be issued

At June 30, 2018, The Company is obligated to issue 100,000 shares of common stock value at \$27,185 for a twelve months consulting agreement which commenced on April 9, 2017.

At June 30, 2018, in accordance with the terms of convertible notes issued on June 21, 2017, the Company has a commitment to issue 560,000 shares of common stock to fully settle outstanding principal and interest totaling \$72,090. The shares to satisfy this obligation were issued on September 4, 2018 and September 10, 2018.

(b) Stock-based compensation

The Company's stock-based compensation program (the "Plan") includes stock options in which some options vest based on continuous service. For those equity awards that vest based on continuous service, compensation expense is recorded over the service period from the date of grant. The maximum number of options that may be issued under the plan is floating at an amount equivalent to 15% of the issued and outstanding common shares, or 2,654,788 as at June 30, 2017 (March 31, 2018 – 2,490,065).

The activities in options outstanding are as noted below:

	Number of Options	Weighted Average Exercise Price
Balance, March 31, 2018	2,020,000	\$ 0.45
Granted	-	\$ -
Balance, June 30, 2018	2,020,000	\$ 0.45

The following table presents information relating to stock options outstanding and exercisable at June 30, 2018.

Exercise Price	Options Outstanding		Options Exercisable		
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
\$ 1.73	185,000	1.46	185,000	\$ 1.73	1.46
\$ 2.43	85,000	2.52	85,000	\$ 2.43	2.52
\$ 0.38	425,000	3.32	311,667	\$ 0.38	3.32
\$ 0.15	850,000	4.33	375,417	\$ 0.15	4.33
\$ 0.19	475,000	4.74	172,500	\$ 0.19	4.54
\$ 0.45	2,020,000	3.83	1,129,584	\$ 0.65	3.40

For the three months ended June 30, 2018 and 2017, the Company recorded \$27,348 and \$18,192, respectively, as additional paid-in capital for options issued to directors, officers and consultants based on continuous service. This expense was recorded as stock-based compensation on the statements of operations.

CanaQuest Medical Corporation (formerly Algae Dynamics Corp.)
Notes to the Condensed Interim Financial Statements (Stated in Canadian Dollars) (Unaudited)
June 30, 2018 and 2017

	Number of Deferred Share Units
March 31, 2018	4,507,740
Granted, Deferred Share units	204,545
June 30, 2018	<u>4,712,285</u>

All deferred shares units granted by the Company have vested immediately. One deferred share unit may be exchanged for one share of common stock at the option of the holder.

For the three months ended June 30, 2018 and 2017, the Company granted 204,545 and NIL deferred share units valued at \$15,785 (\$0.0772 per unit) and \$NIL, respectively, as additional paid-in capital for deferred share units issued to consultants.

8) Commitments and Contingencies

The operating lease for office and production facilities expires on November 30, 2021. The base monthly rental is currently \$1,390 plus the Company's estimated portion of property taxes and operating expenses of \$899 per month. On January 1, 2019 the base monthly rental increased to \$1,853 and will further increase to \$1,946 in 2020, and \$2,039 in 2021. The future commitments pursuant to this lease, including property taxes and operating expenses for the fiscal periods ending March 31 are:

2019	\$ 22,107
2020	\$ 32,763
2021	\$ 33,875
2022	<u>\$ 23,500</u>

For the three month periods ended June 30, 2018 and 2017, occupancy costs related to this lease were \$6,867 and \$6,867, respectively.

On February 23, 2017, the Company entered into a three year sponsored research contract with the University of Waterloo commencing on April 1, 2017. Under the terms of the agreement the Company will contribute \$130,000 in Year 1, \$130,000 in Year 2 and \$130,000 in Year 3, plus the Company will make an in-kind contribution valued at \$70,000 in each of the 3 years. Any patents initiated by the Company from the sponsored research will be assigned to the Company and in return the Company will pay the researcher \$10,000 per patent filed, \$40,000 per patent issued by the U.S. patent office, \$50,000 per product after the first commercial sale and \$50,000 per product once the gross sales exceed \$1,000,000. As of February 15, 2019, the Company has made payments totaling \$130,000 under the terms of the payment schedule agreed to with the University.

On March 13, 2017, the Company entered into a four year sponsored research contract with the University of Western Ontario commencing on April 1, 2017. Under the terms of the agreement the Company will contribute \$210,000 in Year 1, \$210,000 in Year 2, \$210,000 in Year 3 and \$210,000 in Year 4, plus the Company will make an in-kind contribution valued at \$62,500 in each of the 4 years. Any patents initiated by the Company from the sponsored research will be assigned to the Company and in return the Company will pay the researcher \$10,000 per patent filed, \$40,000 per patent issued by the U.S. patent office, \$50,000 per product after the first commercial sale and \$50,000 per product once the gross sales exceed \$1,000,000. As of February 15, 2019, the Company had made additional payments totaling \$354,000 pursuant to the terms of the agreement as agreed to with the University.

The Company, as the industry partner, is the participant in a Project Grant of up to \$400,000 from the Mitacs Accelerate program that will be delivered directly to Western University through eligible internships. The Company's share of the Project Grant is \$180,000. On February 15, 2019, the Company has paid \$84,000 to Mitacs, with the remaining installments being invoiced by Mitacs to the Company throughout the duration of the project. The project started on December 1, 2017 and is scheduled to operate for two (2) years. The remaining commitment by the Company for 2019 is \$36,000 and in 2020 is \$60,000.

9) Advances – Related Parties

The Company from time to time borrows from its principal shareholders, officers and directors, to pay general operating costs. These advances are non-interest bearing, unsecured, and generally due upon demand. At June 30, 2018 and March 31, 2018, advances due to related parties are \$20,567 and \$NIL, respectively.

10) Financial Instruments

(a) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company generates cash flow primarily from its financing activities and advances – related parties. As at June 30, 2017, the Company had cash of \$Nil (March 31, 2018 - \$8) to settle current liabilities of \$908,558 (March 31, 2018 - \$948,251). All of the Company's financial liabilities other than the warrant liability of \$106,451 (March 31, 2018 - \$91,474), the term loan of \$52,000 (March 31, 2018 - \$52,000), the convertible notes of \$62,592 (March 31, 2018 - \$101,579), and derivative liability of \$27,920 (March 31, 2018 - \$118,676) have contractual maturities of less than 30 days and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity.

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

(b) Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits. Cash deposits with a major Canadian chartered bank are insured by the Canadian Deposit Insurance Corporation up to \$100,000. As at June 30, 2018, the Company held \$Nil (March 31, 2018 - \$8) with a major Canadian chartered bank.

(c) Foreign exchange risk

The Company principally operates within Canada. The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Certain of the Company's debt obligations are denominated in U.S. dollars. Management does not hedge its foreign exchange risk.

(d) Interest rate risk

As at June 30, 2018, the Company does not have any non-fixed interest-bearing debt. Management believes that the interest rate risk concentration with respect to financial instruments included in assets and liabilities has been reduced to the extent presently practicable.

11) Subsequent Events

On July 6, 2018, the Company signed an agreement with Edgewater Consulting Corp. to assist with the raising of capital funds. The agreement provides for a cash fee of \$52,355 plus the allocation of 41,885 warrants and the allocation of 150,000 stock options at an exercise price of \$0.50. One warrant can be exchanged for one share of common stock at an exercise price of \$0.75 up until October 26, 2020. The contract also provides for the provision of consulting services at \$3,000 per month to assist with the application for a public listing on a Canadian Exchange.

On July 25, 2018, the Company fully settled a convertible note and accrued interest totaling \$73,293 by agreeing to an obligation to issue 560,000 shares of common stock at a conversion price of USD\$0.10 per share.

On October 1, 2018, the Company signed an agreement with an individual to assist the Company with the public offering process. The terms of the agreement provide for the issuance of 50,000 Restricted Stock Units in accordance with the Stock Incentive Plan and a further 50,000 warrants at an exercise price of \$0.75 with an expiry date of October 26, 2020.

On September 4, 2018, the Company issued 560,000 shares of common stock to satisfy obligations under share subscription agreements of \$73,793 for settlement of convertible notes included in equity to be issued.

On September 4, 2018 and September 10, 2018, the Company issued 560,000 shares of common stock to satisfy obligations under share subscription agreements of \$72,090 for settlement of convertible notes included in equity to be issued.

On July 19, 2018, the Company issued a convertible note for \$100,000 in cash which is convertible into shares of common stock of the Company at \$0.25 per share subject to down-round features and anti-dilution protections. The convertible note matures on July 19, 2021. In conjunction with the issuance of the convertible note, the Company completed a private placement for 2,367,792 shares of common shares plus one-half common share purchase warrants for \$947,117 in cash (\$0.40 per Unit). One warrant can be exchanged for one common share at an exercise price of \$0.75 per share up until October 26, 2020.

On November 28, 2018, three officers and directors of the Company cancelled 1,050,000 shares of common stock of the Company.

On January 2, 2019, the Company issued 115,438 warrants with an exercise price of \$0.75 and an expiry date of January 2, 2020 to fully settle a dispute with three investors concerning the conversion price of convertible notes issued on August 14, 2017 and November 1, 2017 with a face value of \$67,602 (USD\$53,000) and \$25,700 (USD\$20,000), respectively.

