# HELIUS MEDICAL TECHNOLOGIES, INC.

# (FORMERLY KNOWN AS 0996445 B.C. LTD.)

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Nine months ended December 31, 2014**

(Expressed in United States Dollars)

**HELIUS MEDICAL TECHNOLOGIES, INC.**
**(formerly known as 0996445 BC Ltd.)**

Condensed Interim Consolidated Financial Statements
Nine Months Ended December 31, 2014

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## NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Helius Medical Technologies, Inc. ("Helius" or the "Company") for the nine months ended December 31, 2014 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

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

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

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

**Helius Medical Technologies, Inc.**
**(formerly known as 0996445 B.C. Ltd.)**
**Condensed Interim Consolidated Balance Sheets**
(Expressed in United States Dollars)

**(Unaudited)**

| | December 31, 2014 $ | March 31, 2014 $ |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | 2,906,399 | 15,968 |
| Receivables | 3,679 | - |
| Prepaid expenses (Note 7) | 456,334 | 300,000 |
| **Total current assets** | 3,366,412 | 315,968 |
| **TOTAL ASSETS** | 3,366,412 | 315,968 |
| **LIABILITIES & SHAREHOLDERS' EQUITY (DEFICIENCY)** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 1,210,245 | 215,921 |
| Convertible debenture (Note 4) | | 368,024 |
| **TOTAL LIABILITIES** | 1,210,245 | 583,945 |
| **SHAREHOLDERS' EQUITY (DEFICIENCY)** | | |
| Common stock (Note 5) (Unlimited Class A common shares authorized); (63,104,788 shares outstanding at December 31 and 32,070,052 at March 31, 2014) | 20,848,606 | 200 |
| Additional paid-in capital (Note 5) | 3,983,810 | 9,316,957 |
| Accumulated other comprehensive income | (177,897) | - |
| Accumulated deficit | (22,498,352) | (9,585,134) |
| **TOTAL STOCKHOLDERS' EQUITY (DEFICIENCY)** | 2,156,167 | (267,977) |
| **TOTAL LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIENCY)** | 3,366,412 | 315,968 |

Nature and continuance of operations (Note 1)
Commitment and contingencies (Note 7)
Subsequent events (Note 9)

These financial statements are authorized for issue by the Board of Directors on March 2, 2015. They are signed on the Company's behalf by:

*"Philippe Deschamps "* Director    *"Savio Chiu "* Director

(The accompanying notes are an integral part of these financial statements.)

**Helius Medical Technologies, Inc.**
**(formerly known as 0996445 B.C. Ltd.)**
**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**
(Expressed in United States Dollars)
**(Unaudited)**

| | Three Months Ended December 31 | | Nine Months Ended December 31 | |
|---|---|---|---|---|
| | **2014** **$** | **2013** **$** | **2014** **$** | **2013** **$** |
| **Operating Expenses** | | | | |
| Accreted interest expense | - | 55 | 180,701 | 55 |
| Advertising, marketing, & IR | 175,325 | - | 579,507 | - |
| Audit & accounting | 4,457 | - | 45,938 | - |
| Consulting fees | 91,179 | - | 134,343 | 300 |
| Insurance | 22,287 | - | 52,060 | - |
| Legal fees | 500,028 | 5,230 | 1,064,453 | 9,405 |
| Listing expense | - | - | 4,440,611 | - |
| Meals & travel | 102,098 | 8,549 | 209,150 | 15,151 |
| Office & general | 43,108 | 1,506 | 149,636 | 5,778 |
| Professional fees | - | - | 14,125 | - |
| Research & development | 952,343 | - | 2,618,226 | - |
| Stock-based compensation | 2,058,353 | 318,313 | 3,180,155 | 434,228 |
| Transfer agent & regulatory | 17,242 | - | 76,215 | - |
| Wages and salaries | 148,645 | - | 325,350 | - |
| **Loss** | (4,115,065) | (333,653) | (13,070,470) | (464,917) |
| **Other items** | | | | |
| Interest income | 2,845 | - | 20,036 | - |
| Foreign exchange gain (loss) | 549,844 | - | 137,216 | - |
| | 552,689 | - | 157,252 | - |
| **Net loss for the period** | (3,562,376) | (333,653) | (12,913,218) | (464,917) |
| **Other comprehensive income (loss)** | | | | |
| Translation adjustments | (490,742) | - | (177,897) | - |
| **Comprehensive loss for the period** | (4,053,118) | (333,653) | (13,091,115) | (464,917) |
| **Basic and diluted loss per common stock** | (0.06) | (0.01) | (0.24) | (0.01) |
| **Weighted average number of common stock outstanding – basic & diluted** | 63,104,788 | 32,070,052 | 55,066,317 | 32,070,052 |

(The accompanying notes are an integral part of these financial statements.)

**Helius Medical Technologies, Inc.**
**(formerly known as 0996445 B.C. Ltd.)**
**Condensed Interim Consolidated Statements of Stockholders' Equity (Deficiency) for the period from January 22, 2013 (inception) to December 31, 2014**
(Expressed in United States Dollars)
**(Unaudited)**

| | Common Stock | Amount | Additional Paid-In Capital | Accumulated Deficit | Accumulated other comprehensive income (loss) | Total Shareholders' Equity (Deficiency) |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| Balance at January 22, 2013 (Inception) | - | - | - | - | - | - |
| Shares issued to ANR and MPJ (Note 5) | 32,070,052 | 8,510,000 | - | - | - | 8,510,000 |
| Net loss and comprehensive loss | - | - | - | (8,517,850) | - | (8,517,850) |
| **Balance – March 31, 2013** | **32,070,052** | **8,510,000** | **-** | **(8,517,850)** | **-** | **(7,850)** |
| Stock-based compensation on 654,485 options granted and vested (Note 6) | - | - | 173,872 | - | - | 173,872 |
| Stock-based compensation on 2,300,000 options granted and vested (Note 6) | - | - | 560,082 | - | - | 560,082 |
| Stock-based compensation on 275,546 options granted and partially vested (Note 6) | - | - | 73,202 | - | - | 73,202 |
| Net loss and comprehensive loss | - | - | - | (1,067,284) | - | (1,067,284) |
| **Balance – March 31, 2014** | **32,070,052** | **8,510,000** | **807,156** | **(9,585,134)** | **-** | **(267,978)** |
| Stock-based compensation on 275,546 options granted and fully-vested (Note 6) | - | - | 50,303 | - | - | 50,303 |
| Shares issued to consultant for option exercise (Note 6) | 2,300,000 | 611,102 | (610,385) | - | - | 717 |
| Shares issued to consultant for option exercise (Note 6) | 930,031 | 247,365 | (247,075) | - | - | 290 |
| Recapitalization of Helius Medical Technologies, Inc. (Note 3) | 10,000,000 | 4,603,500 | - | - | - | 4,603,500 |
| Issuance of common stock for private placement (Note 5) | 15,240,000 | 6,178,606 | 837,396 | - | - | 7,016,002 |
| Share issuance cost (Note 5) | - | (482,680) | 102,874 | - | - | (379,806) |
| Equity component of convertible debenture (Note 4) | - | - | 177,097 | - | - | 177,097 |
| Stock-based compensation on 3,770,000 options granted (Note 6) | - | - | 1,526,999 | - | - | 1,526,999 |
| Conversion of convertible debenture (Note 4) | 2,564,705 | 1,180,713 | (180,254) | - | - | 1,000,459 |
| Stock-based compensation on 100,000 options granted (Note 6) | - | - | 117,549 | - | - | 117,549 |
| Stock-based compensation on 450,000 options granted (Note 6) | - | - | 1,081,747 | - | - | 1,081,747 |
| Stock-based compensation on 100,000 options granted (Note 6) | - | - | 88,552 | - | - | 88,552 |
| Stock-based compensation on 400,000 options granted (Note 6) | - | - | 231,851 | - | - | 231,851 |
| Net loss | - | - | - | (12,913,218) | - | (12,913,218) |
| Comprehensive loss | - | - | - | - | (177,897) | (177,897) |
| **Balance – December 31, 2014** | **63,104,788** | **20,848,606** | **3,983,810** | **(22,498,352)** | **(177,897)** | **2,156,167** |

(The accompanying notes are an integral part of these financial statements.)

**Helius Medical Technologies, Inc.**
**(formerly known as 0996445 B.C. Ltd.)**
**Condensed Interim Consolidated Statements of cash flows**
(Expressed in United States Dollars)
**(Unaudited)**

| | Nine Months Ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| **Cash flows from operating activities** | | |
| Net loss for the period | (12,913,218) | (464,917) |
| Adjustments for: | | |
| Accreted interest | 169,570 | - |
| Consulting expense | - | - |
| Research & development | - | - |
| Stock-based compensation | 3,180,155 | 434,228 |
| Listing expense | 4,440,611 | - |
| Changes in non-cash working capital items: | | |
| Receivables | (2,948) | - |
| Accounts payable | 988,782 | 3,707 |
| Prepaid expenses | (156,404) | - |
| **Net cash used in operating activities** | **(4,293,452)** | **(26,982)** |
| **Cash flows from investing activities** | | |
| Cash acquired on reverse take-over (Note 3) | 23,903 | - |
| Proceeds from bridge financing | 150,000 | - |
| **Net cash provided by investing activities** | **173,903** | **-** |
| **Cash flows from financing activities** | | |
| Issuance of share capital (net of share issuance costs) | 6,525,958 | - |
| Loans from shareholders | - | 26,876 |
| Convertible debenture proceeds | 633,195 | - |
| **Net cash provided by financing activities** | **7,159,153** | **26,876** |
| Foreign exchange | (149,173) | - |
| **Net change in cash and cash equivalents** | 3,039,604 | (106) |
| **Cash and cash equivalents, beginning of the period** | 15,968 | 217 |
| **Cash and cash equivalents, end of the period** | **2,906,399** | **111** |
| **Supplemental information of cash flows** | | |
| Interest paid in cash | 11,144 | - |
| Income taxes paid in cash | - | - |
| | **11,144** | **-** |

(The accompanying notes are an integral part of these financial statements.)

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Helius Medical Technologies, Inc. (formerly known as 0996445 B.C. Ltd.) ("Helius" or the "Company") was incorporated in British Columbia, Canada, on March 13, 2014. The Company is engaged primarily in the medical technology industry. On May 28, 2014, the Company completed a continuation via a plan of arrangement whereby the Company moved from being a corporation governed by the British Columbia Corporations Act to a corporation governed by the Wyoming Business Corporations Act. The Company's head office is located at 41 University Drive, Suite 400, Newtown, PA, USA 18940.

On June 13, 2014, the Company completed its acquisition of 100% of the issued and outstanding shares of Neurohabilitation Corporation ("Neuro") and changed its name to Helius Medical Technologies, Inc. to better reflect its new business. Neuro was incorporated in Delaware, USA, on January 22, 2013. The transaction was recorded as a recapitalization (the "Recapitalization"), as the control of the Company was acquired by the former shareholders of Neuro. Although legally Helius is regarded as the parent or continuing company, Neuro is treated as the accounting acquirer under IFRS. Consequently, the Company is deemed to be a continuation of Neuro and Helius is deemed to have been acquired in consideration for its issued and outstanding shares prior to the Recapitalization.

The Company had a wholly-owned subsidiary, 0995162 B.C. Ltd, which was dissolved on October 23, 2014. On December 17, 2014, Neuro incorporated a wholly-owned subsidiary, Helius Medical Technologies (Canada), Inc. ("Helius Canada").

The Company is listed on the Canadian Securities Exchange (the "CSE") and began trading on June 23, 2014, under the ticker symbol "HSM".

The financial information is presented in United States Dollars. The functional currency of the Company and Helius Canada is the Canadian Dollar and the functional currency of Neuro is the United States Dollars.

The Company has experienced recurring losses since inception and, as of December 31, 2014, the Company has working capital of $2,156,167 (March 31, 2014 – ($267,977)) and an accumulated deficit of $22,498,352 (March 31, 2014 - $9,585,134). Until the Company generates a level of revenue to support its cost structure, the Company expects to continue to incur substantial operating losses and net cash outflows. While the Company had cash and cash equivalents of $2,906,399 as of December 31, 2014 (March 31, 2014 - $15,968), management does not believe these resources will be sufficient to meet the Company's operating and capital needs through 2015. This material uncertainty gives rise to substantial doubt about the Company's ability to continue as a going concern.

The Company intends to fund ongoing activities by utilizing current cash and cash equivalents and by raising additional capital though equity or debt financings. There can be no assurance that the Company will be successful in raising additional capital or that such capital, if available, will be on terms that are acceptable to the Company. If the Company is unable to raise sufficient additional capital, the Company may be compelled to reduce the scope of its operations and planned capital expenditure or sell certain assets, including intellectual property asset. However, given the Company's current cash and cash equivalents balance and the Company's planned operating activities, the Company's recurring losses raise substantial doubt about the Company's ability to continue as a going concern.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the liabilities in the normal course of business. Even if the Company is able to raise additional capital, the Company may never become profitable, or if the Company does attain profitable operations, the Company may not be able to sustain profitability and positive cash flows on a recurring basis.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

The Company's condensed interim consolidated financial statements have been presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretation Committee ("IFRIC").

**Basis of presentation**

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with IFRS as issued by the IASB and interpretations of the IFRIC, on a basis consistent with the most recent annual consolidated financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended March 31, 2014.

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as held for trading, loans and receivables, and other financial liabilities that have been measured at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The areas involving a higher degree of judgment of complexity or where assumptions and estimates are significant to the financial statements are disclosed below in Note 2.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized during the period in which the estimate is revised if the revision affects only that period or during the period of the revision and further periods if the review affects both current and future periods.

These condensed interim consolidated financial statements have been prepared on the basis of IFRS standards that are published at the time of preparation and that are effective or available on December 31, 2014.

**Critical Accounting Estimates and Judgments**

The Company makes estimates and judgments concerning the future that will, by definition, seldom equal actual results. The following are the critical estimates and judgments applied by management that most significantly affect the Company's financial statements. The critical estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

- Functional currency: Management uses judgment when determining its functional currency. This determination includes an assessment of the indicators as prescribed in IAS 21, *The Effect s of Changes in Foreign Exchange Rates.* However, applying the factors in IAS 21 does not always result in a clear indication of functional currency. Where IAS 21 factors indicate differing functional currencies, management uses judgment in the ultimate determination of the functional currency. Significant judgment is required in this overall assessment of the indicators and determination of the Company's functional currency.
- Share-based payment transactions: The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them.

**Cash and Cash Equivalents**

Cash and cash equivalents comprise cash at banks and on hand, and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The short-term investments are readily redeemable term deposits held at the bank and are recorded at fair value. As at December 31, 2014, the short-term investments include $2,180,311 of principal and $2,520 of interest. The sole short-term investment denominated in Canadian funds has an annual yield of 1.28%. The remaining four short-term investments denominated in US funds have an annual yield of 0.25% each.

### Patents

Costs related to patent development, filing, and maintenance are expensed as incurred since the underlying technology associated with these assets is purchased or incurred in connection with our research and development efforts and the future realizable value cannot be determined.

### Concentrations of Credit Risk

The financial instrument which potentially subjects the Company to concentration of credit risk is cash and cash equivalents. The Company maintains cash and cash equivalents in bank accounts that, at times, may exceed federally insured limits. As at December 31, 2014, the Company has exceeded the federally insured limit. The Company has not experienced any losses in such amounts and believes it is not exposed to any significant risks on its cash and cash equivalents in bank accounts.

### Foreign Exchange Risk

The Company incur some operating expenses and had an equity financing in Canadian dollars which are subject to foreign currency fluctuations. The fluctuation of the Canadian dollar in relation to the US dollar will have an impact upon the profitability of the Company and may also affect the value of the Company’s assets and the amount of shareholders’ equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. A 10% change in currency will have an impact of $364 on net assets and $376,257 on net loss.

### Research and Development

Research and development costs are expensed as incurred. These costs include business development, and consulting and legal services.

### Income Taxes

The Company has adopted ASC 740, “*Income Taxes*”, which requires the Company to recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company’s financial statements or tax returns using the liability method. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect in the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

### Stock-Based Compensation

The Company applies the fair value method of accounting for all stock option awards, whereby the Company recognizes a compensation expense for all stock options awarded to employees, officers and consultants based on the fair value of the options on the date of grant, which is determined using the Black Scholes option pricing model. The options are expensed over the vesting period of the options.

### Foreign Exchange

The Company’s functional currency is the Canadian Dollar as this is the principal currency of the economic environment in which the Company operates. The presentation currency is the United States Dollar.

Assets and liabilities of the Company are translated into U.S. dollars at the exchange rate at the balance sheet date, equity accounts are translated at historical exchange rate and revenues and expenses are translated by using the average exchange rate. Translation adjustments are reported as cumulative translation adjustment and are shown as a separate component of other comprehensive income (loss) in the statements of stockholders’ equity (deficiency).

Neuro's reporting and functional currency is the United States dollar as this is the principal currency of the economic environment in which Neuro operates.

**Net Loss Per Common Stock**

Basic net earnings (loss) per share is computed by dividing net earnings (loss) available to common stockholders by the weighted average number of outstanding common stock for the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing the net earnings (loss) attributable to common stockholders by the weighted average number of common stock equivalents outstanding for the period determined using the treasury-stock method and the if-converted method, as applicable. As at December 31, 2014, there were 4,820,000 options (March 31, 2014 – 3,230,031) outstanding and 8,444,400 warrants (March 31, 2014 – nil) outstanding which have not been included in the weighted average common stock outstanding as these were anti-dilutive.

**Fair Value of Financial Assets and Liabilities**

All financial assets and financial liabilities are initially recorded at fair value and designated upon inception into one of the following categories: held-to-maturity, available-for-sale, loans and receivables or at held for trading.

Financial assets classified as held for trading are measured at fair value with unrealized gains and losses recognized through profit and loss. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Held-to-maturity instruments, loans and receivables and other financial liabilities and loss are measured at amortized cost using the effective interest rate method.

The Company's financial instruments consist primarily of cash and cash equivalents, accounts payable and accrued liabilities, and convertible debenture.

The Company has implemented the following classifications for its financial instruments:

a) Cash and cash equivalents has been classified as held for trading;
b) Receivables has been classified as loans and receivables; and
c) Accounts payable and accrued liabilities and convertible debenture have been classified as other financial liabilities.

ASC 820 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the inputs into three levels that may be used to measure fair value;

Level 1- Quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and

Level 3 – Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Cash and cash equivalents are measured using Level 1 inputs.

**New standards, interpretations and amendments**

Effective February 1, 2013, the Company adopted the following new and revised International Financial Reporting Standards.

- Amendment to IAS 1, Presentation of Financial Statements
  The amendments to IAS 1 revised the presentation of other comprehensive income (OCI). Separate subtotals are required for items which may subsequently be recycled through profit or loss and items that will not be recycled through profit or loss. The Company has updated the presentation of OCI on the face of the Statement of Comprehensive Income.

- IFRS 7 Financial Statements: Disclosures
  The amendment to IFRS 7 enhances the disclosure required when offsetting financial assets and liabilities. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

- IFRS 10 Consolidated Financial Statements
  IFRS 10 requires an entity to consolidate an investee when it 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. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation - Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. The application of the IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

- IFRS 11 Joint Arrangements
  IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. The application of the IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

- IFRS 12 Disclosure of Interests in Other Entities
  IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities. The application of the IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

- IFRS 13 Fair Value Measurement
  IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that 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. It also establishes disclosures about fair value measurement. The application of the IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements

- IFRS 9 Financial Instruments
  IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after February 1, 2015. The Company is in the process of evaluating the impact of the new standard on the accounting for the Company’s investments classified as available-for-sale and fair value through profit and loss.

## 3. RECAPITALIZATION

On June 13, 2014 the Company completed a Recapitalization transaction where the Company acquired 100% of the issued and outstanding shares of Neuro. In exchange, the Company issued a total of 35,300,083 shares to the shareholders of Neuro of which merged with a wholly-owned subsidiary of the Company, HMT Mergersub, for the purpose of the three-corner amalgamation. As a result, the former Neuro shareholders owned the majority of the outstanding shares of the Company upon completion of the transaction. The transaction is considered to be a Recapitalization and continuation of Neuro and the prior net assets of Helius Medical Technologies, Inc. have been acquired by Neuro. The ongoing Company has adopted the name Helius Medical Technologies, Inc. These financial statements present the results of Neuro with the exception of common stock which has been retroactively restated to reflect the Recapitalization (see Note 6). In connection with the Recapitalization, the Company advanced Neuro an unsecured loan in the amount of $150,000 (the "Bridge Loan"). The Bridge Loan was for a term of one year commencing on May 30, 2014, and was payable in a lump sum at the end of the term. The Bridge Loan bears interest at a rate of 8% per annum.

(Expressed in United States Dollars)

In connection to the completion of the transaction, the Company completed a private placement of 15,240,000 units at CAD $0.50 per unit. Each unit consisted of one common share of the Company and one half of a warrant exercisable at CAD $1.00 for twenty-four months. The Company also paid aggregate finders' fees of $412,200 and issued 824,000 finders' warrants. Each finder's warrant is exercisable at CAD $1.00 per share for a period of two years.

The purchase price was based on the fair value of the shares exchanged which was $4,603,500. The net assets acquired of Helius were as follows,

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 23,904 |
| Receivables | | 151,644 |
| Prepaids | | 5,970 |
| Accounts payable and accrued liabilities | | (18,627) |
| | $ | 162,891 |

The net charge of $4,440,611 was charged to the statement of operations and comprehensive loss as a listing expense.

## 4. CONVERTIBLE DEBENTURE

On February 19, 2014, the Company entered into a securities purchase agreement where the Company agreed to sell and issue a note with annual simple interest at 8% (the "Debenture"). A total of $1,000,100 in principal had been received. The Debenture matured on the earliest of (i) February 28, 2015 or such later date as agreed (ii) the closing of a transaction involving a change in control of the Company or (iii) the date of the closing of the Company's qualified financing being an aggregate amount of at least $2,000,000.

Upon completion of a qualified financing, the Debenture shall automatically convert into equity securities of the Company at a price per share equal to 85% of the price per share of the qualified financing. If a qualified financing did not occur on or before the maturity date, at the option of the Company's board of directors, the outstanding balance of the Debenture would be converted into the Company's equity securities at a conversion price per common stock determined using a valuation of $8.5 million and the number of shares outstanding at that date.

In the event of a change in control of the Company, the Company would pay the outstanding amount and an amount equal to 50% of the outstanding principal amount of the Debenture in cancellation of the Debenture.

On June 4, 2014, the Company entered into an amendment letter for the Debenture. Pursuant to the amendment letter, if any qualified financing being an aggregate amount of at least $2,000,000 occurred in Neuro or its affiliates, the principal amount of the Debenture would be automatically converted into common stock of the Company at a price per share equal to CAD $0.425. To clarify, upon conversion of the Debenture, the Company would issue a total of 2,564,705 common stock and pay $11,131 in cash with respect to the accrued and unpaid interest outstanding.

Upon closing of the Recapitalization, the Debenture was converted into 2,564,705 common stock of Helius with a fair value of $1,180,713. Accreted interest of $180,254 was expensed upon conversion of the Debenture.

As at December 31, 2014, the outstanding balance is $nil (December 31, 2013 - $nil). $11,131 of interest was paid on July 31, 2014.

## 5. COMMON STOCK

Authorized:

Unlimited Class A common stock without par value.

Each Class A common share is entitled to have the right to vote at any such meeting on the basis of one vote. Each Class A share held entitles the holder to receive dividends as declared by the directors. In the event of the liquidation, dissolution or winding-up of the Company other distribution of assets of the Company among its shareholders for the purposes of winding-up its affairs or upon a reduction of capital the holders of the Class A common shares shall, share equally, share for share, in the remaining assets and property of the Company.

Class B common shares and Class A preferred shares were deleted from the list of classes of shares the Company is authorized to issue by way of amendment to the Company's articles effective June 12, 2014.

*Prior to the Recapitalization*

The number of securities below reflects the Recapitalization and the exchange ratio retrospectively (Note 3).

On January 22, 2013, the Company issued a total of 16,035,026 shares to Advanced NeuroRehabilitation LLC ("ANR") for cash proceeds of $5,000 and an exclusive license right to ANR's patent pending technology and knowhow valued at $4.25 million per an independent valuation report. The valuation expert was engaged to assess the valuation of the costs incurred to date as well as the ongoing costs which would be required to bring the product to commercialization, discounted to the date of purchase. The statements regarding valuation of the exclusive license are extracted from the valuation expert's report. The Company recorded the $4.25 million exclusive license right as research and development expense per the Company's accounting policy.

On January 22, 2013, the Company also issued a total of 16,035,026 shares to MPJ Healthcare LLC for cash proceeds of $5,000. In addition, the Company recorded $4.25 million of stock based compensation expense.

On May 1, 2014, 2,300,000 options were exercised for 2,300,000 common stock for total proceeds of $717. Fair value of $610,385 was reallocated from additional paid-in capital to common stock.

On May 11, 2014, 930,031 options were exercised for 930,031 common stock for proceeds of $290. Fair value of $247,075 was reallocated from additional paid-in capital to common stock.

*After the Recapitalization*

Upon completion of the Recapitalization, the Company issued a total of 35,300,083 common stock to the shareholders of Neuro. (Note 3)

In connection to the Recapitalization, the Company closed a non-brokered private placement (the "Private Placement") at CAD $0.50 per unit of 15,240,000 units raising CAD $7.62 million on May 30, 2014. Each unit consists of one common stock of the Company and one half of a warrant of the Company where one full warrant is exercisable for 2 years at CAD $1.00 into one common stock. The fair value of the warrants issued was determined using the Black Scholes model and the Company used the relative fair value method to allocate $837,396 of the gross proceeds to Additional Paid-in Capital to account for the warrants issued.

The Company issued 2,564,705 common stock for conversion of the Debenture. (Note 4)

As at December 31, 2014, the Company has 63,104,788 shares issued and outstanding and 24,052,540 common stock held in escrow. All of the common stock in escrow will be released at a rate of 15% every six months.

(Expressed in United States Dollars)

## 6. STOCK OPTIONS

The number of securities below reflects the Recapitalization and the exchange ratio retrospectively (Note 3).

The Company has a stock option plan whereby the Company is authorized to grant options, performance share awards, or monetary payments based on the value of the stock to independent contractors enabling them to acquire up to a maximum of 12,108,016 common stock of the Company. Vesting and the term of an option is determined at the discretion of the Board of Directors of the Company.

On April 1, 2013, the Company granted a consultant company, 930,031 options for 10 years upon completion of certain services in accordance with a consulting agreement to lead the design and manufacturing program of the Company's technology. On December 4, 2013, 40,816 options vested. On May 11, 2014, all options were vested and exercised into 930,031 common stock.

On October 30, 2013, the Company granted 2,300,000 options exercisable for 10 years to a consultant company for strategic business advisory which are to vest upon completion of two milestones. On February 11, 2014, 1,150,000 options were vested upon completion of the first of the two milestones. On April 28, 2014, the remaining 1,150,000 options were vested upon completion of the second milestone. On May 1, 2014, all 2,300,000 options were exercised for 2,300,000 shares of Neuro.

On June 19, 2014, the Company granted 3,520,000 options to directors, officers, and consultants exercisable at CAD $0.60 for 5 years. One third of these options vested immediately upon granting. The remaining two thirds of the options will vest on June 19, 2015, and June 19, 2016 respectively.

On June 20, 2014, the Company granted 250,000 options to an IR consultant exercisable at CAD $0.60 for 5 years. 12.5% of these options vested immediately upon granting. The remaining 87.5% will vest at a rate of 12.5% every three months beginning September 20, 2014.

On July 14, 2014, the Company granted 100,000 options to a consultant exercisable at CAD $2.52 for 3 years. 25% of these options vested immediately upon granting. The remaining options will vest at a rate of 25% on September 30, 2014, December 31, 2014, and March 31, 2015, respectively.

On December 8, 2014, the Company granted 450,000 options to members of its scientific advisory board exercisable at CAD $2.92 for 5 years. All of these options vested immediately upon granting.

On December 8, 2014, the Company granted 100,000 options to a new director exercisable at CAD $2.92 for 5 years. One third of these options vested immediately upon granting. The remaining two thirds of the options will vest on December 8, 2015, and December 8, 2016 respectively.

On December 8, 2014, the Company granted 400,000 options to its new Chief Medical Officer exercisable at CAD $2.96 for 5 years. 25% of these options vested immediately upon granting. The remaining options will vest at a rate of 25% on June 8, 2015, December 8, 2015, and June 8, 2016, respectively.

As of December 31, 2014, the Company recognized a total of $3,180,155 in stock based compensation.

The continuity of stock options for the period ended December 31, 2014 is as follows:

| | Number of options | | Options Outstanding Weighted Average Exercise Price (CAD) |
|---|---|---|---|
| Balance, March 31, 2014 | 3,230,031 | $ | 0.00 |
| Granted | 4,820,000 | $ | 1.10 |
| Exercised | (3,230,031) | $ | 0.00 |
| Balance, December 31, 2014 | 4,820,000 | $ | 1.10 |

(Expressed in United States Dollars)

The options outstanding and exercisable at December 31, 2014 are as follows:

| | | | | | Options exercisable | | | |
|---|---|---|---|---|---|---|---|---|
| Number of shares | Options outstanding remaining contractual life (years) | | Exercise Price (CAD) | Aggregate Intrinsic Value (CAD) | Number of shares exercisable | | Exercise Price (CAD) | Aggregate Intrinsic Value (CAD) |
| 3,520,000 | 4.47 | $ | 0.60 | 7,708,800 | 1,173,337 | $ | 0.60 | 2,569,609 |
| 250,000 | 4.47 | $ | 0.60 | 547,500 | 93,750 | $ | 0.60 | 205,313 |
| 100,000 | 2.54 | $ | 2.52 | 27,000 | 75,000 | $ | 2.52 | 20,250 |
| 450,000 | 4.94 | $ | 2.92 | - | 450,000 | $ | 2.92 | - |
| 100,000 | 4.94 | $ | 2.92 | - | 33,334 | $ | 2.92 | - |
| 400,000 | 4.94 | $ | 2.96 | - | 100,000 | $ | 2.96 | - |

The Company used the Black Scholes option pricing model to estimate the fair value of the options as the fair value of the services provided could not be reliably calculated. The following assumptions were used:

| | | December 31, 2014 | March 31, 2014 |
|---|---|---|---|
| Risk-free interest rate (%) | | 1.43 – 1.49 | 1.45 – 1.65 |
| Dividend yield (%) | | - | - |
| Expected volatility (%) | | 94.88 – 192.99 | 84.17 – 116.82 |
| Expected option life (years) | | 3.25 – 5.00 | 4.33 – 5.00 |
| Fair value per option granted (CAD) | $ | 0.3380 – 0.3997 | 4.2555 – 4.2599 |
| Far value per option of unvested options (CAD) | $ | 0.3380 – 0.3977 | 4.2555 – 4.2599 |

The Black Scholes option pricing model was developed for use in estimating the fair value of share options that have no vesting provisions and are fully transferable. Also, option-pricing models require the use of estimates and assumptions including the expected volatility. The Company uses expected volatility rates which are based upon the average volatility rates of other companies in the same industry, due to the Company's limited history. The Company based the current stock price on the value per shares issued to date. Changes in the underlying assumptions can materially affect the fair value estimates.

(b) **Share Purchase Warrants**

The Company closed its Private Placement at CAD $0.50 per unit of 15,240,000 units raising CAD $7.62 million on May 30, 2014. Each unit consists of one common stock of the Company and one half of a warrant of the Company where one full warrant is exercisable for 2 years at CAD $1.00 into one common stock. In connection to the Private Placement, the Company issued 824,400 finder's warrants exercisable at CAD $1.00 for 2 years. The fair value of the warrants issued as units is $950,895 (CAD $1,032,795). The fair value of the finders' warrants is $102,870. Both fair values were determined by using the Black Scholes model based on the following assumptions:

| | | December 31, 2014 |
|---|---|---|
| Risk-free interest rate (%) | | 1.48 |
| Dividend yield (%) | | - |
| Expected volatility (%) | | 83.79 |
| Expected option life (years) | | 1.41 |
| Fair value (CAD) | $ | 0.1355 |

(Expressed in United States Dollars)

The continuity of warrants for the period ended December 31, 2014 is as follows:

| | Number of warrants | | Warrants Outstanding Weighted Average Exercise Price |
|---|---|---|---|
| Balance, March 31, 2014 | - | $ | - |
| Granted | 8,444,400 | $ | CAD 1.00 |
| Balance, December 31, 2014 | 8,444,400 | $ | CAD 1.00 |

The warrants outstanding and exercisable at December 31, 2014 are as follows:

| Number of warrants outstanding | Exercise Price | Expiry Date |
|---|---|---|
| 7,620,000 | CAD$1.00 | May 30, 2016 |
| 824,400 | CAD$1.00 | May 30, 2016 |

## 7. COMMITMENTS AND CONTINGENCIES

(a) The Company entered into a sub-license agreement with ANR for an exclusive right on ANR's patent pending technology, claims and knowhow. In addition to the issuance of 16,035,026 shares (Note 5), the Company agreed to pay a 4% royalty on net revenue on the sales of devices covered by the patent-pending technology and services related to the therapy or use of devices covered by the patent-pending technology.

(b) The Company entered into a commercial development-to-supply program with Ximedia where Ximedia will design, develop and produce PoNS product solution suitable for clinical trial and commercial sale. Under the program, the Company is responsible for ensuring the device is in compliance from the legal and regulatory standpoint. The agreed budget for phase 1B of development is $499,000; phase 2 is $1,065,000; Phase 3 and 4 is $1,389,000 and 2$^{nd}$ software development cycle is $586,000, of which $2,398,191 was expensed as research and development since inception to December 31, 2014. The estimated duration of the project is 10 months. Invoices are to be issued monthly for work in progress. The Company can cancel the project at anytime with a written notice at least 30 days prior to the intended date of cancellation. As of December 31, 2014, the Company recorded a prepaid of $300,000 to Ximedica which will be applied at the end of the project.

## 8. RELATED PARTY TRANSACTIONS

For the period ended December 31, 2014, the Company was a party to the following related party transactions not disclosed elsewhere in these financial statements:

During the period ended December 31, 2014, the Company paid $250,000 (December 31, 2013 - $nil) as wages to the CEO of the Company.

During the period ended December 31, 2014, the Company paid $25,000 (December 31, 2013 - $nil) as wages to the Chief Medical Officer of the Company.

During the period ended December 31, 2014, the Company paid $6,790 (December 31, 2013 - $nil) in consulting fees to a former director of the Company.

During the period ended December 31, 2014, the Company paid $16,000 (December 31, 2013 - $nil) in consulting fees to directors of the Company.

During the period ended December 31, 2014, the Company paid $67,898 (December 31, 2013 - $nil) to a company acting as the Company's corporate advisor and Chief Financial Officer.

During the period ended December 31, 2014, the Company recorded $928,144 (December 31, 2013 - $nil) in stock based compensation for officers and directors of the Company.

See also Notes 5 and 7.

## 9. SUBSEQUENT EVENTS

a) On January 5, 2015, Wicab, Inc. ("Wicab") filed a complaint against the Company, two of its directors, Yuri Danilov and Mitch Tyler, and ANR in the U.S. District Court for the Western District of Wisconsin. The complaint contained various state and common law claims arising from Danilov's and Tyler's prior employment with Wicab and the Company's two issued patents for the PoNS™ device. The complaint alleged, among other things, that following their departure from Wicab, Danilov and Tyler knowingly filed patent applications for and used ideas and inventions developed at Wicab in violation of various non-competition and confidentiality agreements, and that the Company's two issued patents are therefore rightfully the property of Wicab. The complaint sought an unspecified amount of monetary damages, an injunction preventing the Company from using the ideas and inventions in the two patents, an order transferring ownership of the patents from the Company to Wicab, and recovery of costs and attorneys' fees. The complaint was voluntarily dismissed without prejudice on January 14, 2015.

b) The Company listed on the OTCQB marketplace and began trading on February 10, 2015, under the ticker symbol "HSDT".

The Company has evaluated subsequent events through the issuance date of the financial statements. The Company is not aware of any additional significant subsequent events that occurred subsequent to the balance sheet date, but prior to the date of issuance that would have a material impact on the Company's financial statements.

## 10. COMPARATIVE INFORMATION

Certain comparative information has been reclassified to conform with the presentation adopted in the current period.