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M PHARMACEUTICAL INC.

Annual Consolidated Financial Statements

For the years ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

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Independent Auditor's Report

To the Shareholders of M Pharmaceutical Inc.

We have audited the accompanying consolidated financial statements of M Pharmaceutical Inc., which comprise the statement of financial position as at December 31, 2016 and December 31, 2015 and the statement of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated financial statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements, which indicate that the Company is currently in the development stage, is in a deficit position and is not yet generating operational cash flow. These conditions, along with other matters, as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

Comparative information

Without further modifying our opinion, we draw your attention to Note 19, to the financial statement which explains that certain comparative information for the years ending December 31, 2015 and as at December 31, 2014 have been restated.

BDO Canada LLP

Chartered Professional Accountants
Calgary, Alberta
May 1, 2017

M PHARMACEUTICAL INC.
Consolidated Statements of Financial Position
As at

(In Canadian Dollars)	Notes	**December 31, 2016**	December 31, 2015 (Restated)	December 31, 2014 (Restated)
		$	$	$
ASSETS				
Current Assets				
Cash and cash equivalents		**715,290**	1,474	41,266
Sales tax receivable		**22,821**	2,883	5,217
Prepaid expenses and deposits		**53,635**	8,743	35,656
Investments	*11*	**-**	-	240,000
Total Current Assets		**791,746**	13,100	322,139
Assets Held For Sale		**-**	-	180,000
Non-current Assets				
Fixed assets		**8,252**	-	-
Intangible assets	*7*	**2,010,688**	569,783	-
Total Assets		**2,810,686**	582,883	502,139
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)				
Current Liabilities				
Accounts payable and accrued liabilities	*10*	**784,971**	748,128	458,810
Promissory notes payable	*12*	**120,000**	92,718	66,907
Convertible debenture	*13*	**328,098**	125,491	-
Derivative liability	*9*	**1,359,235**	721,021	302,833
Decommissioning obligation		**-**	-	180,000
Total Current Liabilities		**2,592,304**	1,687,358	1,008,550
Shareholders' Equity (Deficit)				
Share capital	*8(a)*	**44,573,207**	42,013,547	39,672,753
Contributed surplus	*8(c)*	**9,922,661**	9,180,972	8,191,930
Accumulated other comprehensive income		**90,000**	-	(50,000)
Deficit		**(54,367,486)**	(52,298,994)	(48,321,094)
Total Shareholders' Equity (Deficit)		**218,382**	(1,104,475)	(506,411)
Total Liabilities and Shareholders' Equity (Deficit)		**2,810,686**	582,883	502,139

Going concern (Note 2)
Commitments and contingencies (Note 14)
Subsequent events (Note 18)

Director:
"Signed"
Rick Skeith

Director:
"Signed"
Gary Thompson

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

M PHARMACEUTICAL INC.

Consolidated Statements of Comprehensive Loss

For the years ended

(In Canadian Dollars)	*Notes*	December 31, 2016	December 31, 2015 (Restated)
		$	$
Expenses			
Payroll		109,898	-
Professional fees	*10*	754,483	312,176
General and administrative		69,330	339,441
Travel and promotion	*10*	117,546	118,177
Consulting fees	*10*	653,424	922,779
Research and development		106,385	-
Stock based compensation	*8*	599,689	2,167,042
Loss before the following items		(2,410,755)	(3,859,615)
Expenditures incurred for assets held for sale	*11*	17,091	(22,903)
Accretion	*13*	(85,019)	(87,719)
Depreciation		(1,456)	-
Impairment of intangible assets	*7*	-	(591,442)
Loss on settlement of promissory note			(99,003)
Gain (loss) on settlement of debt		16,304	(201,401)
Loss on sale of investments		-	(205,072)
Financing fees		(264,000)	-
Derivative fair value adjustment	*9*	1,758,236	1,092,031
Warrant inducement expenses	*9*	(1,071,291)	-
Interest expense	*12*	(27,602)	(2,776)
Net loss for the period		(2,068,492)	(3,977,900)
Other comprehensive loss			
Functional currency translation		90,000	-
Fair value gain on investments	*10*	-	50,000
Total comprehensive loss		(1,978,492)	(3,927,900)
Net loss per share - basic & diluted		(0.03)	(0.18)
Weighted average number of shares - basic & diluted		61,889,142	22,312,247

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

M PHARMACEUTICAL INC.
Consolidated Statements of Changes in Equity (Deficit)
As at

		Share capital					
	Notes	**Number of shares***	**Amount**	**Contributed surplus**	**Accumulated other comprehensive income**	**Deficit**	**Total equity (deficit)**
			$	**$**	**$**	**$**	**$**
Balance at December 31, 2014 (Restated)		8,066,678	39,672,753	8,191,930	(50,000)	(48,321,094)	(506,411)
Common shares issued for private placement	*8*	5,400,000	54,687	-	-	-	54,687
Common shares issued for debt issue	*8*	2,494,014	504,379	-	-	-	504,379
Common shares issued for consulting contract	*8*	2,000,000	200,000	-	-	-	200,000
Common shares issued for M Diagnostics Inc. acquisition	*6*	806,667	107,333	-	-	-	107,333
Common shares issued for RX Global Capital Inc. acquisition	*6*	9,522,400	1,173,584	-	-	-	1,173,584
Common shares issued for TriMtec Biomedical Inc. acquisition	*6*	1,000	200	-	-	-	200
Common shares issued for warrant exercise	*8*	70,000	9,100	-	-	-	9,100
Common shares issued for warrant exercise	*8*	330,000	85,900	-	-	-	85,900
Common shares issued for debenture interest prepayment	*12*	4,459,596	267,576	-	-	-	267,576
Finder's fees		-	(61,965)	9,000	-	-	(52,965)
Fair value loss on investment		-	-		50,000		50,000
warrants issued for RX Global acquisition		-	-	813,000	-		813,000
Stock based compensation		-	-	167,042	-		167,042
Loss for the period		-	-	-	-	(3,977,900)	(3,977,900)
Balance at December 31, 2015 (Restated)		33,150,355	42,013,547	9,180,972	-	(52,298,994)	(1,104,475)

M PHARMACEUTICAL INC.
Consolidated Statements of Changes in Equity (Deficit)
As at

	Notes	Share capital					
		Number of shares*	**Amount**	**Contributed surplus**	**Accumulated other comprehensive income**	**Deficit**	**Total equity (deficit)**
			$	**$**	**$**	**$**	**$**
Balance at December 31, 2015 (Restated)		33,150,355	42,013,547	9,180,972	-	(52,298,994)	(1,104,475)
Common shares issued for private placement	*8*	34,433,179	-	-	-	-	-
Share issue costs		-	-	142,000	-	-	142,000
Common shares issued for debenture conversion	*13*	29,197,308	1,367,860	-	-	-	1,367,860
Common shares issued for warrants exercised	*8*	2,000,000	173,800	-	-	-	173,800
Common shares issued for debenture interest	*13*	8,452,640	-	-	-	-	-
Common shares issued for property acquisition	*6*	20,000,000	800,000	-	-	-	800,000
Common shares issued for IP acquisition	*6*	10,000,000	218,000	-	-	-	218,000
Stock based compensation		-	-	599,689	-	-	599,689
Loss for the period		-	-	-	90,000	(2,068,492)	(1,978,492)
Balance at December 31, 2016		137,173,482	44,573,207	9,922,661	90,000	(54,367,486)	218,382

* Post Consolidated

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

M PHARMACEUTICAL INC.
Consolidated Statements of Cash Flows
For the year ended

(In Canadian Dollars)	***Notes***	**December 31, 2016**	December 31, 2015 (Restated)
		$	$
Cash and cash equivalents provided by (used in):			
Operating Activities			
Net (loss) for the year		**(2,068,492)**	(3,977,900)
Adjustments for items not affecting cash			-
Warrant inducement		**1,071,491**	-
Depreciation		**1,456**	-
Finance expense		**132,000**	-
Impairment of intangible assets		**-**	591,442
Derivative fair value adjustment	12	**(1,626,236)**	(1,092,031)
Accretion and accrued interest	11&12	**112,301**	87,719
Stock based compensation		**599,689**	2,167,042
Loss on settlement of promissory note		**-**	99,003
Gain on settlement of accounts payable		**(16,304)**	201,401
Loss on sale of investments		**-**	205,072
Changes in non-cash components of working capital			
Sales tax receivable		**(19,938)**	2,324
Prepaid expenses and deposits		**(44,892)**	33,805
Accounts payable and accrued liabilities		**53,146**	683,150
		(1,805,979)	(998,973)
Financing Activities			
Issue of common shares	*8(a)*	**960,829**	1,132,000
Share issue costs		**(196,582)**	(52,965)
Proceeds received from debenture	*13*	**2,098,160**	-
		2,862,407	1,079,035
Investing Activities			
Acquisition of fixed assets		**(9,707)**	-
M Diagnostics acquisition	*6*	**-**	(213,909)
RX Global acquisition, net of transaction costs	*6*	**-**	59,127
Acquisition of Intangible assets	*6 & 7*	**(332,905)**	(50,000)
Proceeds on sale of investments		**-**	84,928
		(342,612)	(119,854)
Increase (Decrease) in cash and cash equivalents		**713,816**	(39,792)
Cash and cash equivalents, beginning of the period		**1,474**	41,266
Cash and cash equivalents, end of the period		**715,290**	1,474

1. General information

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

2. Going concern

The ability of the Company to realize its business plan and continue operations is dependent upon the Company being able to commercialize a product for sale, to finance research, development and commercialization costs and compete in a competitive marketplace for the monitoring and treatment of obesity, diabetes, and other gastroenterological indications. There is no certainty whether the Company will generate significant revenues or attain profitable operations in the near future and there can be no assurance that it will achieve profitability in the future, as it incurred a loss of $2,068,492 for the year ended December 31, 2016, and has accumulated $54,367,486, of losses as at December 31, 2016.

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

3. Basis of preparation

Basis of measurement

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the measurement at fair value of certain financial assets and financial liabilities.

Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on May 1, 2017.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary significantly from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in Note 5 to the consolidated financial statements.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional, except M Pharmaceutical USA Inc. ("M Phama USA') which has a US dollar functional currency. M Pharma USA has been translated to Canadian dollars using the period end exchange rate for assets and liabilities and the average exchange rate for the period for expenses.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries-M Diagnostics Inc. ("M Diagnostics"), RX Global Capital Inc. ("RX Global"), TriMtec Biomedical Inc. ("TriMtec"), M Pharmaceutical USA Inc. ("M Pharma USA") as at December 31, 2016.

All significant intercompany balances and transactions have been eliminated upon consolidation. There are no non-controlling interests, therefore all loss and comprehensive loss is attributable to the shareholders of the Company.

4. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements in accordance with IFRS.

(a) Cash and cash equivalents

Cash equivalents include money market instruments and short term deposits which are readily convertible into known amounts of cash or have a maturity at the date of purchase of less than ninety days.

(b) Impairment of long-lived assets

Long-lived assets, including equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

(c) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change.

Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

(d) Stock-based compensation

The Company has an employee stock option plan. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate.

For stock options granted to non-employees the compensation expense is measured at the fair value of the goods and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from contributed surplus to share capital.

(e) Earnings/loss per share

The Company presents basic and diluted earnings/loss per share data for its common shares. Basic earnings/loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued. Items with an anti-dilutive impact are excluded from the calculation.

(f) Financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent.

(i) Financial assets

The Company initially recognizes financial assets at fair value on the date that they are acquired, adjusted for transaction costs, if applicable. All financial assets (including assets designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies its financial assets as available for sale or loans and receivables. Available-for-sale financial assets are initially recognized at fair value. Subsequent measurement is at fair value with unrealized gains or losses recognized in other comprehensive income. On disposal of an available-for-sale asset, a reclassification adjustment from other comprehensive income to profit or loss is recorded for the fair value adjustment previously recognized in total comprehensive income for the assets disposed of.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Financial liabilities

The Company initially recognizes financial liabilities at fair value on the date that they are originated, and are adjusted for transaction costs, if applicable. All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies its financial liabilities as either financial liabilities at fair value through profit or loss, or other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest rate method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss.

(iii) Transaction costs

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

(iv) Impairment of financial assets

Financial assets, other than those classified at fair value through profit and loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

(g) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company’s common shares, common share purchase warrants, and stock options, are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(h) Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

(i) Intangible assets

The Company owns intangible assets consisting of licensed patent rights and patent rights it acquired through acquisitions. An intangible asset acquired in a business combination with a finite life is recognized at its fair value on the date of acquisition, which is then charged to operating expenses through amortization. The intangible assets will be amortized once commercial operations commence.

Impairment tests on intangible assets with indefinite lives are undertaken annually at the financial year-end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Any impairment loss is charged to profit or loss.

(j) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the Company's statement of comprehensive loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria will be deemed by the Company to have been met when revenue is received by the Company and a determination that the criteria to capitalize development expenditures have been met. The expenditure capitalized will include the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are expensed as incurred. Capitalized development expenditures will be measured at cost less accumulated amortization and accumulated impairment losses.

(l) Foreign currency

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in profit or loss. Exchange gains and losses arising on the retranslation of available-for-sale financial assets are treated as a separate component of the change in fair value and are recognized in profit and loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in profit or loss or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

(m) New and revised IFRS in issue but not yet effective

IFRS 9 Financial Instruments ("IFRS-9")

IFRS 9 was issued by the IASB in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, and amortized cost. Financial liabilities held-for-trading are measured at fair market through profit or loss ("FVTPL"), and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is January 1, 2018. Management is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 15- Revenue from Contracts with Customers ("IFRS-15")

The IASB issued this standard to replace IAS 18 which establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for the Company for annual periods beginning on January 1, 2018, with required retrospective application and early adoption permitted.

Amendments to IAS 16- Property, Plant and Equipment ("IAS 16") and IAS 38- Intangible Assets ("IAS 18")

In May 2014, the IASB issued amendments to IAS 16 and IAS 38 to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

5. Critical judgments and accounting estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

(a) Impairment of non-financial assets (Judgment)

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

(b) Stock-based payment transactions (Estimate)

The Company measures the cost of equity-settled transactions with employees and non-employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for stock-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 and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the stock option.

(c) Off-market and convertible debt (Estimate)

The Company measures the fair value of the liability component of debt using a valuation technique significantly dependent on the assumption of a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert to equity. Similarly, when debt is issued to non arm's length individuals to the Company, a market rate of interest is required to determine the fair value of the instrument on initial recognition. The derived fair value estimate cannot always be substantiated by comparison with independent markets. The assumptions used for estimating fair value for debt are disclosed in Notes 13.

(d) Derivative liability (Estimate)

Estimating fair value for derivative liability transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the instrument. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life and volatility of the conversion feature.

(e) Decommissioning obligation (Judgment)

Amounts recorded for decommissioning obligations and related accretion are based on management's best estimate of the present value of the future decommissioning, abandonment and site reclamation costs and consider the current economic environment, the expected extent and timing of decommissioning, abandonment and site reclamation activities, related government regulations including lease liability ratings, inflation, and obligation specific discount rates. These estimates are reviewed periodically. Actual decommissioning, abandonment and site reclamation costs will ultimately depend on future events and may be higher or lower than the amounts currently recorded.

(f) Impairment of assets held for sale (Judgment)

The Company assesses, at each reporting date, whether there is objective evidence that assets classified as held for sale are impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset held for sale that can be reliably estimated. Evidence of impairment may include indicators that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Significant judgment is required to assess the Company's assets held for sale for impairment. Management must first determine whether indicators of impairment exist that suggest the carrying value may not be recoverable through the asset's continued use or sale.

(g) Going concern (Judgment)

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company's ability to continue as a going concern and the conditions that cast doubt upon the going concern assumption (Note 2).

6. Acquisitions

Acquisitions for the year ended December 31, 2015:

	M Diagnostics	RX Global	TriMtec	Total
Cash	$-	$44,827	$-	$44,827
Trust account		24,300		24,300
Sales tax receivable		6,892		6,892
Intangible assets (Note 7)	321,242	569,783	200	891,225
Accounts payable		(240,818)		(240,818)
Promissory notes (Note 12)		(208,400)		(208,400)
Stock-based compensation		1,800,000		1,800,000
	$321,242	$1,996,584	$200	$2,318,026
Cash	$188,909	$-	$-	$188,909
Common shares (Note 8)	107,333	1,173,584	200	1,281,117
Warrants (Note 8)		813,000		813,000
Transaction costs	25,000	10,000		35,000
	$321,242	$1,996,584	$200	$2,318,026

On February 18, 2015, the Company entered into an agreement with various arm's length parties to purchase all of the issued and outstanding shares of M Diagnostics Inc**.** The purchase price consisted of US$150,000 in cash; 806,667 common shares and a 3% royalty on sales of any product based on the intellectual property rights (Note 14). The transaction was determined to be an asset acquisition. The common shares are subject to a 3 year escrow agreement, with 10% of the escrowed shares being immediately releasable, and the balance being released in equal tranches every six months thereafter.

On March 10, 2015, the Company entered into an agreement with various parties, which included directors of the Company, to purchase all the issued and outstanding shares of RX Global Capital Inc. The purchase price was paid as follows: 9,522,400 common shares, 5,664,000 replacement warrants at an exercise price of $0.25. Directors of the Company received 1,587,200 of the common shares issued and 1,440,000 of the warrants. 3,500,000 of the common shares are subject to a 3 year escrow agreement, with 10% of the escrowed shares being immediately releasable, and the balance being released in equal tranches every six months thereafter. The acquisition also included a 4% royalty on sales of any product based on the intellectual property rights (Note 14). The fair value the consideration paid of exceeded the net assets acquired, the difference was noted as an unidentified asset and recorded as stock based compensation. The transaction was determined to be an asset acquisition.

On May 7, 2015 the Company entered into an agreement (a related party) to purchase all the issued and outstanding shares of TriMtec Biomedical Inc. for 1,000 common shares. TriMtec entered into a licensing agreement on May 4, 2015 to the rights related to intellectual property held by a third party (Note 7).

Acquisitions for the year ended December 31, 2016:

	C-103	**ToConceive**	**Total**
Cash	262,905	-	262,905
Common shares	218,000	800,000	1,018,000
Transactions costs	35,000	35,000	70,000
Intangible assets	$ 515,905	$ 835,000	$ 1,350,905

On July 15, 2016, the Company closed on its previously announced (April 6, 2016) agreement to acquire intellectual property assets from Chelatexx, LLC, an arm's length entity, related to a reformulated version of orlistat (product "C-103"). The addition of C-103 provides a novel weight loss pharmaceutical product to the M Pharma pipeline. The purchase price consisted of $262,905 in cash; 10,000,000 common shares and a 4% royalty on sales of any product based on the intellectual property rights (Note 14). The common shares are subject to a 3 year escrow agreement, with 10% of the escrowed shares being immediately releasable, and the balance being released in equal tranches every six months thereafter. A volatility of 177% was used in the Black Scholes model, a 10% point change in volatility would result in $11,750 change in the fair value of the shares issued. The transaction was determined to be an asset acquisition.

On November 8, 2016, the Company closed on an agreement to acquire intellectual property assets from ToConceive LLC, an arm's length party, related to a women's health product used as an infertility treatment. The purchase price consisted of 20,000,000 common shares and a 5% royalty on sales of any product based on the intellectual property rights (Note 14). The transaction was determined to be an asset acquisition.

7. Intangible assets

	M Diagnostics	RX Global	TriMtec	C-103	ToConceive	Total
At December 31, 2014	$ -	$ -	$ -	$ -	$ -	$ -
Acquisition of intellectual property	321,242	569,783	200	-	-	891,225
Licence payment	-	-	270,000	-	-	270,000
Impairment	(321,242)	-	(270,200)	-	-	(591,442)
At December 31, 2015	$ -	$569,783	$ -	$ -	$ -	$569,783
Acquisition of intellectual property (Note 6)	-	-	-	515,905	835,000	1,350,905
Foreign exchange				83,000	7,000	90,000
At December 31, 2016	$ -	$569,783	$ -	$598,905	$842,000	$2,010,688

During the prior year, the activity related to M Diagnostics has been suspended. As a result the intangible assets related to M Diagnostics were impaired.

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

The Company has completed an impairment assessment at December 31, 2016 and 2015, which included a peer based analysis. It was determined that there was no impairment of the intellectual property related to the RX Global, C-103 or ToConceive acquisition. The impairment assessment used unobservable inputs and the valuation has been determined to be a level 3 measurement in the fair value hierarchy.

8. Share capital

(a) Authorised

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

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

In February 2015, the Company completed a private placement and raised gross proceeds of $1,080,000 by issuing 5,400,000 units at $0.20 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable for 2 years from closing at an exercise price of $0.50 per common share. The common share purchase warrants were recognized, as derivative liability as they breached the “fixed–for-fixed” criteria, using the assumptions in Note 9.

The Company issued 110,600 finder’s warrants related to the February 2015 private placement. The Company recognized $9,000 of share issue costs related to the finder’ & warrants, using the following assumptions: term 1 year, share price $0.20, exercise price $0.50, Volatility 169%, risk free rate 1.25%, dividend rate nil.

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

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

On September 15, 2015, the Company issued 2,000,000 common shares at $0.10 per share. The common shares were issued pursuant to the executive consulting contract owing by the Company. This amount has been recognized as stock based compensation in the profit and loss.

On September 15, 2015, the Company issued 330,000 common shares. The common shares were issued pursuant to exercised warrants with an exercise price of $0.13 per common share. The warrants were repriced from $0.50 per common share and subsequently exercised. The derivative liability related to the warrants was $43,000, which was reclassified to share capital on the exercise of the warrants.

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

On June 27, 2016, the Company completed a private placement and raised gross proceeds of $860,830 by issuing 34,433,179 units at $0.025. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable for 1 year from closing at an exercise price of $0.05 per common share. The common share purchase warrants were recognized, as derivative liability as they breached the fixed for fixed criteria, using the assumptions in Note 9.

The Company issued 868,800 finder's warrants related to the June 27, 2016 private placement. The Company recognized $142,000 of share issue costs related to the finder' warrants, using the following assumptions: term 1 year, share price $0.025, exercise price $0.05.

On July 11, 2016 2,000,000 shares were issued pursuant to exercise of warrants at $0.05 for cash proceeds of $100,000. The derivative liability related to the warrants was $73,800, which was reclassified to share capital on the exercise of the warrants.

Common share purchase warrants

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

A summary of the changes in the Company's share purchase warrants during the year ended December 31, 2016 and December 31, 2015 (post consolidated) are as follows:

	Number of Warrants (Post Consolidated)	Weighted Average Exercise Price	
Balance, January 1, 2015	**6,708,998**	**$**	**0.50**
Issued	15,634,196	$	0.29
Exercised	(330,000)	$	0.13
Expired	(1,104,000)	$	0..50
Balance, December 31, 2015	**20,909,194**	**$**	**0.35**
Issued	70,295,619	$	0.05
Exercised	(2,000,000)	$	0.05
Expired	(5,285,598)	$	0.50
Balance, December 31, 2016	**83,919,215**	**$**	**0.10**

As at December 31, 2016, the following common share purchase warrants were outstanding:

Expiry date	Exercise Price ($)	Warrants
July 24, 2017	0.50	100,000
February 6, 2017	0.50	4,375,000
February 13, 2017	0.50	1,025,000
October 27, 2017	0.10	4,459,596
February 7, 2017	0.25	5,440,000
February 7, 2020	0.25	224,000
June 27, 2017	0.05	34,433,179
June 27, 2017	0.05	868,800
June 30, 2017	0.05	18,864,640
June 30, 2017	0.05	1,640,000
September 7, 2018	0.08	6,774,640
September 7, 2018	0.08	94,840
September 20, 2018	0.08	1,678,000
September 20, 2018	0.08	15,520
October 3, 2017	0.08	3,926,000
		83,919,215

(c) Stock based compensation

The Company has established a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors and employees of the Company as well as persons providing ongoing services to the Company. The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed 10% of the total number of common shares outstanding immediately prior to such an issuance. Under the plan, the Board of Directors has the choice of either vesting or allowing options issued to be exercisable upon issuance. Options are normally issued for a five-year term. During the year ended December 31, 2016, 7,400,000 (2015 – 2,775,000) options were granted. The stock options granted vest 1/3 immediately, 1/3 on the first anniversary and 1/3 on the second anniversary.

A summary of the share option transactions for the year ended December 31, 2016 and 2015 are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2015	**2,352,750**	**$ 0.17**
Granted	7,400,000	$ 0.08
Expired	(1,302,750)	$ 0.15
Balance, December 31, 2016	**8,450,000**	**$ 0.09**

The following table summarizes stock options outstanding and exercisable under the Company's stock option plan as at December 31, 2016:

Expiry date	Options Outstanding Exercisable	Exercise Price per share ($)	Options
May 17, 2020	400,000	0.17	266,667
June 10, 2020	650,000	0.17	433,333
July 25, 2021	7,400,000	0.08	2,466,667
	8,450,000	0.09	3,166,667

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

	December 31, 2016	December 31, 2015
Exercise price	**$0.08**	$0.11-$0.17
Grant date share price	**$0.08**	$0.06-$0.21
Time to maturity	**5 years**	5 years
Risk-free rate	**0.65%**	1.25%
Volatility	**227%**	169%-172%
Dividend rate	**nil**	nil

(d) Contributed surplus

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

	December 31, 2016	December 31,2015 (Restated)
Balance, beginning of the period	**$ 9,180,972**	$ 8,191,930
Stock based compensation	**599,689**	167,042
Warrants issued on acquisition (Note 6)	**-**	813,000
Finder's warrants (Note 8)	**142,000**	9,000
Balance, end of the period	**$ 9,922,661**	$ 9,180,972

9. Derivative liabilities and warrants

Warrants are issued in connection with private placements of common shares, convertible debentures and promissory notes with an exercise price in Canadian dollars. All warrants have been treated as derivative financial liabilities as exercise price of the warrants may be adjusted if the Company issues common shares at less than 95% of the quoted market price. The fair value movement during the period was recognized in profit or loss (however, warrants issued to agents and brokers are classified as stock based compensation and are therefore not accounted for as liabilities and are not subject to re-measurement at each statement of financial position date). The Company also issues convertible debentures and the conversion features were considered a derivative liability and measured in accordance with the above. The Company uses the Black-Sholes Option Pricing Model to determine the fair value of the derivative liabilities at inception and at each period end.

Balance, December 31, 2014 (Restated)	**$302,833**
Warrants issued with sale of Common Shares (Note 8)	1,025,313
Warrants issued with Debentures (Note 13)	162,964
Conversion Features issued with Debentures (Note 13)	364,942
Exercise of warrants (Note 8)	(43,000)
Derivative fair value adjustment	(1,092,031)
Balance, December 31, 2015 (Restated)	**$721,021**

Balance, December 31, 2015 (Restated)	**$721,021**
Conversion Features issued with Debentures (Note 13)	1,390,395
Warrants issued with Debentures (Note 13)	412,226
Warrants issued with sale of Common Shares (Note 8)	860,830
Exercise of warrants (Note 8)	(73,800)
Warrants issued on conversion of debentures (Note 13)	1,071,291
Conversion of debentures (Note 13)	(1,264,492)
Derivative revaluation adjustment	(1,758,236)
Balance, December 31, 2016	**$1,359,235**

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

	Warrants December 31, 2015	Warrants December 31, 2016	Conversion Feature December 31, 2015	Conversion Feature December, 31, 2016
Exercise price	$0.05-0.50	$0.05-$0.08	$0.08	$0.08
Grant date share price	$0.07	$0.04	$0.07	$0.04
Time to maturity	1.4 years	0.9 years	2.7 years	2.7 years
Risk-free rate	0.50%	0.75%	0.50%	1.25%
Volatility	60-197%	157-213%	169%	213%
Dividend rate	nil	nil	nil	nil

10. Related party transactions

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

(a) Key Management compensation consists of:

(i) Consulting fees and director salaries

During the year ended December 31, 2016, the Company incurred total consulting fees to the directors and to the directors companies for $90,000 (2015 - $108,400) of which $21,000 (2015 - $10,500) is owed at period end.

During the year ended December 31, 2016, the Company incurred total director salaries of $101,398 (2015 - $Nil) for its US subsidiary.

During the year ended December 31, 2016, the Company incurred total consulting fees to Management and to Management's companies for $159,741 (2015 - $361,276). A balance of $37,909 (2015 - $15,833) is owed at year end.

(ii) Accounting fees

During the year ended December 31, 2016, the Company incurred and paid total accounting fees to the management's company for $37,800 (2015 – 20,000).

(iii) Legal and professional fees

During the year ended December 31, 2016, the Company incurred and paid total legal and professional fees to a director's company for $252,893 (2015 - $182,167). A balance of $324,970 (2015 - $342,874) is owed at year end.

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

11. Investments

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

12. Promissory notes payable

On March 8, 2012, the Company issued a promissory note with a face value of $300,000 bearing annual interest of 10% payable in common shares. The promissory note matured on March 8, 2014. The Company settled the promissory note with $200,000 of cash, 2,000,000 common shares of the Company, 1,000,000 warrants at a strike price of $0.50 per share, 2,000,000 common shares of a private exploration company (Note 11), and a new promissory note for principal amount of $100,000 that matures June 29, 2016 and bears annual interest of 10% which is payable at the anniversary of the note. On December 31, 2016, promissory note is still outstanding. Outstanding interest payable on this prom note as at December 31, 2016 is $20,000.

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

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

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

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

During the year ended December 31, 2016 $27,282 accretion and interest was recorded.

		December 31, 2016		December 31, 2015
Balance, beginning of the period	**$**	**92,718**	$	66,907
Issuance of promissory notes		**-**		208,400
Accrued accretion and interest expense		**27,282**		76,411
Repayment, principle and interest		**-**		(259,000)
Balance, end of the period	**$**	**120,000**	$	92,718

13. Convertible debentures

On October 27, 2015, the Company issued unsecured convertible securities ("Debentures") with face value of $743,266 to settle trade payables in the amount of $449,266 and promissory notes with fair value of $245,000 (Note 12).

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

The terms of the October 27, 2015 debentures are 36 months at 10% annual simple interest. The interest was paid up front through the issuance of Prepaid Interest Units on the date of issuance. Each Interest Unit consists of one common share of the Company's common stock and one common share purchase warrant with an exercise price of $0.08 and a term of two years. The conversion price will be adjusted if the Company completes a rights offering for less than 95% of the quoted price. The variability of the conversion price creates a derivative which has been recognized as a financial liability.

On June 28, 2016 the Company completed a private placement for less than 90% of the quoted price, consisting of units consisting of shares and warrants with an exercise price of $0.03 (Note 8 & Note 9), therefore triggering the ratchet clause of the October 27, 2015 debentures. As such, the exercise price was reduced to $0.03 for one unit which consists of one share and one common share purchase warrant. The issuance of the warrant on conversion of the debentures was recognized as inducement and has been recorded as an expense. In all other respects, the terms of the original debentures remain unchanged.

Subsequent to amendment, debentures with a face value of $660,764 were converted into 26,430,640 common shares valued. The aggregate impact was a reduction of the debenture value of $93,859.

On September 7, 2016 ("Tranche 1") the Company issued an unsecured convertible securities ("Debentures") with face values of $1,693,660. In connection the closing, 6,774,640 common shares and warrants were issued as prepaid interest. In addition, finder's fees of $100,040 and 94,840 broker warrants, which have the same terms as the warrants issued as part of the Prepaid Interest Units, were issued. All securities issued on this closing are restricted from trading until January 8, 2017.

On September 20, 2016 ("Tranche 2") the Company issued an unsecured convertible securities ("Debentures") with a face value of $404,500. In connection the closing, 1,678,000 common shares and warrants were issued as prepaid interest. In addition, finder's fees of $15,520 and 15,520 broker warrants, which have the same terms as the warrants issued as part of the Prepaid Interest Units, were issued. All securities issued on this closing are restricted from trading until January 21, 2017.

Each debenture of Tranche 1 and Tranche 2 are convertible into common shares at an exercise price of $0.08. However, the conversion price will be adjusted if the Company completes a rights offering for less than 90% of the quoted price. The variability of the conversion price creates a derivative which has been recognized as a financial liability.

The terms of the Tranche 1 and Tranche 2 debentures are 36 months at 10% annual simple interest. The interest was paid up front through the issuance of Prepaid Interest Units. Each Interest Unit consists of one common share of the Company's common stock and one common share purchase warrant with an exercise price of $0.08 and a term of two years. The conversion price will be adjusted if the Company completes a rights offering for less than 95% of the quoted price. The variability of the conversion price creates a derivative which has been recognized as a financial liability.

The Company determined that the fair value of the consideration (the "transaction price") was the best evidence of fair value as the transaction was an arm's length transaction, between knowledgeable, willing parties who were under no compulsion to act unless the fair value is more readily determinable in reference to other observable market transactions in the same financial instrument or observable market data. "

The values attributed to the loans on the date of issuance were determined to be $238,202 and $57,337 for each the September 7, 2016 and September 20, 2016 debentures respectively by applying a risk-adjusted rate of 85.9% and 85.83% respectively to discount the monthly repayments over the life of the loan. During the year accretion expense of $nil was recognized for each of the tranches. During the year accretion expense of $47,591 and $10,286, were recognized on tranche 1 and tranche 2 respectively.

The conversion features were determined to be embedded derivatives and as the valuation model consisted of both market observable and unobservable inputs, the derivative liabilities were initially recognized on the statement of financial position at the transaction price amount of $1,119,451 and $270,944 on initial recognition for September 7, 2016 and September 20, 2016 respectively. At December 31, 2016, after re-valuation, a gain of $1,010,967 and $248,796 for the September 7, 2016 and September 20, 2016 tranches respectively were recognized in profit or loss.

The warrants were determined to be embedded derivatives and were estimated to have a value of $336,007 and $76,219 on initial recognition for September 7, 2016 and September 20, 2016 respectively. At December 31, 2016 after re-valuation, a gain of $321,394 and $71,582 on the September 7, 2016 and September 20, 2016 debentures respectively were recognized in profit or loss.

The warrants and conversion feature were valued using Black Scholes Option Pricing Model with the following assumptions:

	Warrants		**Conversion Feature**	
	September 7, 2016	September 20, 2016	September 7, 2016	September 20, 2016
Exercise price	$0.08	$0.08	$0.075	$0.075
Time to maturity	2	2	3	3
Risk-free rate	55%	59%	55%	59%
Volatility	40.8%	43.5%	40.8%	43.5%
Dividend rate	nil	nil	nil	nil

In December 2016 debentures with a face value of $172,500 from Tranche 1 were converted into 2,300,001 common shares. The aggregate impact was a reduction of the debenture value of $23,890.

On December 21, 2016, $35,000 of the September 22, 2016 Tranche 2 debentures were converted into 466,667 common shares. The debenture value was reduced by $4,885.

14. Commitments and contingencies

The Company may be required to make milestone, royalty, and other research and development funding payments under research and development collaboration and other agreements with third parties. These payments are contingent upon the achievement of specific development, regulatory and/or commercial milestones. The Company has not accrued for these payments as of December 31, 2016 due to the uncertainty over whether these milestones will be achieved. The Company's significant contingent milestone, royalty and other research and development commitments are described in Note 6.

15. Capital management

The Company considers its capital structure to include working capital, debt and shareholders' equity. The Company monitors capital based on annual funds used in operations, and the availability of debt and equity capital. The Company prepares budgets for its capital expenditures, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors.

The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. In order to maintain or adjust its capital structure, the Company may issue new shares. The Board of Directors does not establish quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements and the Company's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2015.

16. Income taxes

The provision for income taxes varies from the amount that would be computed by applying the expected tax rate to income (loss) before income taxes. The principle reason for differences between such "expected" income tax expense and the amount actually recorded are as follows:

	December 31, 2016	December 31, 2015
Loss before income taxes	$ (2,068,492)	$ (3,977,900)
Statutory income tax rate	27.36%	26.0%
Tax recovery	(565,962)	(1,034,254)
Non-deductible expenses	332,002	55,162
Stock based compensation	155,919	563,430
Impairment of intangible assets	-	101,125
Other	(437,922)	(329,329)
Disposal of resource property tax pools	(4,290,687)	4,290,687
Expired non capital losses	-	244,634
Adjustment to prior year pool balances	197,099	
Change in unrecognized deferred tax asset	4,609,551	(3,891,455)
Balance, end of the year	$ -	$ -

There was a change in the tax rate from 26% to 27.36% due to a change in jurisdiction. The statutory income tax rate represented is a blended Canadian and U.S. statutory tax rate (2015 – Canadian statutory tax rate). The operations of the Company are in both Canada and in the U.S. and therefore this rate would provide a more meaningful representation of the tax consequences. In 2015, the tax rate used was the Canadian statutory tax rate as operations were primarily in Canada.

The components of the unrecognized net deferred income tax asset at December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Fixed and intangible assets	**$ 3,496,638**	**$ -**
Other	**63,109**	**99,398**
Share issue costs	**41,554**	**16,986**
Non-capital losses	**5,235,556**	**4,110,922**
Balance, end of the year	**$ 8,836,857**	**$ 4,227,306**

The potential benefits of these carry-forward non-capital losses and deductible temporary differences has not been recognized in these financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

At December 31, 2016, the Company had Canadian tax losses of $19.6 million (2015 - $15.8 million) that will expire between 2031 and 2036, and U.S. tax losses of approximately CAD $403,000 (2015 - $Nil) which will expire in 2036.

17. Financial risk management

Financial instruments consist of cash and cash equivalents, investments, sales tax receivable, accounts payable and accrued liabilities, promissory notes payable, convertible debentures and derivative liabilities. Cash and cash equivalents and sales tax receivable are categorized as loans and receivables; investments are categorized as held for sale; accounts payable and accrued liabilities, promissory notes and convertible debentures are categorized as other financial liabilities. Derivative financial liabilities and investments are measured at fair value.

IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly (ie. as prices) or indirectly (ie. derived from prices); and

Level 3: Inputs that are not based on observable market data.

The carrying values of cash and cash equivalents, investments, sales tax receivable, accounts payable and accrued liabilities, promissory notes payable, and convertible debentures approximate their fair values and any difference would not be significant. Investments in marketable securities are recognized at the level 1 fair value at the date of the financial statements using the quoted market price.

The Company measures its derivative liabilities at fair value through profit or loss and has determined this valuation to be a level 2 valuation as it is based on inputs that are observable.

The Company measures its investments at fair value through profit or loss and has determined this valuation to be a level 3 valuation as it is based on inputs that are unobservable. The inputs include the financial information of a private company.

Risk exposures:

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk, market risk and interest rate risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's policy is to ensure that its investments are liquid and not to invest in asset backed commercial paper products. At December 31, 2016 the Company's credit risk was $738,111 (December 31, 2015 - $4,357) and is concentrated in cash and cash equivalents, investments and sales tax receivable.

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the period. The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted.

As the Company has not entered into any hedging arrangements, it is not exposed to credit risk associated with possible non-performance by counterparties to any such derivative financial instrument contracts.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. However, since the Company is in the research and development phase and is dependent upon capital markets to provide sufficient funds to continue its research and development activities, the Company may not be able to limit its liquidity risk during periods of uncertainty in the capital markets (see Note 2).

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures and board approval of significant individual expenditures to further manage capital expenditures.

Accounts payable and accrued liabilities promissory notes payable are due on demand and convertible debentures are due October 2018 ($82,500), September 2019 ($1,890,660).

(iii) Market risk

Market risk consists of interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with a risk management policy as set out herein. As the Company is managing in the pre-production stage of development these risks affect the Company's ability to raise capital.

(iv) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not exposed to interest rate risk as at December 31, 2016 as the promissory notes payable (Note 12) and the convertible debentures (Note 13) is at a fixed rate of interest.

18. Subsequent events

All references to dollars in this note are to US currency. On February 16, 2017, the Company acquired certain assets from 40J's LLC, a private Ohio based company. The Company paid $300,000 in cash at closing, issued 38,837,000 shares and unsecured 5 year notes in the principal amount of $2,500,000 which are convertible, at the option of either the Company or the holders, into common shares of the Company at such time as the Company completes a financing in excess of $1,000,000 on the same terms of such financing. The Company is also liable for deferred cash payments and possible milestone payments of approximately $3,450,000 and will pay a mid-single digit royalty on sales of the female sexual dysfunction drug once commercialized. The assets purchased consisted of a number of patents relating to an FDA cleared topical gel combining Menthol & L-arginine. This innovative formulation can be paired with many different ingredients to address a multitude of medical issues.

The Company has entered into a technology into an agreement to intellectual property in exchange for $250,000, upon successful publication of study, $2,000,000 on FDA approval.

Subsequent to year end 4,375,000 warrants expiring on February 6, 2017 and 1,025,000 warrants expiring on February 13, 2017 were repriced from $0.50 to $0.05 and 1,932,500 warrants were exercised.

19. Restatement

During the preparation of the December 31, 2016 consolidated financial statements, it was determined that the Company's prior year consolidated financial statements required correction for the following reason:

The warrants issued include a down round (ratchet clause) whereby the exercise prices for the issued warrants could be adjusted in the event the Company subsequently issues rights, options or warrants at a price less than 95% of the current market price, to existing shareholders of the company (Note 9).

The summary of the adjustments is as follows:

	As previously reported	Adjustments	As restated
January 1, 2015			
Derivative liability	$ -	$ 302,833	$ 302,833
Share capital	40,969,783	(1,297,030)	39,672,753
Contributed surplus	8,231,930	(40,000)	8,191,930
Deficit	(49,405,291)	(1,034,197)	(48,371,094)
December 31, 2015			
Derivative liability	$ 357,647	$ 363,374	$ 721,021
Share capital	44,292,890	(2,279,343)	42,013,547
Contributed surplus	9,383,936	(202,964)	9,180,972
Deficit	(54,417,927)	2,118,933	(52,298,994)
Derivative fair value adjustment	(7,295)	(1,084,736)	(1,092,031)