PIVOTAL THERAPEUTICS INC.
(A Development Stage Company)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Six months ended June 30, 2015

NOTICE TO READER

The management of Pivotal Therapeutics Inc. ("the Company") is responsible for the preparation of the accompanying condensed interim consolidated financial statements. The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the financial position, financial performance and cash flows of the Company.

These condensed interim consolidated financial statements have not been reviewed by the Company's auditor. These condensed interim consolidated financial statements are unaudited and include all adjustments consisting of normal and recurring items that management considers necessary for a fair presentation of the financial position, financial performance and cash flows.

PIVOTAL THERAPEUTICS INC.

(A Development Stage Company)
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

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PIVOTAL THERAPEUTICS INC.
(A Development Stage Company)
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015
(with comparative amounts as at December 31, 2014)

	JUNE 30, 2015	DECEMBER 31, 2014
ASSETS		
Current assets		
Cash	$ 11,319	$ 466,904
Accounts receivable	18,392	56,130
Government remittances receivable	22,623	224,857
Inventory (Note 3)	251,719	282,748
Prepaid expenses and other current assets	34,529	58,945
	338,582	1,089,584
Non-current assets		
Equipment (Note 4(a))	389,643	424,929
Intangible assets – Intellectual property (Note 4(b))	721,534	672,429
	$ 1,449,759	$ 2,186,942
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	$ 1,084,428	$ 448,986
Government remittances payable	165,247	34,051
Interest payable on convertible promissory notes	45,825	45,825
Convertible promissory notes (Note 5)	6,638,767	-
Conversion option derivative liability (Note 6)	302,976	-
	8,237,243	528,862
Convertible promissory notes (Note 5)	-	5,933,340
Conversion option derivative liability (Note 6)	-	174,866
	8,237,243	6,637,068
COMMITMENTS (Note 9)		
DEFICIENCY IN ASSETS		
Share capital (Note 7(a))	8,581,833	8,272,938
Other paid-in capital (Note 7(b))	2,495,812	2,495,812
Warrants (Notes 7(c))	732,645	732,645
Deficit	(18,597,774)	(15,951,521)
	(6,787,484)	(4,450,126)
	$ 1,449,759	$ 2,186,942

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
The accompanying notes form an integral part of these Condensed Interim Consolidated Financial Statements.

Approved by the Board of Directors

Signed: *"John Gebhardt"*

John Gebhardt, Director, Chairman of the Audit Committee and Chairman of the Board

Signed: *"Eugenio Bortoluzzi"*

Eugenio Bortoluzzi, CEO and CFO, and Director

PIVOTAL THERAPEUTICS INC.
(A Development Stage Company)
(Expressed in Canadian Dollars)
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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the six month periods ended June 30, 2015 and 2014

	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
SALES	$ 114,663	$ 73,791	$ 268,176	$ 126,323
RETURNS AND ALLOWANCES	124,522	-	124,522	-
	(9,859)	73,791	143,654	126,323
COST OF SALES	21,980	29,871	41,438	60,543
	(31,839)	43,920	102,216	65,780
EXPENSES				
Research and development	113,298	207,727	250,881	373,500
Stock-based compensation	-	491,098	-	1,000,050
Selling fees and marketing	130,471	559,304	392,285	815,752
Salaries and benefits (Note 8)	213,356	224,360	369,002	448,035
Consulting (Note 8)	110,300	164,708	225,800	336,083
Office and general	81,214	215,225	153,806	292,784
Professional fees	38,563	137,774	73,217	162,839
Rent and utilities	22,770	20,659	45,014	38,613
Registration fees	14,882	14,559	22,647	21,605
Depreciation of equipment	24,550	17,803	49,090	32,203
Amortization of intangible asset	10,977	9,311	21,420	17,726
	760,381	2,062,528	1,603,162	3,539,190
LOSS BEFORE FINANCING EXPENSES	(792,220)	(2,018,608)	(1,500,946)	(3,473,410)
Accretion expense (Note 5)	364,550	-	705,427	111,343
Interest on long term debt	156,145	154,170	308,895	201,692
Financing fees	-	-	2,875	-
Loss on change in fair value of conversion option (Note 6)	142,056	-	128,110	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIODS	$ (1,454,971)	$ (2,172,778)	$ (2,646,253)	$ (3,786,445)
LOSS PER SHARE - BASIC AND FULLY DILUTED	$ (0.02)	$ (0.02)	$ (0.03)	$ (0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES - BASIC AND FULLY DILUTED	95,013,710	91,916,277	95,013,710	91,916,277

The accompanying notes form an integral part of these Condensed Interim Consolidated Financial

PIVOTAL THERAPEUTICS INC.
(A Development Stage Company)
(Expressed in Canadian Dollars)
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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six month periods ended June 30, 2015 and 2014

	Share Capital	Shares to be Issued	Warrants	Other Paid-in Capital	Deficit	Total
Balance, December 31, 2014	$ 8,272,938	$ -	$ 732,645	$ 2,495,812	$ (15,951,521)	$ (4,450,126)
Issuance of common shares	308,895	-	-	-	-	308,895
Net loss for the period	-	-	-	-	(2,646,253)	(2,646,253)
Balance, June 30, 2015	$ 8,581,833	$ -	$ 732,645	$ 2,495,812	$ (18,597,774)	$ (6,787,484)
Balance, December 31, 2013	$ 7,962,346	$ -	$ 537,943	$ 1,458,518	$ (10,570,259)	$ (611,452)
Stock-based compensation	-	-	-	1,000,050	-	1,000,050
Value contributed to equity component of convertible promissory note	-	-	331,640	1,085,422	-	1,417,062
Net loss for the period	-	-	-	-	(3,786,445)	(3,786,445)
Balance, June 30, 2014	$ 7,962,346	$ -	$ 869,583	$ 3,543,990	$ (14,356,704)	$ (1,980,785)

The accompanying notes form an integral part of these Condensed Interim Consolidated Financial Statements.

(Expressed in Canadian Dollars)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six month periods ended June 30, 2015 and 2014

	June 30, 2015	June 30, 2014
Cash flows from operating activities		
Net loss for the period	$ (2,646,253)	$ (3,786,445)
Items not affecting cash		
Depreciation of equipment	49,090	32,203
Amortization of intangible asset	21,420	17,726
Stock-based compensation	-	1,000,050
Accretion expense	705,427	111,343
Interest expense	308,895	-
Loss on revaluation of derivative	128,110	-
Net change in non-cash working capital items relating to operating activities		
Accounts receivable	37,738	(14,592)
Government remittances receivable	202,234	(11,667)
Inventory	31,029	71,104
Prepaid expenses	24,416	65,294
Productions advance	-	(4,102)
Accounts payable and accrued liabilities	635,442	(17,003)
Government remittances payable	131,196	11,172
Cash used in operating activities	(371,256)	(2,524,917)
Cash flows from investing activities		
Acquisition of equipment	(13,804)	(375,979)
Additions to intangible assets	(70,525)	(49,898)
Cash used in investing activities	(84,329)	(425,877)
Cash flows from financing activities		
Loan payable	-	(109,289)
Note payable	-	5,362,961
Cash provided by financing activities	-	5,253,672
(Decrease) increase in cash during the period	(455,585)	2,302,878
Cash, beginning of period	466,904	487,199
Cash, end of period	$ 11,319	$ 2,790,077

The accompanying notes form an integral part of these Condensed Interim Consolidated Financial Statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 1 NATURE OF OPERATIONS AND GOING CONCERN

Pivotal Therapeutics Inc. (the "Company") or ("New Pivotal") was formed on April 7, 2011, as a result of an amalgamation between Media Script Marketing Inc. and Pivotal Therapeutics Inc. ("Old Pivotal"). The Company is a specialty pharmaceutical company dedicated to the rapid discovery, development and marketing of prescription grade pharmaceuticals with proven efficacy and safety. The Company has funded its activities through the issuance of common shares and warrants, and notes and loan payable. Its head office is located at 81 Zenway Blvd., Unit 10, Woodbridge, Ontario, Canada L4H 0S5.

The condensed interim consolidated financial statements were approved by the Board of Directors on August 28, 2015.

These condensed interim consolidated financial statements are prepared on the assumption that the Company is a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. The Company has yet to generate substantial revenue and has relied upon the issuance of debt and equity instruments to fund operations. There is no assurance that the Company will be able to continue to raise funds in this manner on acceptable terms, if at all, leading to substantial doubt surrounding the Company's ability to continue as a going concern. Failure to obtain such additional financing could result in delay or indefinite postponement of the Company's strategic goals. These condensed interim consolidated financial statements do not include any adjustments relative to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

NOTE 2 BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

(a) Statement of compliance

The Company has prepared these condensed interim consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting,* employing all of the same accounting policies and methods of computation as disclosed in the annual audited consolidated financial statements as at December 31, 2014. The notes to these condensed interim consolidated financial statements are intended to provide a description of events and transactions that are significant to an understanding to the changes in the Company's financial position and performance since December 31, 2014. Certain disclosures that appear in the annual consolidated financial statements have not been reproduced in these condensed interim consolidated financial statements and, in this regard only, these condensed interim consolidated financial statements do not conform in all respects to the requirements of IFRS for the annual audited consolidated financial statements. Accordingly, these condensed interim consolidated financial statements should only be read in conjunction with the annual audited consolidated financial statements as at December 31, 2014.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2 BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE (continued)

(b) Basis of presentation
These condensed interim consolidated financial statements have been prepared on an historical cost basis, except for certain financial instruments 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.

(c) Significant accounting estimates and judgements
The preparation of these condensed interim consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of assets and liabilities at the financial reporting date and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgements and estimates. These condensed interim consolidated financial statements include judgements and estimates which, by their nature, are uncertain. The impacts of such judgements and estimates are pervasive throughout the condensed interim consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and also in future periods when the revision affects both current and future periods.

(d) Functional currency
The presentation and functional currency of the Company is the Canadian dollar.

NOTE 3 INVENTORY

Inventory consists of work in progress amounting to $213,176 and finished goods amounting to $38,543 as at June 30, 2015 (December 31, 2014 work in progress - $267,088, finished goods - $15,660). During the period ended June 30, 2015 the Company did not recognize any additional inventory impairment related to slow-moving inventory.

(Expressed in Canadian Dollars)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 4 EQUIPMENT AND INTANGIBLE ASSETS – INTELLECTUAL PROPERTY

(a) Equipment

	June 30, 2015	December 31, 2014
Cost		
Opening balance	$ 549,977	$ 131,271
Additions	13,804	418,706
Ending balance	563,781	549,977
Accumulated depreciation		
Opening balance	125,048	56,903
Depreciation for the year	49,090	68,145
Ending balance	174,138	125,048
Net carrying value	$ 389,643	$ 424,929

(b) Intangible Assets – Intellectual Property

	June 30, 2015	December 31, 2014
Cost		
Opening balance	$ 786,242	$ 659,167
Additions	70,525	127,075
Ending balance	856,767	786,242
Accumulated amortization		
Opening balance	113,813	78,458
Amortization for the year	21,420	35,355
Ending balance	135,233	113,813
Net carrying value	$ 721,534	$ 672,429

NOTE 5 CONVERTIBLE PROMISSORY NOTES

During the year ended December 31, 2014, the Company completed a debt financing whereby it offered units ("Units") consisting of $1,000 of Convertible Promissory Notes ("Notes") and warrants to purchase 1,200 shares of the common stock of the Company.

NOTE 5 CONVERTIBLE PROMISSORY NOTES – continued

As at December 31, 2013 the Company had received advances of $1,915,425 ("Advances") for Units to be issued upon closing of the financing. The carrying amount of the Advances at December 31, 2013 was $1,859,767. Interest on the Advances received was waived until the closing of the financing. Therefore the Company treated the initial Advances as an interest free loan. The market interest rate was estimated to be 18% and resulted in an initial fair value of the liability of $1,790,905 and corresponding gain in other-paid in capital of $124,520.

After initial recognition the Advances were carried at amortized cost and accreted to their face value upon closing of the transaction, on March 4, 2014, using the effective interest rate of 23%. As at June 30, 2015, $Nil (June 30, 2014 - $55,658) has been recognized as accretion expense related to the Advances.

On March 4, 2014, the Company closed the financing issuing a total of 7,744 Units for gross proceeds of $7,743,580. The March 4, 2014 Notes were accounted for as a new issuance and an extinguishment of the Advance. The Notes carry an interest rate of 8% per annum with interest payable quarterly in cash or common shares at the option of the Company valued at the greater of $0.20 per share and such price as may be allowed under the Canadian Securities Exchange policy (CNSX policy). A total of 9,292,296 warrants were issued as part of the financing. Each warrant may be exercised for a period of five years from the date of issuance at an exercise price of $0.30 per common share. The Notes mature two years from the date of issuance and are convertible into common shares at a price of $0.20 (the "Conversion Price"). The Conversion Price is subject to a full ratchet adjustment upon the Company's issuance of common stock, warrants or rights to purchase common stock or securities convertible into common stock for a consideration per share which is less than the then applicable Conversion Price of the Notes (the "Conversion Feature").

The Company incurred financing costs associated with the transaction of $480,533 and issued 1,641,586 agent warrants. The agent warrants were valued at $194,702, carry an exercise price of $0.30 and are exercisable for a period of five years.

The Conversion Feature results in cash flows that vary from the underlying debt component. Accordingly, the Company has applied IAS 39 "financial instruments: recognition and measurement", and determined that the Conversion Feature meets the definition of an embedded derivative that requires separation from the host contract. The Conversion Feature includes an obligation for the Company to deliver a variable number of common shares resulting in the recognition of a derivative liability. The warrants are a separate instrument which result in an obligation for the Company to deliver a fixed number of common shares and therefore were recorded in equity.

In accounting for the Notes, the Company used the residual value method to allocate the proceeds between the debt component, the Conversion feature and the warrants. The fair value of the Conversion Feature was $2,366,094, computed using the binomial model. The fair value of the debt component, was computed as the present value of future cash flows discounted at a rate of 20% per annum representing a

(Expressed in Canadian Dollars)

NOTE 5 CONVERTIBLE PROMISSORY NOTES – continued

market interest rate. The fair value of the debt component amounted to $5,377,486. The residual value of $Nil was allocated to the warrants.

The combined financing costs of $675,235, were prorated based on the fair value of the debt component and Conversion Feature. Financing costs of $458,260 were capitalized to the debt component and $201,635 were allocated to the Conversion Feature and recorded through profit or loss on initial recognition.

After initial recognition the convertible promissory notes are carried at amortized cost and accreted to their face value on maturity using an effective interest rate of 23%.

Advances on convertible notes	$	1,915,425
Discount recorded to other paid-in capital		(124,520)
Accretion of discount on advances		68,862
Carrying value, December 31, 2013		1,859,767
Accretion of discount to maturity		55,658
Extinguishment of advances on convertible notes		(1,915,425)
Face value of Notes on March 4, 2014		7,743,580
Value allocated to conversion feature		(2,366,094)
Financing costs allocated to Notes		(458,260)
Accretion of discount on debenture		1,014,114
Carrying value, December 31, 2014		**5,933,340**
Accretion of discount on debenture		705,427
Carrying value, June 30, 2015	**$**	**6,638,767**

As at June 30, 2015, $705,427 (June 30, 2014 - $55,685) has been recognized as accretion expense related to the convertible promissory notes.

NOTE 6 CONVERSION OPTION DERIVATIVE LIABILITY

In connection with the convertible note financing (Note 5), the Company recognized a conversion option derivative liability measured at fair value with subsequent changes in fair value accounted for through the consolidated statements of loss and comprehensive loss.

The fair value of the conversion option derivative liability was initially measured at $2,366,094 using the binomial model with the following assumptions: Term – 2 years, Volatility - 111%, interest rate – 1.06% and a discount rate of 54%.

The conversion option derivative liability is revalued at the end of each reporting period. The conversion option derivative liability as at June 30, 2015 was $302,976 (June 30, 2014 - $Nil). The change in the fair value recognized in the consolidated statements of loss and comprehensive loss for the period ended June 30, 2015

(Expressed in Canadian Dollars)

NOTE 6 CONVERSION OPTION DERIVATIVE LIABILITY - continued

was $128,110. The conversion option derivative liability was revalued at June 30, 2015 using the binomial model with the following assumption: Term – .68 years, Volatility – 147.38%, interest rate – 0.60% and a discount rate of 54%.

NOTE 7 SHARE CAPITAL

(a) Shares

Authorized
Unlimited number of common shares without par value

Issued and outstanding
95,013,710 common shares

The common share transactions over the year are as follows:

	Number of Shares	Amount
Closing balance December 31, 2013	**91,916,277**	**$ 7,962,346**
Issuance of common shares during the year	1,552,959	310,592
Closing balance December 31, 2014	**93,469,236**	**$ 8,272,938**
Issuance of common shares during the period	1,544,474	308,895
Closing balance June 30, 2015	**95,013,710**	**$ 8,581,833**

(i) During the year ended December 31, 2014, the Company issued 1,552,959 common shares with a value of $310,592 for payment of interest on the convertible promissory notes.

(ii) During the period ended June 30, 2015, the Company issued 1,544,474 common shares with a value of $308,895 for payment of interest on the convertible promissory notes.

(b) Stock Options

The Company has a rolling stock option plan for its directors, officers, employees and consultants retained by the Company or any of its subsidiaries or affiliates to provide common shares of the Company at a price as determined by the Board of Directors. The maximum aggregate number of common shares reserved for issuance pursuant to the plan is 15% of the issued and outstanding common shares.

(Expressed in Canadian Dollars)

NOTE 7 SHARE CAPITAL – continued

(b) Stock Options - continued

On March 14, 2014, the Company granted previously reserved stock options to certain of its directors, officers, employees and consultants in recognition of past service. Options to acquire a total of 4,075,000 common shares of the Company were granted in accordance with the provisions of the Company's 2011 stock option plan approved by shareholders on March 10, 2011. The options are exercisable at an exercise price of $0.20, vest immediately and will expire five years following the date of the grant.

On April 7, 2014, the Company granted previously reserved stock options to certain of its directors, officers, employees, and consultants in recognition of past service. Options to acquire a total of 4,176,000 common shares of the Company were granted in accordance with the provisions of the Company's 2011 stock option plan approved by the shareholders on March 10, 2011. The options are exercisable at an exercise price of $0.20, vest immediately, and will expire five years following the date of the grant.

On September 12, 2014, the Company granted previously reserved stock options to an officer and an advisor. Options to acquire 1,000,000 common shares of the Company were granted in accordance with the provisions of the Company's 2011 stock option plan approved by the shareholders on March 10, 2011. The options are exercisable at an exercise price of $0.20, vest immediately, and will expire five years following the date of the grant.

The fair value of the options granted during the year ended December 31, 2014 of $1,037,294 was determined using the Black-Scholes option pricing model using the following weighted average assumptions:

Risk free interest rate	1.71%
Expected life in years	5 years
Expected volatility	85%
Weighted average fair value per option granted	$0.11

The Black-Scholes option valuation model were developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. The Company's stock options are not transferable and cannot be traded, thus the Black-Scholes model may over-estimate the actual value of the options that the Company has granted. The Black-Scholes model also requires an estimate of expected volatility.

During the year ended December 31, 2014, 1,375,000 stock options granted to past directors were not exercised within the required options period following the director's departure and were forfeited.

(Expressed in Canadian Dollars)

NOTE 7 SHARE CAPITAL – continued

(b) Stock Options - continued

During the six month period ended June 30, 2015, 1,350,000 stock options granted to a past director and a past employee were not exercised within the required options period, following the director's and employee's departure, and were forfeited.

Following is a summary of options outstanding at June 30, 2015, exercise price and expiry date:

Dates Options Granted	Number of Options	Exercise Price ($)	Expiry Date
January 11, 2011	300,000	0.10	January 11, 2016
February 7, 2011	200,000	0.10	February 7, 2016
March 10, 2011	799,000	0.10	March 10, 2016
May 24, 2011	1,500,000	0.45	May 24, 2016
August 18, 2011	100,000	0.30	August 18, 2016
August 26, 2011	300,000	0.30	August 26, 2016
November 22, 2011	200,000	0.25	November 22, 2016
March 29, 2012	200,000	0.29	March 29, 2017
March 14, 2014	3,550,000	0.20	March 14, 2019
April 7, 2014	3,326,000	0.20	April 7, 2019
September 12, 2014	500,000	0.20	September 12, 2019
	10,975,000		

(c) Warrants

The following table summarizes activity of the Company's warrants, exercisable for common shares for period ended June 30, 2015:

	Number of Warrants	Exercise Price
Outstanding, December 31, 2013	6,231,384	$0.30
Granted during the year (Note 5)	10,933,882	$0.30
Outstanding, December 31, 2014	17,165,266	$0.30
Granted during the period	-	-
Outstanding, June 30, 2015	17,165,266	$0.30

(Expressed in Canadian Dollars)

NOTE 7 SHARE CAPITAL – continued

(c) Warrants - continued

The fair value of the warrants issued during the prior year was determined using the Black-Scholes option pricing model using the following assumptions:

Risk free interest rate	1.670%
Expected life in years	5 years
Expected volatility	84%
Expected dividend yield	0%

Following is a summary of warrants outstanding at June 30, 2015, exercise price and expiry date:

Date Warrants Granted	Number of Warrants	Exercise Price ($)	Expiry Date
October 2, 2013	6,231,384	0.30	October 2, 2018
March 4, 2014	10,933,882	0.30	March 4, 2019
	17,165,266		

NOTE 8 RELATED PARTY TRANSACTIONS

During the period, the Company incurred $225,800 in consulting fees, included in this amount are the following related party transactions:

The Company paid or accrued a total of $180,000 in consulting fees to an officer and director of the Company during the period (2014 - $180,000). The Company paid or accrued a total of $270,000 in management compensation during the period (2014 - $334,630).

As of June 30, 2015, $228,007 (December 31, 2014 - $11,798) was owing to officers and directors of the Company for unpaid director's meeting fees, wages and expenses.

NOTE 9 COMMITMENTS

The Company entered into a lease for office premises which was due to expire on January 31, 2013 with an option to renew the term of the lease for a further three years. The Company exercised the option for a further three years expiring January 2016. The minimum annual lease payments to the expiration of the lease are as follows:

2015	$ 39,000
2016	$ 3,300

(Expressed in Canadian Dollars)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 9 COMMITMENTS - continued

On December 1, 2013, the Company entered into a new lease for additional office space which expires November 30, 2016. The minimum annual lease payments to the expiration of the lease are as follows:

2015	$	25,400
2016	$	23,283

NOTE 10 MANAGEMENT OF CAPITAL

The Company defines capital as its equity (currently a deficiency) that may be used for operations and development of its family of pharmaceutical products. The Company's objective in managing capital is to maintain adequate levels of funding to support development of its pharmaceutical products, maintain corporate and administrative functions necessary to support organizational management oversight.

The Board of Directors does not establish quantitative "return on capital" criteria for management. The Company seeks to manage its capital structure in a manner that provides sufficient funding for operational activities. Funds are primarily secured through equity capital obtained in private placements as well as debenture financing. There can be no assurances that the Company will be able to continue raising capital in this manner.

The Company does not have any plans to pay dividends within the next year.

NOTE 11 FINANCIAL INSTRUMENT AND RISK MANAGEMENT

The Company reviews and manages the key risks that could prevent it from reaching its business objectives. This covers all risk areas, including strategic, operational and financial risks. The key risks identified by management are as follows:

Fair value
The carrying values of cash, accounts receivable and accounts payable and accrued liabilities do not materially differ from their fair values given their short-term to maturity. The convertible promissory note and loan payable are carried at amortized cost using a market interest rate. As such the carrying value does not materially differ from the fair market value.

Credit risk
Substantially all of the Company's cash is held with major financial institutions in Canada and management believes the exposure to credit risk with such institutions is not significant. The Company is also exposed to credit risk in the event of non-performance by customers paying outstanding trade receivables. At June 30, 2015 and December 31, 2014, no amounts due from customers were considered past due and no allowance for uncollectible amounts was considered necessary. As at June 30, 2015, one customer accounted for 98% of accounts receivable (December 31, 2014 two customers – 62% and 31% respectively).

NOTE 11 FINANCIAL INSTRUMENT AND RISK MANAGEMENT - continued

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities (see note 1). The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements as well as growth and development of its Omega-3 pharmaceutical and diagnostic products. The Company coordinates this planning and budgeting process with its financing activities through the capital management process described above in normal circumstances. The Company's financial liabilities are comprised of its accounts payable and accrued liabilities of $1,084,428, government remittances payable of $165,247, convertible promissory note of $6,638,767, interest payable on convertible promissory note of $45,825 and conversion option derivative liability of $302,976, summarized as follows:

Financial liabilities with 90 days or less	$	494,721
Financial liabilities over 90 days	$	7,742,522

The Company generates cash flow primarily from its financing activities.

Interest rate risk
Interest rate risk is the risk that the value of financial instruments may fluctuate due to changes in market interest rate. As at June 30, 2015 and December 31, 2014 the Company has no significant exposure to interest rate risk through its financial instruments.

Foreign currency risk
The Company is exposed to currency risk because it makes purchases and sales transacted in US dollars and Euro. At June 30, 2015, a 10% change in the closing exchange rate between Canadian dollars and US dollars or Euro would have resulted in a $8,700 change on reported net loss and comprehensive loss for the period.

NOTE 12 GEOGRAPHIC INFORMATION

The Company is organized and managed as a single reportable operating segment. No significant non-current assets are held outside of Canada.

Revenue from operations, classified by major geographical segments in which the Company's customers are located was as follows:

		June 30, 2015		June 30, 2014
United States	$	265,884	$	124,343
Canada		2,292		1,980
Total	$	268,176	$	126,323