VENTRIPOINT DIAGNOSTICS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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Independent Auditor's Report

To the Shareholders of Ventripoint Diagnostics

We have audited the accompanying consolidated financial statements of Ventripoint Diagnostics Ltd. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficit 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 Ventripoint Diagnostics Ltd. and its subsidiary, as at December 31, 2016 and December 31, 2015 and their financial performance and 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(b) in the consolidated financial statements which indicates that the Company will not 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 $2,623,752 and negative operating cash flow of $2,199,422 for the year ended December 31, 2016 and, has accumulated $28,832,802 of losses as at December 31, 2016. These conditions, along with other matters as set forth in Note 2(b), indicate the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

BDO Canada LLP

Chartered Professional Accountants
Calgary, Alberta
May 1, 2017

Ventripoint Diagnostics Ltd.

Consolidated Statements of Financial Position
Amounts in CDN Dollars (Note 2 (c))

	Note	As at December 31, 2016	As at December 31, 2015	As at January 1, 2015
			(restated)	**(restated)**
ASSETS				
Cash and equivalents		$191,282	$1,975,006	$172,428
Amounts receivable	4	128,922	64,212	78,152
Inventory	3(f)	11,968	-	63,555
Prepaid expenses		278,832	80,205	117,699
Total current assets		611,004	2,119,423	431,834
Property and equipment	5	24,158	28,332	35,420
Intangible assets		37,340	30,158	25,288
Total non-current assets		61,498	58,490	60,708
Total assets		$672,502	$2,177,913	$492,542
LIABLITIES AND SHAREHOLDERS' DEFICIT				
Accounts payable and accrued liabilities	6	$1,522,112	$1,525,543	$1,280,453
Deferred revenue		38,902	9,192	43,389
Current portion of debentures payable	7	597,122	597,872	563,136
Interest payable on notes and debentures		21,401	23,366	62,848
Derivative liabilities	8	742,808	291,374	672,431
Total current liabilities		2,922,345	2,447,347	2,622,257
Debentures and notes payable	7	-	-	269,953
Total non-current liabilities		-	-	269,953
Total liabilities		$2,922,345	$2,447,347	$2,892,210
Shareholders' deficit				
Share capital	9	22,881,118	22,236,385	18,395,948
Contributed surplus	9	3,701,841	3,703,232	3,646,034
Deficit		(28,832,802)	(26,209,051)	(24,441,650)
Total deficit		($2,249,843)	($269,434)	($2,399,668)
Total liabilities and shareholders' deficit		$672,502	$2,177,913	$492,542

Approved on behalf of the Board:

"George Adams" — Director

"Danny Dalla-Longa" — Director

Consolidated Statements of Loss and Comprehensive Loss
Amounts in CDN Dollars (Note 2 (c))

	Note	Year ended December 31, 2016	Year ended December 31, 2015 (restated)
Revenue		209,479	51,295
Cost of revenue		237,118	63,802
Gross margin		(27,639)	(12,507)
Expenses			
Research and development	11	1,156,864	665,215
Sales and marketing	11	85,299	410,724
General and administrative	11	792,120	756,731
Total operating expenses		2,034,283	1,832,670
Loss from operations		(2,061,922)	(1,845,177)
Non-operating income (loss)			
Finance costs	13	(449,370)	(760,995)
Derivative liabilities revaluation adjustment	8	(193,412)	969,300
Loss on amendment of debentures	7	314,299	
Foreign currency differences		8,427	(130,529)
Total non-operating income (loss)		(561,830)	77,776
Loss and comprehensive loss		(2,623,752)	(1,767,401)
Basic and diluted loss per share	9	(0.10)	(0.07)

See accompanying notes to the consolidated financial statements.

Ventripoint Diagnostics Ltd.
Consolidated Statements of Cash Flows
Amounts in CDN Dollars (Note 2(c))

	Note	Year ended December 31, 2016	Year ended December 31, 2015 (restated)
OPERATING ACTIVITIES			
Net loss		($2,623,752)	($1,767,401)
Adjustments for items not effecting cash:			
Depreciation and amortization	5	10,986	12,800
Share-based compensation	9	70,918	117,859
Accretion of debenture and note payable	7	342,914	532,390
Interest on debenture and notes payable	7	95,223	186,874
Deferred Stock Unit expense	15	8,288	-
Derivative liabilities revaluation adjustment	8	(193,412)	(969,300)
Loss on amendment of debenture	7	314,299	-
Non-cash consulting services	9	25,000	125,000
Transaction costs for financing activities	7	8,229	37,753
Gain on disposal of property and equipment	5	(661)	-
Foreign exchange gain		(8,427)	130,529
		(1,950,395)	(1,593,496)
Change in non-cash working capital items:			
Amounts receivable		(64,710)	13,941
Prepaid expenses		(198,627)	37,494
Inventory		(11,969)	63,555
Accounts payable and accrued liabilities		(3,432)	245,091
Deferred revenue		29,711	(34,197)
Cash used in operating activities		(2,199,422)	(1,267,612)
INVESTING ACTIVITIES			
Disposals of property and equipment		661	-
Intangible asset additions		(7,182)	-
Additions to property and equipment		(6,806)	-
Cash used in investing activities		(13,327)	-
FINANCING ACTIVITIES			
Issuance of share capital for cash	9	637,000	3,193,000
Interest paid on debentures and notes in cash	7	(5,268)	(139,899)
Debenture & note repayment in cash	7(d)	(160,000)	(53,482)
Issuance of debentures	7(e)	-	207,000
Share and debenture issuance costs paid in cash	7(a)(b), 9	(35,727)	(173,421)
Cash provided by financing activities		436,005	3,033,198
Effect of foreign exchange on cash and equivalen		(6,980)	36,992
Net increase (decrease) in cash and equivalents		(1,783,724)	1,802,578
Cash and equivalents at beginning of period		1,975,006	172,428
Cash and equivalents at end of period		$191,282	$1,975,006

See accompanying notes to the consolidated financial statements.

Ventripoint Diagnostics Ltd.

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

Amounts in CDN Dollars except numbers of shares (note 2(c))

	Note	Number of Common Shares (Note 9)	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2015 (restated)		26,713,281	22,236,384	3,703,232	(26,209,050)	(269,434)
Shares issued with sale of stock	9	4,246,667	637,000			637,000
Warrants issued with sale of stock	8, 9		(194,265)			(194,265)
Liabilities settled with shares	7('c), 9	1,095,764	154,920			154,920
Share-based compensation	9			70,918		70,918
Share & warrant issuance costs			(27,498)	(6,019)		(33,517)
Deferred Share Units issued	15			8,287		8,287
Deferred Share Units exercised	9	82,500	74,577	(74,577)		-
Loss and comprehensive loss					(2,623,752)	(2,623,752)
Balance, December 31, 2016		32,138,212	$22,881,118	$3,701,841	$(28,832,802)	$(2,249,843)

	Note	Number of Common Shares (Note 9)	Share Capital	Contributed Surplus	Deficit	Total
Balance, January 1, 2015 (restated)		18,586,600	$18,395,948	$3,646,034	$(24,441,650)	$(2,399,668)
Shares issued on conversion of						
of convertible debentures		150,000	103,537			103,537
Liabilities settled with shares		1,210,545	666,920			666,920
Deferred Share Units exercised		67,500	71,242	(71,242)		-
Shares issued with sale of stock		6,663,636	3,665,000			3,665,000
Warrants issued with sale of stock			(507,900)			(507,900)
Agent and broker warrants issued in connection with sale of stock			(33,611)	33,611		-
Share issuance costs			(175,781)			(175,781)
Share-based compensation				117,859		117,859
Stock options exercised		35,000	51,030	(23,030)		28,000
Loss and comprehensive loss					(1,767,401)	(1,767,401)
Balance, December 31, 2015 (restated)		26,713,281	$22,236,385	3,703,232	$(26,209,051)	$(269,434)

See accompanying notes to the consolidated financial statements.

1. Corporate information

Ventripoint Diagnostics Ltd. (“Diagnostics” or the “Company”) was incorporated by a Certificate of Incorporation pursuant to the provisions of the Business Corporations Act (Alberta) on May 4, 2005. Diagnostics acquired Ventripoint, Inc. (“Ventripoint”, Diagnostics and Ventripoint, collectively referred to herein as the “Company” or “Companies”) on September 18, 2007. Diagnostics is a Canadian public company with its shares listed on the TSX Venture Exchange (“TSXV” or the “Exchange”) with the trading symbol “VPT”. Ventripoint Inc. was incorporated in the State of Washington in July, 2004 and commenced operations in January, 2005. The Companies registered office is at Livingston Place West, Suite 1000, 250 – 2nd Avenue S.W., Calgary, Alberta, T2P 0C1.

The Company is a medical device company engaged in the development and commercialization of diagnostic tools that monitor patients with heart disease. The system is based upon patented technology, the commercialization rights of which Ventripoint has licensed from the University of Washington.

The Board of Directors approved these financial statements on May 1, 2017.

2. Basis of presentation

(a) Statement of compliance

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

(b) Basis of measurement and going concern

These financial statements have been prepared on a historical cost basis, except for certain financial instruments, see Note 3(c). These consolidated financial statements have been prepared using IFRS that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. 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 $2,643,083 and had a negative operating cash flow of $2,199,422 for the year ended December 31, 2016, and has accumulated $28,852,133 of losses as at December 31, 2016. As a result, there is a material uncertainty which creates significant doubt regarding the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent on its raising of future required capital, bringing its products to market and achieving and maintaining profitable operations. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments and classifications of assets and liabilities, which might be necessary should the Company be unable to continue its operations. Such adjustments could be material.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars (CDN$), the Company's functional currency.

Effective January 1, 2016, Ventripoint changed its functional and presentation currency to Canadian dollars as a result of the moving of the Company’s operations in the U.S. and the move of those operations to Toronto, Canada. The majority of the Company’s property and equipment were either disposed of or transferred to the Canadian parent company, Diagnostics, from the wholly-owned U.S. subsidiary. The technology license and existing customer contracts remain in the U.S. subsidiary.

The change in functional currency from U.S. dollars to Canadian dollars is accounted for prospectively from January 1, 2016. The exchange rate used to translate the statement of financial position to reflect the change in functional currency on adoption is $1.39. Items included in the consolidated financial statements of the U.S. subsidiary company are measured using the U.S. dollar, the currency of the primary economic environment of the subsidiary (the functional currency of the subsidiary), and are translated into Canadian dollars upon consolidation with the parent company, Diagnostics, for the presentation of the consolidated annual and condensed interim consolidated financial statements. Prior year comparable information is restated to reflect the change in presentation currency. The exchange rates used to translate the statement of financial position to reflect the change in presentation currency as at January 1, 2015, December 31, 2015 and December 31, 2016 are $1.16, $1.39, and $1.31 respectively, while the average exchange rates used to translate the consolidated statements of loss and comprehensive loss for the years ended December 31, 2015 and 2016 are $1.26 and $1.32, respectively.

2. Basis of presentation (continued)

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses.

Information about critical judgments in applying accounting policies, assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements includes the assumptions and model used to estimate share-based compensation (Note 9) and the valuation of warrants and other derivative liabilities (Note 8), the capitalization and expensing of development costs (Note 3(i)), the allocation of revenues between amounts recognized upon installation and amounts deferred and recognized over the initial warranty period, the designation of the Canadian dollar as the Company's functional currency (Note 2(c)), discount rates used for debentures (Note 7) and factors considered in inventory obsolescence (Note 3(f)).

Reported amounts and note disclosure reflect the anticipated measures management intends to take. Actual results could differ from those estimates. The above estimates and assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

These consolidated financial statements include the accounts of Diagnostics and Ventripoint, its wholly-owned and controlled subsidiary. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries, including entities which the Company controls, are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany transactions and balances have been eliminated.

(b) Foreign currency

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into CDN$ 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 CDN$ 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 the consolidated statements of loss and comprehensive loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into CDN$ 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 US dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in the consolidated statements of loss and comprehensive loss or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

(c) Financial instruments

Financial assets

Financial assets are classified as fair value through profit or loss ("FVTPL") if they are held for trading or are designated as such upon initial recognition. Financial assets are designated at FVTPL where the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with a documented risk management and investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at FVTPL are measured at fair value and changes therein are recognized in the consolidated statements of profit and comprehensive loss.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

Cash and equivalents include balances with banks and a restricted term deposit with a maturity of three months or less**.**

Accounts receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest rate method less any impairment losses. The Company has classified its receivables and cash and equivalents as financial assets.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or when the Company has transferred its rights to receive cash flows from the asset.

Financial liabilities

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and subsequently at amortized cost using the effective interest rate method. The Company has classified its accounts payable and accrued liabilities and debentures and notes payable as financial liabilities.

Financial liabilities at FVTPL include derivative financial liabilities, financial liabilities held for trading, and financial liabilities designated upon initial recognition at FVTPL. A financial liability is derecognized when its contractual obligations are discharged, are cancelled, or expire.

(d) Share capital and contributed surplus

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects.

(e) Revenue recognition

Revenue from the sale of products with one year warranty is recognized when the terms and conditions of sale are agreed upon and when shipping, training, and installation services for the Ventripoint Medical System ("VMS™") are complete. Extended warranty service plan revenues are deferred and recognized over the warranty period. Revenue from the sale of products without warranty are recognized immediately.

(f) Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. For assembled inventories and work-in-progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost of inventory recognized in the cost of revenue in 2016 is $164,511 (2015 - $nil). In December, 2015, $48,028 of raw materials were written down to a net realizable value of $nil and included in research and development expense. All of the inventory on December 31, 2016 was raw materials.

(g) Property and equipment

Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in the consolidated statements of loss and comprehensive loss.

3. Significant accounting policies (continued)

(g) Property and equipment (continued)

Depreciation
The estimated useful lives and the methods of depreciation for the current and comparative periods are as follows:

Asset	Basis
Computer and office equipment	Straight-line over 3 years
Equipment and software	Straight-line over 5 years
Furniture and fixtures	Straight-line over 3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting period and adjusted as appropriate.

(h) Intangible assets

The Company owns intangible assets consisting of licensed patent rights. Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the consolidated statement of loss and comprehensive loss as incurred.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in research and development expenses.

Amortization is recognized in consolidated statement of loss and comprehensive loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The technology license is stated at cost and will be amortized over a period of 10 years, using the straight-line method, commencing upon commercialization.

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in consolidated statement of loss and 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 management has determined that it has sufficient resources to market and sell its product offerings.

Upon 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. No development costs have been capitalized to date.

3. Significant Accounting Policies (continued)

(j) Impairment

Financial assets

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment test is performed, on an individual basis, for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in consolidated statement of loss and comprehensive loss.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in consolidated statement of loss and comprehensive loss and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated statement of loss and comprehensive loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated. The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. 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 cash inflows of other assets or cash-generating units. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in statement of loss and comprehensive loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(k) Share-based compensation

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that met the related service and non-market performance conditions at the vesting date.

For equity-settled share-based payment transactions with non-employees, the Company measures the goods or services received, and the corresponding increase in contributed surplus, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it measures their value by reference to the fair value of the equity instruments granted.

Deferred Share Units ("DSU's") issued to Directors and Executive Officers are recognized at fair value on the date of grant which is determined to be the fair value of a common share on the grant date. Upon the director or officer ceasing their duties, one common share in respect of each whole Deferred Share Unit will be issued to the individual.

3. Significant accounting policies (continued)

(l) Finance costs

Finance costs comprise interest expense on borrowings, bank charges and accretion on debentures.

(m) Income taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(n) Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. The inclusion of the Company's stock options and warrants in the computation of diluted loss per share has an anti-dilutive effect and therefore they have been excluded from the calculation of diluted loss per share.

(o) Accounting standards adopted in 2016

The Company applied for the first time certain amendments, which are effective for annual periods beginning on or after January 1, 2016. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these amendments applied for the first time in 2016, they did not have a material impact on the consolidated financial statements of the Company.

(p) New standards and interpretations not yet applied

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when it becomes effective. The following pronouncements are being assessed to determine its impact on the Company's results and financial position:

IFRS 9 *Financial Instruments*

'Financial Instruments' is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018.

3. Significant accounting policies (continued)

(p) New standards and interpretations not yet applied (continued)

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model for an entity to recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue- Barter Transactions

Involving Advertising Services. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. This standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 *Leases*

In January 2016, the IASB issued the standard to replace IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

Amounts in Canadian Dollars unless otherwise stated

4. Amounts receivable

	As at December 31, 2016	As at December 31, 2015
Trade accounts receivable	$ -	$ 41,473
Goods and services taxes receivable	128,922	22,739
Total	$ 128,922	$ 64,212

5. Property and equipment

Cost:	
Balance, January 1, 2015 (restated)	$ 415,749
Additions/disposals	-
Foreign exchange	79,986
Balance, December 31, 2015	495,735
Additions	6,806
Disposals	(258,033)
Balance, December 31, 2016	**$ 244,508**
Accumulated depreciation:	
Balance, January 1, 2015 (restated)	$ (380,329)
Depreciation	(12,800)
Foreign exchange	(74,274)
Balance, December 31, 2015	(467,403)
Depreciation	(10,986)
Disposals	258,039
Balance, December 31, 2016	**$ (220,350)**
Net carrying amounts:	
December 31, 2015 (restated)	$ 28,332
December 31, 2016	**$ 24,158**

6. Accounts payable and accrued liabilities

	As at December 31, 2016	As at December 31, 2015
Trade and other payables	$ 842,087	$ 834,645
Accrued liabilities	680,025	690,898
Total	$ 1,522,112	$ 1,525,543

Accrued liabilities include $571,120 (2015 - $537,160) of accrued but unpaid compensation payable to the Company's CEO.

7. Debentures and notes payable

As at December 31, 2016 the debentures and notes payable consist of:

Balance, January 1, 2015	**$**	**$833,089**
Issuance of unsecured short-term debentures, net of issuance costs, (e)		12,293
Issuance of unsecured short-term convertible debentures, net of issuance costs, (d)		144,624
Debentures and notes repaid in cash and settled in shares, (e)(f)(g)(h)		(864,294)
Conversion of short-term convertible debentures, (d)		(64,204)
Foreign exchange adjustments on notes and debentures denominated in US$		3,974
Accretion		532,390
Balance December 31, 2015	**$**	**$597,872**
Debentures repaid in cash, (d)		(160,000)
Debentures settled in shares, (a)		(38,000)
Loss on amendment of convertible debentures, (b)(c)		(136,282)
Costs of amendments of convertible debentures, (b)(c)		(9,382)
Accretion		342,914
Balance December 31, 2016	**$**	**$597,122**

The conversion features and the warrants issued in connection with the Company's Debenture issuances have been valued for consolidated financial statements using a binomial pricing model, with assumptions that are further described in Note 8.

In 2016, all outstanding warrants and debenture conversion features were treated as derivative financial liabilities due to either an acceleration clause (Note 7(b) and Note 8) or a down round clause (7(c)). These Derivative Liabilities are revalued at each financial statement date and adjustments are reflected in the consolidated statement of loss and comprehensive loss.

Prior to the change in functional currency to Canadian dollars on January 1, 2016 (Note 2(c)) all warrants and conversion features were considered derivative financial liabilities and were revalued at each financial statement date but were reflected as reductions of the debenture obligation. The fair value of the derivative liabilities was then measured at each statement of financial position date, with adjustments made to the liability and reflected in the consolidated statement of loss and comprehensive loss.

The debenture obligations are accreted to their face value at maturity using the effective interest rate method.

(a) **Convertible Debentures:** On August 21, 2013, the Company issued $300,000 of convertible non-secured debentures which matured on August 21, 2016, (the 'August Tranche') and issued a total of 1,500,000 common share purchase warrants with an exercise price of $1.50 for a period of three years from the date of issuance. An additional $500,000 tranche (the 'October Tranche') of Convertible Debentures, maturing October 22, 2016, w issued on October 22, 2013 with the issuance of 2,500,000 common share purchase warrants (August and October Tranches together, "Convertible Debentures").

The Convertible Debentures bear a 12% annual simple interest calculated on the principal amount. Any accrued but unpaid interest is due and payable on the anniversary of the debentures, in either cash or common shares (at the option of the Company), with the number of common shares being determined by using the 10 day volume-weighted average price of the common shares on the TSX Venture Exchange on that date that is five days prior to the anniversary date.

The Convertible Debentures may be converted by the holder at any time following the date of issuance at a price of $1.00 per common share and may be repaid partially, or in full, by the Company to any or all of the subscribers at any time without penalty. An officer of the Company purchased $100,000 of Convertible Debentures under the offering.

Amounts in Canadian Dollars unless otherwise stated

7. Debentures and notes payable (continued)

On January 15, 2014 and March 14, 2014, $24,000 and $10,000 respectively, of the August Tranche debentures were converted into 240,000 and 100,000 common shares, valued at $13,037 and $5,751, respectively. For the two conversions together, the debenture value was reduced by $3,488 and the conversion feature derivative value was reduced by $15,300.

On September 19, 2016 the Company issued 214,225 common shares at a deemed price of $0.149 per common share as payment for $31,920 in interest owing on the August Tranche and on November 7, 2016 the Company issued 461,538 common shares at a deemed price of $0.13 per common share as payment for $60,000 in interest owing on the October Tranche.

At maturity $38,000 of the original August Tranche Debenture holders opted to have their Convertible Debentures paid out by way of a shares for debt transaction in the Unit Private Placement on October 4, 2016 (Note 9).

The remaining $228,000 of the August Tranche and $385,000 of the October Tranche were extended for two years with the issuance of common share purchase warrants as described in 7(b) below. The other $115,000 of the October Tranche debentures were amended with the reduction of conversion price to $0.15 per share from $1.00, as described in 7(c) below.

The warrants issued with the Convertible Debentures in 2013 were amended in June 2016 to extend their respective maturity dates by two years, reduce the exercise price from $1.50 to $0.40 per common share and to add an acceleration clause (Note 8).

Interest expense and accretion of $69,121 (2015 - $91,920) and $308,305 (2015 - $187,742), respectively, were recognized during the year on the Convertible Debentures prior to amendments.

(b) Amended Convertible Debentures with Warrants: On August 21, 2016, and October 22, 2016 the Company amended $228,000 of the August Tranche and $385,000 of the October Tranche of the Convertible Debentures, such that the maturity date of the Convertible Debentures was extended for a period of 24 months to August 21, 2018 and October 22, 2018, respectively (the “Amended Debentures”). In consideration for agreeing to extend the maturity date, the Company issued to the debenture holders an aggregate of 1,519,998 and 2,566,667 common share purchase warrants, respectively for the August and October amendments, exercisable at a price of $0.15 per common share for two years from the date of issuance. In all other respects, the terms of the original Convertible Debentures remain unchanged from those described in 7(a).

For financial statement purposes the amendment of the Convertible Debentures is treated as an extinguishment and repurchase of the Convertible Debentures with the issuance of new Amended Debentures. The Amended Debentures were valued at fair market value at the date of issuance of $185,318 and $312,928 for the August Amended Debentures and the October Amended Debentures, respectively, calculated as the present value of the Amended Debenture’s cash flows using a market rate of interest of 25%. The debenture obligations, net of transaction costs of $2,795 for August and $4,498 for October, are accreted to face value at maturity, using the effective interest rate method.

The warrants and conversion features of the Amended Debentures were valued using a Binomial model with the following assumptions:

	August Amended Debentures		**October Amended Debentures**	
	Warrants	**Conversion Feature**	**Warrants**	**Conversion Feature**
Exercise price	$0.15	$1.00	$0.15	$1.00
Time to maturity	2	2	2	2
Risk-free rate	0.56%	0.56%	0.53%	0.53%
Volatility	128.00%	128.00%	129.0%	129.0%
Dividend rate	nil	nil	nil	nil

Amounts in Canadian Dollars unless otherwise stated

7. Debentures and notes payable (continued)

The August and October warrant values of $155,877 and $201,216, conversion features of $16,643 and $20,058 respectively, are recorded in Derivative Liabilities.

The difference between the fair value of the new instrument and the carrying value of the original loans resulted losses on amendment of the August and October debentures of $129,838 and $184,461, respectively, were accounted for in profit and loss.

The fair value difference on the August and October amendment associated with the debentures was $42,682 and 93,600, respectively.

Interest expense and accretion of $18,755 and $12,911, respectively, were recognized on the Amended Debentures in 2016.

In March 2017 $109,000 of the Amended Debentures were repaid in cash, and the remaining $504,000 of the Amended Debentures were repaid in shares for a debt transaction which closed on March 21, 2017 (see Note 19).

(c) Amended Conversion Convertible Debentures: Holders of $115,000 of the October Tranche Convertible Debentures (7(a) above) opted at maturity to extend the debentures for two years to October 22, 2018 and to have the debenture conversion price reduced from $1.00 to $0.15 per common share (the "Amended Conversion Debentures"). The Amended Conversion Debentures were also amended to add a clause whereby, if the Company issues common shares or convertible securities which are convertible into common shares at a conversion price which is lower than the amended conversion price of $0.15, the Company will apply to the TSXV to amend the conversion price of the Amended Conversion Debentures to the 10-day volume-weighted market price of the common shares. As the conversion price can be amended, the conversion feature failed the 'fixed-for-fixed' criteria and was classified as a derivative liability with a fair value of $56,787 at the date of issuance.

For consolidated financial statement purposes the amendment of the Convertible Debentures is treated as an extinguishment and the repurchase of the debentures with the issuance of new Amended Conversion Debentures. The Amended Conversion Debenture liability was valued at fair market value at the date of issuance of $93,472, calculated as the present value of the Amended Conversion Debenture's cash flows using a market rate of interest of 25%. The debenture obligation, net of transaction costs of $2,091, is accreted to face value at maturity using the effective interest rate method.

The conversion feature of the Amended Conversion Debentures was valued using a binomial model with the following assumptions:

	Conversion Feature
Exercise price	$0.15
Time to maturity	2
Risk-free rate	0.52%
Volatility	119.50%
Dividend rate	nil

Interest expense and accretion of $2,647 and $1,875 respectively, were recognized on the Amended Conversion Convertible debentures in 2016.

In March 2017 all Amended Conversion Debentures were converted to common shares (see Note 19).

(d) Short-Term Convertible Debentures: On March 25, 2015, the Company completed a non-brokered private placement of unsecured short-term convertible debentures for gross proceeds of $250,000. Of the total, $160,000 was issued for cash and $90,000 was exchanged for consulting services. The debentures matured on March 25, 2016 and may be converted by the holder at any time into common shares of the Company at a price of $0.60 per common share. Interest is payable on the debentures at an annual rate equal to twelve percent (12%), paid in cash on a quarterly basis in arrears. The Short-Term Convertible Debentures may be repaid partially, or in full, by the Company to any or all of the subscribers at any time without penalty.

No finders' fees or commissions were paid in connection with the Short-Term Convertible Debenture offering. A Director and Officer of the Company subscribed for $50,000 of the debentures.

Amounts in Canadian Dollars unless otherwise stated

7. Debentures and notes payable (continued)

The debentures were originally valued by deducting the fair value of the conversion feature of $87,500 and transaction costs of $17,876 for a residual value of $144,264. The derivative liabilities of the conversion feature were valued using the Black-Scholes model with the following assumptions:

	Conversion
Exercise price	$0.06
Time to maturity	1.0
Risk-free rate	0.49%
Volatility	122.34%
Dividend rate	nil

Transaction costs were recorded against the debenture and were expensed over the life of the debenture using the effective interest rate method. These debentures had an effective interest rate of 75.69%.

On July 27, 2015 $70,000 of the Short-Term Convertible Debentures were converted into 1,166,667 common shares at $0.60 per share. The recorded debenture value was reduced by $48,678 and the conversion feature derivative value was reduced by $35,000. The common shares issued were valued at $83,678. On September 22, 2015 a further $20,000 of these Short-Term Convertible Debentures were converted into 333,333 common shares at $0.60 per share. The recorded debenture value was reduced by $15,526 and the conversion feature derivative value was reduced by $4,333. The common shares issued were valued at $19,859.

On March 25, 2016, at maturity, the outstanding debentures were repaid in cash. Interest expense and accretion of $4,471 (2015 - $18,894) and $19,823 (2015 - $61,740), respectively, were recognized during the year.

(e) Short-Term Debentures: On December 31, 2014, the Company issued tranche 1 of non-secured debentures for $162,000, which matured one year from the date of issuance. Tranche 1 of the Short-Term Debentures was issued with 2,700,054 common share purchase warrants, with an exercise price of $0.60 for a period of two years. The Short-Term Debentures bear a 12% annual simple interest calculated on the principal amount, paid monthly in arrears with cash. The Short-Term Debentures were originally valued by deducting the fair value of the warrants of $112,052 and transaction costs of $7,576, for a residual value of $42,372.

In January 2015, the Company issued an additional tranche of $47,000 of Short-Term Debentures which matured on December 31, 2015. Tranche 2 was issued with 783,349 common share purchase warrants, with an exercise price of $0.60 for a period of two years. The Short-Term Debentures bear a 12% annual simple interest calculated on the principal amount, paid monthly in arrears with cash.

Tranche 2 was originally valued by deducting the fair value of the warrants of $32,509 and transaction costs of $2,198, for a residual value of $12,293.

The warrants for both the December 2014 and January 2015 tranches were valued using the Black Scholes model with the following assumptions:

	Warrants
Exercise price	$0.06
Time to maturity	2
Risk-free rate	1.01%
Volatility	142.92%
Dividend rate	nil

The Short-Term Debentures may be repaid partially, or in full, by the Company to any or all of the subscribers at any time without penalty. An officer of the Company purchased $50,000 of Short-Term Debentures under the offering. Transaction costs were recorded against the debenture and were expensed over the life of the debenture using the effective interest rate method. These debentures had an effective interest rate of 169.3%.

On December 31, 2015, the Company repaid the remaining outstanding debenture balance of $209, 000 in cash.

7. Debentures and notes payable (continued)

(f) Two Year Convertible Debentures: On August 28, 2013 the Company completed a non-brokered private placement of $500,000 of debenture units (“Units”) at a price of $1,000 per Unit. Each Unit was comprised of $1,000 principal amount of convertible non-secured debentures (“Convertible Debentures”), which matured two years from the date of issuance and 5,000 common share purchase warrants with an exercise price of $1.50 for a period of two years, with an acceleration clause that if the daily volume weighted average price on the TSXV for the common shares exceeds $2.00 for 20 consecutive trading days at any time during the term then the warrants will expire within 30 days following such period.

The Convertible Debentures bear a 12% annual simple interest calculated on the principal amount, with any accrued but unpaid interest under the Debentures due and payable on the anniversary date in either cash or common shares (at the option of the Company).

The Convertible Debentures may be converted at any time at a price of $1.00 per share with the provision that if the daily volume weighted average price of the common shares for 20 consecutive trading days is at or below $0.30 (“Trigger Event”) at any time during the term, the Convertible Debentures shall become immediately redeemable for cash at either the Company or the investor’s option. Following the Trigger Event the interest rate shall increase to 18% per annum. The holders may elect to put all or a portion of the Convertible Debentures back to the Company plus accrued but unpaid interest following the Trigger Event. The Company and the holder may elect to negotiate a debt for equity swap in lieu of cash payment and the Convertible Debentures may be repaid partially or in full at any time upon 30 days’ notice without penalty.

In connection with this offering, the Company paid finder's fees of $35,000 cash and issued 350,000 agent’s options. Each agent’s option will be exercisable at a price of $1.50 per common share for a period of 18 months from the date of issuance.

On March 15, 2014, $200,000 of the two year Convertible Debentures were converted into 2,000,000 common shares at $1.00 per share.

On August 30, 2015 the Company reached an agreement with the holder of the remaining Convertible Debentures to extend the maturity date from August 30, 2015 to October 31, 2015. All terms under the old agreement applied to the extended terms. All warrants issued under the old loan expired on August 30, 2015.

On September 29, 2015 the Convertible Debentures were fully paid out through the issuance of $300,000 of Private Placement Units (Note 9, ***share transactions – 2015***).

Promissory Note: In December, 2011 the Company issued an unsecured promissory note (“Promissory Note”) of $600,000 maturing on December 22, 2014 and bearing interest at 9% per annum. The Note was issued with one common share purchase warrant per $1 of note payable, exercisable at $2.50 for a period of three years. The Company reached an agreement with the Promissory Note holder to extend the maturity date to September 15, 2015. The warrants were valued at $94,180 at the date of issuance. On June 20, 2013, $300,000 of the Note was refinanced as part of the secured Unit Debenture issuance which was repaid in 2014.

On the maturity date of December 22, 2014, the Note holder agreed to extend the maturity date to April 15, 2015, and agreed subsequently to extend the maturity date to September 15, 2015. This modification did not result in the extinguishment of the existing liability and recognition of a new liability. On September 29, 2015 the Promissory Note was fully paid out through the issuance of $300,000 of Private Placement Units (Note 9, share transactions – 2015). No gain or loss was recognized on the shares for the debt transaction.

The warrants originally issued in connection with the Promissory Note have been valued for consolidated financial statement presentation using the Black-Scholes option pricing model with assumptions that are further described in Note 8. The value of the warrants issued to the Note holders was reflected as a reduction of the Note obligation and the Note obligation was subject to accretion, which was expensed as additional interest over the life of the obligation.

7. Debentures and notes payable (continued)

The fair value of the warrants was measured at each consolidated statement of financial position date, with adjustments made to the derivative liability and reflected in the consolidated statement of loss and comprehensive loss. The Note was fully accreted at its original maturity date of December 22, 2014, therefore no accretion was recognized during 2015.

At the Company's election, the annual Note interest can be settled with either cash or the issuance of common shares.

(g) Retention Bonus Promissory Note: The Company entered into an agreement in October 2010 with a Company officer to pay a retention bonus in US$. The bonus vested monthly through to March 2015 based on continuing employment and the liability was accrued for as a provision for retention bonus. In the event that the officer is terminated without cause, or the officer's employment status is reduced, all unpaid and unvested amounts become immediately due and payable. As of April 1, 2013 the officer changed from full-time to part-time status and the entire bonus amount of US$112,500 (CDN$124,208) became due and payable. An agreement was reached to convert the amount due to a promissory note at 9% interest from April 1 to June 30, 2013, and 12% interest thereafter. This debenture was originally recorded at its fair value of US$95,050 (CDN$104,942). The remaining US$17,450 (CDN$19,266) was considered a contribution of capital and was recorded against research and development expense. The contributed capital value is subject to accretion, which is expensed as additional interest over the life of the obligation. The fair value was determined using a discount rate of 20.7%, which is also the effective interest rate. Principal and interest payments in the amount of US$45,283 (CDN$55,294) were made in accordance with the repayment schedule during the first six months of 2015, and the promissory note was fully repaid by June 30, 2015.

8. 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 the 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 the consolidated statement of loss and comprehensive loss (however, warrants issued to agents and brokers are classified as share based payments 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 or a binomial model to determine the fair value of the Derivative Liabilities at inception and at each period end.

On June 16, 2016 the Company received final approval from the TSXV to amend the terms of all outstanding warrants issued in connection with private placements of debentures on August 21, 2013, October 22, 2013, and December 31, 2014 and private placements of common shares on June 20, 2014, June 4, 2015, and September 29, 2015 ('Warrants'). The Warrants were amended as follows:

a. The expiry date of each series of Warrants were extended for an additional two (2) years from the original expiry date.

b. The exercise price of all of the Warrants were amended to $0.40.

c. The Warrants, as amended, include an accelerated expiry provision such that the exercise period of each of the classes of the Warrants will be reduced to 30 days if for any 10 consecutive trading days during the unexpired term of such class of Warrants (the "Premium Trading Days") the closing price of the Company's common shares exceeds the amended exercise price by 25% or more (which would be a trading price of $0.50 per common share or higher), with the 30-day expiry period to begin no more than 7 calendar days after the 10th Premium Trading Day.

d. 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.

Amounts in Canadian Dollars unless otherwise stated

8. Derivative liabilities and warrants (continued)

This amendment was recognized in the consolidated statement of loss and comprehensive loss and as an increase to derivative liabilities of $208,551, which was valued using a binomial model with the following assumptions:

Original issue Date	08/21/2013	10/22/2014	06/20/2014	12/31/2014	06/04/2015	09/29/2015
Exercise price	$0.40	$0.40	$0.40	$0.40	$0.40	$0.40
Time to maturity	2.18	2.35	2.01	2.54	2.97	3.29
Risk-free rate	0.51%	0.52%	0.51%	0.52%	0.53%	0.54%
Volatility	126%	129%	127%	134%	154%	149%
Dividend rate	-	-	-	-	-	-

The following table summarizes the changes in derivative liabilities during the years ended December 31, 2016 and 2015:

Balance, December 31, 2014	**$**	**672,431**
Warrants issued with debentures		32,175
Warrants issued with sale of common shares (Note 9)		507,901
Conversion features issued with debentures (Note 7(d))		87,500
Conversion of debentures (Note 7(d))		(39,333)
Derivative revaluation adjustment		(969,300)
Balance, December 31, 2015	**$**	**291,374**
Warrants issued with extension of Debentures (Note 7(b))		357,093
Conversion Features issued with extension of debentures (Note 7(b),(c))		93,488
Warrants issued with sale of common shares (Note 9)		194,265
Amendment of warrants with extension of maturity		208,550
Derivative revaluation adjustment		(401,962)
Balance, December 31, 2016	**$**	**742,808**

Transactions in which warrants were issued – 2016

On October 4, 2016 the Company completed the first tranche of a private placement of Units (Note 9) for gross proceeds of $300,000 and issued 2,000,001 warrants. Each warrant will entitle the holder thereof to acquire one additional common share at an exercise price of $0.30 per common share for a period of 2 years after the issuance of the warrant, subject to acceleration in certain events. The common shares and the warrants acquired by the subscribers are subject to a hold period of four months plus one day from the date of closing of the private placement.

On December 16, 2016, the Company closed the second tranche of the private placement for gross proceeds of $400,000 with the issuance of 2,666,667 warrants.

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.

Amounts in Canadian Dollars unless otherwise stated

8. Derivative liabilities and warrants (continued)

The October and December issuances of warrants were valued on the grant dates at $86,218 and $108,047, respectively, using binomial models with the assumptions outlined below.

	Warrants	
	October 4, 2016 tranche	**December 16, 2016 tranche**
Exercise price	$0.30	$0.30
Time to maturity	2	2
Risk-free rate	0.56%	0.65%
Volatility	140.33%	129.37%
Dividend rate	nil	nil

On August 21, 2016, the Company amended $228,000 of the outstanding August 21, 2013 Convertible Debentures (Note 7(b)), such that the maturity date of the Convertible Debentures has been extended for a period of 24 months to August 21, 2018. In consideration for agreeing to extend the maturity date, the Company issued to the Convertible Debenture holders an aggregate of 1,519,998 warrants exercisable into 1,519,998 common shares of the Company at a price of $0.15 per share until August 21, 2018.

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.

The warrants were recorded in derivative liability at a value of $155,877, which was derived using a binomial model with the following assumptions:

	Warrants
Exercise price	$0.15
Time to maturity	2
Risk-free rate	0.56%
Volatility	128.00%
Dividend rate	nil

On October 22, 2016 the Company amended $385,000 of the outstanding October, 22, 2013 Convertible Debentures (Note 7(b)), such that the maturity date of the Debentures has been extended for a period of 24 months to October 22, 2018. In consideration for agreeing to extend the maturity date, the Company issued to the debenture holders an aggregate of 2,566,667 warrants exercisable into 2,566,667 common shares of the Company at a price of $0.15 per share until October 22, 2018.

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.

The warrants were recorded in Derivative Liabilities and were valued at $201,216 using a binomial model with the following assumptions:

	Warrants
Exercise price	$0.15
Time to maturity	2
Risk-free rate	0.53%
Volatility	129%
Dividend rate	nil

Amounts in Canadian Dollars unless otherwise stated

8. Derivative liabilities and warrants (continued)

Transactions in which warrants were issued – 2015

On November 9, 2015, the Company closed a private placement of Units (Note 9) for gross proceeds of $500,000 and issued 227,273 warrants. Each warrant entitles the holder thereof to acquire one common share of the Company at an exercise price of $1.10 per common share for a period of 2 years after the issuance of the warrant, subject to accelerations in certain events. A finder's fee comprised of $40,000 cash and 72,727 of the same warrants was paid.

The warrants from the private placement Units and the warrants paid as part of the finder's fee respectively, were initially valued on the grant date at $32,649 and $10,448 using a binomial model with the assumptions outlined below.

	Warrants
Exercise price	$1.10
Time to maturity	2
Risk-free rate	0.54%
Volatility	136.18%
Dividend rate	nil

As part of a private placement on September 29, 2015 (Note 9) the Company issued 1,363,636 warrants with the same terms and conditions as the November 9, 2015 private placement warrants. The warrants were initially valued on the grant date at $307,979 using a binomial model with the assumptions outlined below.

	Warrants
Exercise price	$1.10
Time to maturity	2
Risk-free rate	0.45%
Volatility	127.35%
Dividend rate	nil

As part of a private placement on June 4, 2015 the Company issued 727,272 warrants. Each full warrant entitles the owner to acquire one common share at a price of $1.20 per common share for a period of 2 years from the date of issue. The warrants were initially valued at $166,272 using the Black Scholes model with the assumptions outlined below.

In addition, finders received 89,090 of finder's warrants ("Finder's Warrants"). Each Finder's Warrant entitles the holder to purchase one common share at $0.55 per share for a period of 18 months after the issuance of the Finder's Warrants. The Finder's Warrants were valued at $22,807 using the Black Scholes model with the assumptions outlined below.

	Warrants	**Finder's Warrants**
Exercise price	$1.20	$0.55
Time to maturity	2	1.5
Risk-free rate	0.56%	0.58%
Volatility	140.02%	139.48%
Dividend rate	nil	nil

On January 2, 2015, the Company received an additional tranche of proceeds from the December 31, 2014 Short-Term Debenture issuance, which, as a result of the late receipt of funds, was recorded in the financial statements in 2015. This tranche of debentures was issued with 78,334 common share purchase warrants with an exercise price of $0.60 for a period of two years, and was initially valued at $32,509. As part of the December 31, 2014 tranche of the Short-Term Debenture issuance the Company issued 270,005 warrants with the same terms and conditions as the January 2, 2015 tranche, which were valued at $112,052.

Amounts in Canadian Dollars unless otherwise stated

8. Derivative liabilities and warrants (continued)

The warrants for both the December, 2014 and January, 2015 tranches were valued using the Black Scholes model with the following assumptions:

	Warrants
Exercise price	$0.60
Time to maturity	2
Risk-free rate	1.01%
Volatility	142.92%
Dividend rate	nil

Warrants outstanding

Changes in the number of warrants outstanding during the years ended December 31, 2016 and 2015 were as follows:

	2016		2015	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
Balance, January 1	4,507,160	$1.13	2,815,625	$1.30
Granted	8,753,333	$0.23	2,558,334	$1.11
Expired	(89,091)	$0.55	(866,799)	$1.50
Balance, December 31	13,171,402	$0.30	4,507,160	$1.13

The following table reflects warrants outstanding, all of which are exercisable, at December 31, 2016:

Exercise Price	Quantity	Remaining Avg Contractual Life
$0.15	4,086,665	1.75
$0.30	4,666,668	1.87
$0.40	4,118,069	2.13
$1.10	300,000	0.86
$0.30	**13,171,402**	**1.89**

The fair value of the warrants and conversion features at the dates of the consolidated statement of financial position of re-measurement for 2016 and 2015 were valued using a binomial model and the Black-Sholes option pricing model with the following weighted average assumptions:

	December 31, 2016	December 31, 2015
Time to maturity	0.90	1.17
Risk-free rate	0.56%	0.49%
Volatility	136.5%	132.2%
Dividend rate	nil	nil

9. Share capital

The Company has authorized share capital of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value. No preferred shares have been issued. Common shareholders are entitled to receive dividends as declared by the Company at its discretion and are entitled to one vote per share at the Company's annual general meeting.

Common share consolidation

Effective December 7, 2015 the Company consolidated its issued and outstanding common shares on the basis of ten (10) pre-consolidation shares for one (1) post-consolidation share (the "Consolidation Ratio"). The transaction included the outstanding stock options, DSUs, and warrants which were all adjusted by the Consolidation Ratio along with the respective exercise prices of outstanding stock options, DSUs and warrants, accordingly. All pre-consolidation transaction numbers in these financial statements have been adjusted to reflect the Consolidation Ratio.

Share transactions – 2016

On October 4, 2016 the Company completed the first tranche of a non-brokered private placement. The first tranche involved the issuance of 2,000,001 units ("Units") at a price of $0.15 per Unit, for gross proceeds of $300,000. Each Unit consisted of one common share of Ventripoint and one common share warrant. Each warrant will entitle the holder thereof to acquire one additional common share at an exercise price of $0.30 per common share for a period of 2 years after the issuance of the warrant, subject to acceleration in certain events. The common shares and the warrants acquired by the subscribers are subject to a hold period of four months plus one day from the date of closing of the private placement.

Two of the subscribers in the first tranche accepted an aggregate of 253,334 Units as payment in full of $38,000 in outstanding Convertible Debentures issued on August 21, 2013 (Note 7(a)), as a shares-for-debt transaction.

On December 16, 2016, the Company closed the second and final tranche of the private placement with the issuance of 2,666,667 Units at $0.15 per Unit for gross proceeds of $400,000. One of the subscribers in the second tranche accepted 166,667 Units as payment for $25,000 in outstanding amounts due from the Company for consulting fees, in a shares-for-debt transaction. An officer and director of the Company subscribed for 660,000 Units in the second tranche.

On November 7, 2016 the Company issued an aggregate of 461,538 common shares as a shares-for-debt transaction at a deemed price of $0.13 per common share as payment for $60,000 in interest owing by the Company to holders of Convertible Debentures issued October 22, 2013 (Note 7(a)).

On September 17, 2016 the Company issued an aggregate of 214,225 common shares at a deemed price of $0.15 per common share as payment for $31,920 in interest owing by the Company to holders of Convertible Debentures issued August 21, 2013 (Note 7(a)).

Upon the exercise of DSUs by a director who resigned from the Board of Directors on February 15, 2016, the Company issued 67,500 immediately tradable common shares and 15,000 common shares subject to a hold period of four months plus one day from the date of grant on February 5, 2016. The DSUs were expensed at each grant date from 2012 through 2016 for a total expensed amount of $74,577, and were measured at the five-day volume weighted average trading price of the Company's common shares on the day prior to the day the DSUs were granted. At the exercise date the amount originally expensed and booked to Contributed Surplus was transferred to share capital.

Share transactions – 2015

On November 9, 2015, the Company closed a non-brokered private placement, pursuant to which Shanghai YuTian Medical Investment Management Co. Ltd. ("Shanghai Yutian") made a strategic investment in the Company. Shanghai Yutian received a total of 909,091 units ("Units") at $0.55 per Unit for total proceeds of $500,000. Each Unit consists of one common share of Ventripoint and one quarter of one common share warrant. Each warrant will entitle the holder to acquire one common share at an exercise price of $1.10 per common share for a period of 2 years after the issuance of the warrant, subject to accelerations in certain events. A finder's fee comprised of $40,000 and 72,727 of the same warrants was paid. Total cash share issuance costs of $51,349 were recognized.

9. Share capital (continued)

On September 29, 2015 the Company completed a non-brokered private placement of 5,454,545 Units at $0.55 per Unit for total gross proceeds of $3,000,000 consisting of $2,400,000 in cash proceeds and $600,000 of debt repayment. Each Unit consists of one common share of the Company and one quarter of one common share warrant. Each warrant will entitle the holder to acquire one common share at an exercise price of $1.10 per common share for a period of 2 years after the issuance of the warrant, subject to accelerations in certain events.

Total cash share issuance costs of $58,492 were recognized.

Two of the subscribers in the private placement accepted Units as payment in full of an unsecured convertible debenture and of a promissory note as a shares-for-debt transaction (the “Shares for Debt”). As a result of the Shares for Debt, the Company’s net debt was reduced by $600,000.

On August 28, 2015 the Company issued 56,000 common shares at a deemed price of $0.57 per common share as payment for a total of $31,920 in interest owing by the Company to holders of six of the Convertible Debentures (Note 7(a)).

On July 27, 2015 $70,000 of the Short-Term Convertible Debentures (Note 7(d)) were converted into 116,667 common shares at $0.60 per share. The recorded debenture value was reduced by $48,678 and the conversion feature derivative value was reduced by $35,000. The common shares issued were valued at $83,678. On September 22, 2015 a further $20,000 of these Short-Term Convertible Debentures were converted into 33,333 common shares at $0.60 per share. The recorded debenture value was reduced by $15,526 and the conversion feature derivative value was reduced by $4,333. The common shares issued were valued at $19,859.

On June 4, 2015 the Company completed a non-brokered private placement of 1,454,545 units (“Unit”) at $0.55 per Unit for gross proceeds of $800,000. Each Unit consists of one common share of the Company and one half warrant. Each full warrant entitles the owner to acquire one additional common share at a price of $1.20 per common share for a period of 2 years from the date of issuance. Of the total, 1,390,909 Units were issued for cash of $765,000 and 63,636 Units were issued in exchange for consulting services valued at $35,000.

An aggregate of $49,000 in finder’s fees was paid to finders, representing 7% of the proceeds from the investors identified by the finders. In addition, finders received 89,091 Finder’s Warrants for a value of $23,163, representing 7% of the number of Units purchased by those investors. Each Finder’s Warrant entitles the holder to purchase one common share at $0.55 per share for a period of 18 months after the issuance of the Finder’s Warrants. Total cash share issuance costs of $11,380 were recognized.

On May 11, 2015 an Officer and Director exercised 10,000 common stock options at $0.80 per share for proceeds of $8,000. The same Officer exercised an additional 25,000 stock options at $0.80 on May 27, 2015 for proceeds to the Company of $20,000. The option exercised resulted in the issuance of 35,000 common shares.

On March 27, 2015, the Company issued 67,500 common shares upon the exercise of DSUs by a director who resigned from the Board of Directors on March 25, 2015. These DSUs were expensed at each grant date from 2012 through 2015 for a total expensed of $71,242 and were measured at the five-day volume weighted average trading price of the Company’s common shares on the day prior to the day the DSUs were granted. Under the terms of the Company’s Deferred Share Unit Plan, holders of DSUs may redeem each DSU for one common share upon the termination of their services to the Company, at no cost to the holder. At the exercise date the amount originally expensed and booked to Contributed Surplus was transferred to Share Capital.

Weighted average number of shares

The weighted average number of shares for the year ended December 31, 2016 was 27,503,645 (2015 – 21,101,085). The Company has not adjusted its weighted average number of shares outstanding for the purpose of calculating the diluted loss per share as any adjustment related to stock options or warrants would be anti-dilutive.

Nature and purpose of Contributed Surplus

The reserves recorded in equity on the Company’s consolidated statement of financial position include ‘Contributed Surplus’ and ‘Deficit’. Contributed Surplus is used to recognize the value of stock option grants and share purchase warrants prior to exercise. Deficit is used to record the Company’s change in deficit from earnings from year to year.

9. Share capital (continued)

Stock Option Plan

The Company has adopted an incentive stock option plan in accordance with the policies of the TSXV (the "Stock Option Plan") which provides that the Board of Directors of the Company may from time to time, at its discretion, grant to directors, officers, employees and consultants of the Company non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance under the Stock Option Plan shall not exceed ten percent (10%) of the issued and outstanding common shares. In addition, the number of common shares reserved for issuance in any one period to any one optionee shall not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to any one consultant will not exceed two percent (2%) of the issued and outstanding common shares. The Board of Directors determines the price per common share and the number of common shares which may be allotted to each director, officer, employee and consultant and all other terms and conditions of the option, are subject to the rules of the Exchange.

Stock option transactions – 2016

On November 17, 2016 the Board of Directors approved the grant of 160,400 stock options to consultants in payment for their services. These stock options are for a term of two years, 150,000 of which are exercisable at $0.15 per common share and 10,400 of which are exercisable at $0.30 per common share. The value of the options were determined based on the fair value of the equity instruments granted, as the fair value of the services received could not be determined reliably.

In addition, the Board of Directors approved the grant of 75,000 stock options to a director in payment for his business consulting services to the Company. These options are for a term of ten (10) years, vest immediately and are exercisable at $0.17 per common share.

On April 11, 2016 the Company granted 75,000 stock options to a new director who joined the Board of Directors in February 2016, in recognition of his future services as a director on the Board. The stock options to purchase common shares of the Company are exercisable at $0.18 per common share for a term of ten (10) years to April 11, 2026, and vest immediately.

Also on April 11, 2016 a consultant was granted 100,000 stock options, exercisable at $0.18 per common share maturing on April 11, 2019, and vesting quarterly over the first year. The value of the options were determined based on the fair value of the equity instruments granted, as the fair value of the services received could not be determined reliably.

Stock option transactions – 2015

On June 6, 2015 a consultant was granted 12,000 stock options in payment for services related to product distribution. The value of the options were determined based on the fair value of the equity instruments granted as the fair value of the services received could not be determined reliably. The options are exercisable at $0.60 per common share until June 6, 2018. On May 26, 2015 another consultant was granted 12,000 stock options in payment for consulting services related to product distribution. These options were fully vested and are exercisable at $0.60 per common share until May 26, 2018. The value of all 2015 options issued for services were determined based on the fair value of the equity instruments granted as the fair value of the services received could not be determined reliably.

On May 26, 2015, the Company granted 100,000 stock options to an officer of the Company. The options are exercisable at $0.60 per share until the fifth anniversary date of the grant. The options vested immediately. As the officer left the Company in late 2015, these options expired as of January 19, 2016.

On May 11, 2015 an officer and director exercised 10,000 common stock options at $0.80 per share for proceeds of $8,000. The same officer exercised an additional 25,000 stock options at $0.80 on May 27, 2015 for proceeds to the Company of $20,000. A total of 35,000 common shares were issued with the two option exercises.

Amounts in Canadian Dollars unless otherwise stated

9. Share capital (continued)

Stock options outstanding

Changes in the number of options outstanding during the years ended December 31, 2016 and 2015 were as follows:

	Year ended December 31, 2016		Year ended December 31, 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, January 1	1,027,143	$1.00	1,140,351	$1.10
Granted	410,400	$0.17	124,000	$0.60
Exercised	-	-	(35,000)	$0.80
Cancelled/forfeited/expired	(331,143)	$0.99	(202,208)	$1.20
Balance, December 31	1,106,400	$0.73	1,027,143	$1.00

The following table reflects stock options outstanding and exercisable at December 31, 2016:

	Options Outstanding			Options Exercisable		
Grant Price Range	# of Options	Weighted Avg Remaining Life	Weighted Avg Exercise Price	# of Options	Weighted Avg Remaining Life	Weighted Avg Exercise Price
< $0.60	410,400	4.79	$0.17	397,400	4.81	$0.16
$0.60 - $1.00	489,000	2.13	$0.89	452,000	2.16	$0.92
1.01 - $1.70	207,000	1.87	$1.48	207,000	1.87	$1.48
	1,106,400	3.07	$0.73	1,056,400	3.10	$0.75

Share-based compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2016	December 31, 2015
Expected option life	5.02 years	4.89 years
Risk-free rate	1.48%	1.32%
Expected forfeiture rate	6.0%	6.0%
Expected volatility	129.86%	133.55%
Dividend yield	nil	nil

The Black-Scholes model used by the Company to calculate option values was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires four highly subjective assumptions, including future stock price volatility and average option life, which greatly affect the calculated values.

The risk-free interest rate is based primarily on the implied yield on a Canadian Government zero-coupon issue with a remaining term equal to the expected term of the option. The volatility is based solely on historical volatility equal to the expected life of the option. The life of the option is estimated considering the vesting period at the grant date, the life of the option and expectations of early exercise. The forfeiture rate is an estimate based on historical evidence and future expectations. The dividend yield was excluded from the calculation since it is the present policy of the Company to retain all earnings to finance operations and future growth.

Amounts in Canadian Dollars unless otherwise stated

10. Income taxes

Income taxes are calculated at year end only. 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 reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows for the years ended December 31, 2016 and 2015:

		2016		**2015**
Loss before income taxes	$	(2,623,752)	$	(1,767,401)
Statutory income tax rate		28.47%		34.00%
Expected tax recovery	$	(747,043)	$	(600,916)
Non-deductible expenses		116,478		174,770
Differences due to foreign jurisdiction and foreign exchange		388,743		(71,347)
Change due to warrant revaluation		32,639		(252,017)
Other		-		(33,008)
Change in tax rates		-		(225,698)
Change in unrecognized deferred tax assets		209,183		1,008,216
Income tax provision (recovery)	$	-	$	-

The statutory income tax rate represented is a blended U.S. and 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 U.S. statutory tax rate.

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

		2016		**2015**
Share issuance costs	$	61,972	$	92,011
Non-capital losses		11,395,344		11,104,977
Eligible capital expenditures		27,048		29,089
Payroll difference		419,773		454,974
Other		51,645		65,548
Unrecognized deferred tax assets	$	11,955,782	$	11,746,599

At December 31, 2016, the Company had Canadian tax losses of $13.4M (2015 - $11.9M) that will expire between 2026 and 2036, and U.S. tax losses of approximately $23.2M (2015 - $22.9M) which will expire between 2025 and 2036.

Amounts in Canadian Dollars unless otherwise stated

11. Statement of loss and comprehensive loss supplementary information

Components of operating expenses for the years ended December 31, 2016 and 2015 were as follows:

Research and development	**2016**	**2015**
Research and development	$1,154,916	$641,468
Share-based compensation	-	21,276
Depreciation and amortization of property and equipment	1,948	2,470
Total	$1,156,864	$665,214

Sales and marketing	**2016**	**2015**
Sales and marketing	$78,043	$368,539
Share-based compensation	-	35,463
Depreciation and amortization of property and equipment	7,256	6,722
Total	$85,299	$410,724

General and administrative	**2016**	**2015**
General and administrative	$719,420	$692,003
Share-based compensation	70,918	61,120
Depreciation and amortization of property and equipment	1,782	3,608
Total	$792,120	$756,731

12. Personnel costs

Personnel costs for the years ended December 31, 2016 and 2015 were as follows:

Personnel costs	**2016**	**2015**
Salaries, fees and short-term benefits	$370,264	$741,091
Share-based compensation	70,918	117,859
Total	$441,182	$858,950

In 2016, stock based compensation of $29,605 (2015 - $4,738) was paid to consultants and was recorded in general and administrative share-based compensation expense. In addition, in 2015 stock based compensation of $13,249 (US$10,383) was paid to a distributor and was recorded in sales and marketing share-based compensation expense.

13. Finance costs

Finance costs for the years ended December 31, 2016 and 2015 were as follows:

Finance costs	**2016**	**2015**
Bank charges and fees	$ 3,004	$ 3,980
Transaction costs	8,229	32,753
Interest expense on notes and debentures	95,223	186,874
Accretion on notes and debentures and transaction costs	342,914	532,390
Total finance costs	$449,370	$760,995

Amounts in Canadian Dollars unless otherwise stated

14. Contractual commitments

The Company has the following contractual obligations, in US$ (the actual currency of the obligations), as of December 31, 2016:

(US$)	2017	2018	2019 to 2025	Total
University of Washington Technology License Minimum Annual Royalty	$ 50,000	$ 50,000	$ 350,000	$ 450,000
Total contractual commitments for the period	$ 50,000	$ 50,000	$ 350,000	$ 450,000

The Minimum Annual Royalty due to the University of Washington under the Technology License Agreement is US$50,000 annually with the final payment due and payable in 2025.

15. Related parties

The key management personnel of the Company are the Directors, the President and Chief Executive Officer, the Chief Financial Officer and, in 2015, the Vice President. Compensation for key management personnel of the Company for the years ended December 31, 2016 and 2015 was as follows:

	2016	2015
Salaries, fees and short-term benefits	$355,920	$457,706
Deferred Share Units	8,288	-
Share-based compensation	41,314	98,770
Directors’ fees	32,416	-
Note interest	13,496	22,521
Total key management personnel expenses	$451,434	$578,997

Executive officers and directors participate in the Stock Option Plan and the DSU Plan. Certain officers may participate in the Company’s health plan. Directors generally receive annual and meeting fees for their services, however, in 2015 the Directors took no cash compensation. In 2016, of the $32,416 Directors fees earned, $17,289 is unpaid and accrued at year end. As at December 31, 2016 the key management personnel control 4.14% of the outstanding voting shares of the Company (7.99% on a fully diluted basis).

Management also held $82,993 of the recorded value of the Amended Convertible Debentures at year end (Note 7(b)).

As at December 31, 2016, a total of 300,000 DSUs have been granted, 37,500 DSUs have expired unused, 150,000 DSUs have been exercised, and 112,500 DSUs remain outstanding.

On February 5, 2016 the Board of Directors granted 37,500 DSUs to two directors under the terms of the Company’s Deferred Share Unit Plan for Directors and Executive Officers. DSUs are measured at fair value on the date of grant. Under the terms of the Company’s Deferred Share Unit Plan, holders of DSUs may redeem each DSU for one common share upon the termination of their services to the Company, at no cost to the holder. On February 26, 2016 a retiring Director exercised 82,500 DSUs for 82,500 common shares.

On November 17, 2016 the Board of Directors approved the grant of 75,000 stock options to a Director in compensation for his business consulting services to the Company. These options are for a term of 10 years to November 17, 2026, vest immediately and are exercisable at $0.17 per common share.

On April 11, 2016 the Company granted 75,000 stock options to a new director who joined the Board of Directors in February 2016, in recognition of his future services as a director on the Board. The stock options to purchase common shares of the Company are exercisable at $0.18 per common share for a term of ten (10) years to April 11, 2026, and vest immediately.

On May 26, 2015, the Company granted 100,000 stock options to a Vice-President of the Company. The options are exercisable at $0.60 per share until the fifth anniversary date of the grant. The options vested immediately. As the Officer left the Company in late 2015, these options expired as of January 19, 2016.

Amounts in Canadian Dollars unless otherwise stated

16. Capital disclosures

The Company's objective in managing capital is to safeguard its ability to continue as a going concern and to sustain future development of the business. In the management of capital, the Company includes shareholders' deficit, excluding accumulated other comprehensive loss. 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.

17. Geographical reporting

Revenue earned by the Company in 2016 was almost entirely from the sale of parts to China (2015 – Canada). As at December 31, 2016 all intangible assets, and fixed assets with a cost of $11,471 (net book value of $nil) of the total property and equipment cost of $244,508 (net book value of $24,158) were located in the United States. The remaining long term assets held by the company were in Canada. In 2015, all long term assets held by the company were located in the U.S.

	December 31, 2016					December 31, 2015			
	Canada	USA	China	Europe	Total	Canada	USA	Europe	Total
Sales	-	-	201,632	7,847	$209,479	28,073	-	23,222	$51,295
Non-current assets	24,158	37,340	-	-	$61,498	-	58,490	-	$58,490

18. Financial instruments

The Company's financial instruments consist of cash and equivalents, amounts receivable, accounts payables and accrued liabilities, debentures and note payable and derivative liabilities. Cash and equivalents and amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and debentures and notes payable are classified as other financial liabilities, which are also measured at amortized cost. Derivative financial liabilities 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 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's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, market risk, and foreign currency risk.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and equivalents and amounts receivable. The carrying amount of the financial assets represents the maximum credit exposure.

The Company limits its exposure to credit risk on cash and equivalents by placing these financial instruments with high-credit quality financial institutions and only investing in liquid, investment grade securities.

The Company has a number of individual customers and no one customer represents a concentration of credit risk.

18. Financial instruments (continued)

The carrying amount of amounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss within operating expenses. When a receivable balance is considered uncollectible it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against operating expenses in consolidated statement of loss and comprehensive loss. Within the amounts receivable, all amounts receivable are considered to be collectible. The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk as at December 31, 2016 and 2015 was:

	December 31, 2016	December 31, 2015
Cash and equivalents	$ 191,282	$ 1,975,006
Accounts receivable	128,922	64,212
Total	$ 320,204	$ 2,039,218

(b) ***Liquidity risk*****:**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by monitoring forecasted and actual cash flows, as well as anticipated investing and financial activities. The majority of the Company's financial liabilities are due within 90 days. The Company has long-term financial liabilities reflected on its consolidated statement of financial position and in Note 7 of these consolidated financial statements.

The following table sets out contractual maturities (representing undiscounted contractual cash flows) of financial liabilities outstanding at December 31, 2016:

	2017					
	Q1	Q2	Q3	Q4	2018	Total
Accounts payable & accrued liabilities	1,522,112					1,522,112
Debentures payable					728,000	728,000
Interest payable on debentures			9,894	11,507		21,401
Total	1,522,112	-	9,894	11,507	728,000	2,271,513

The contractual maturities of commitments at period end are included in Note 14.

(c) ***Market risk:***

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates will affect the Company's income or the value of the financial instruments held.

(*d*) ***Foreign currency risk:***

The Company's operations were moved to Canada in early 2016 from the United States, so the majority of the Company's purchases were made in Canadian dollars in 2016 (US$ in 2015). None of the Company's equipment sales in 2016 (2015 - 100% in US$) were denominated in foreign currencies, though all of the warranty service revenue recognized in both 2016 and 2015 was denominated in either Euros, Great Britain Pound ("GBP"), Swiss Franc ("CHF") or US$. The Company's capital and debt transactions are denominated in Canadian dollars and the Company now maintains most of its cash and equivalents in Canadian dollars. Foreign currency risk reflects the risk that the Company's earnings will be impacted by fluctuations in exchange rates.

With all other variables held constant, a 10% point increase in the value of the U.S. dollar relative to the Canadian dollar would have increased the non-operating loss due to foreign currency differences by approximately $7,710 for the year ended December 31, 2016 (2015 - $15,570). There would be an equal and opposite impact on the net loss with a 10% point decrease in the value of the U.S. dollar relative to the CDN dollar.

18. Financial instruments (continued)

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by pricing sales in CDN dollars (2015 – USD), and by reducing the exposure of liabilities denominated in Canadian dollars with Canadian dollar denominated monetary assets. The Company has not entered into any forward foreign exchange contracts.

The Company was exposed to currency risk as at December 31, 2016 and 2015 as follows:

	2016 US$	**2015 US$**
Cash and equivalents	$ 33,190	$ 468,255
Accounts receivable	-	29,910
Accounts payable and accrued liabilities	556,060	624,441
Principal and interest due on debentures and promissory notes	-	-

19. Subsequent events

On January 6, 2017 the Company announced that FronTier Consulting Ltd. ('FronTier') has been retained for 12 months to provide IR services for a fee of $6,000 payable on a quarterly basis, and to provide additional marketing consulting services for $60,000. Under the terms of the agreement the Company also issued 200,000 stock options to FronTier at an exercise price of $0.15, vesting in equal quarterly installments over 12 months and expiring two years from the date of grant.

In March, 2017 all holders of the Amended Conversion Convertible Debentures (Note 7(c)) converted the debentures into a total of 766,667 common shares.

On March 22, 2017 the Company announced that it had completed a shares-for-debt transaction with holders of $504,000 of outstanding Amended Convertible Debentures (Note 7(b)). Dr. George Adams, the Chief Executive Officer and a Director of the Corporation, converted $100,000 of the Debentures and was issued 312,500 units in the Private Placement. The Company issued to the holders of the Debentures a total of 1,575,000 units of the Company ("Units"), each Unit consisting of one common share of Ventripoint and one common share purchase warrant ("Warrant"), with each Warrant entitling the holder to acquire one common share at a price of $0.50 for a period of 2 years after the issuance of the Warrant. The Common Shares and the Warrants are subject to a hold period of four months plus one day from the date of issuance

Also in March, 2017 the $109,000 remaining Amended Convertible Debentures were repaid in cash.

On March 24, 2017 the Company announced that it had closed a non-brokered private placement (the "Private Placement") of 10,496,938 units ("Units") at $0.32 per Unit for total gross proceeds of $3,359,020. Existing shareholders subscribed for $1,900,000 and new shareholders subscribed for $1,400,000 of the Private Placement. Each Unit consists of one common share of the Company and one common share warrant ("Warrant"), with each Warrant entitling the holder thereof to acquire one common share at a price of $0.50 per common share for a period of 2 years after the issuance of the Warrant. The common shares and the Warrants are subject to a hold period of four months plus one day from the date of issuance.

The Company paid cash finder's fees of $188,030 (5.6% of the Private Placement) and issued an aggregate of 282,555 common shares (2.7% of the Private Placement) and 282,555 non-transferable warrants (2.7% Private Placement, the "Finder's Warrants") to finders in connection with the Private Placement. Each Finder's Warrant is exercisable into one common share at a price of $0.50 per common share for a period of two years from the date of issuance.

Subsequent to year end the Company has issued 5,704,130 common shares due to the exercise of warrants at exercise prices between $0.15 and $0.40, for total proceeds received of $1,118,236. In addition, 375,000 shares have been issued as a result of the exercise of stock options for proceeds of $60,750. The common shares issued due to these warrant and stock option exercises are free-trading.