VENTRIPOINT DIAGNOSTICS LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED

MARCH 31, 2017

(UNAUDITED)

PREPARED BY MANAGEMENT WITHOUT REVIEW BY THE COMPANY'S AUDITORS

Ventripoint Diagnostics Ltd.

Consolidated Statements of Financial Position
Amounts in CDN Dollars

	Note	As at March 31, 2017	As at December 31, 2016
ASSETS			
Cash and equivalents		$3,390,852	$191,282
Amounts receivable	3	$200,583	128,922
Inventory		18,999	11,969
Prepaid Expenses		253,978	278,832
Total current assets		3,864,412	611,005
Property and equipment	4	21,382	24,158
Intangible assets		37,340	37,340
Total non-current assets		58,722	61,498
Total assets		$3,923,134	$672,502
LIABLITIES AND SHAREHOLDERS' DEFICIT			
Accounts payable and accrued liabilities	5	$1,458,290	$1,522,112
Deferred revenue		-	38,902
Current portion of debentures	6	-	597,122
Interest payable on debentures		-	21,401
Derivative liabilities	8	5,956,951	742,808
Total current liabilities		7,415,242	2,922,345
Debentures payable		-	-
Total non-current liabilities		-	-
Total liabilities		$7,415,242	$2,922,345
Shareholders' deficit			
Share capital	9	25,369,916	22,881,118
Contributed surplus	9	3,760,530	3,701,841
Deficit		(32,622,555)	(28,832,801)
Total deficit		($3,492,108)	($2,249,842)
Total liabilities and shareholders' deficit		$3,923,134	$672,502

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

"George Adams"
Director

"Danny Dalla-Longa"
Director

Ventripoint Diagnostics Ltd.

Consolidated Statements of Loss and Comprehensive Loss

Amounts in CDN Dollars

	Note	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenue		38,903	3,211
Cost of revenue		50,057	17,176
Gross Margin		(11,154)	(13,965)
Expenses			
Research and development		180,739	309,710
Sales and marketing		38,526	23,308
General and administrative		317,773	232,011
Total operating expenses		537,038	565,029
Loss from operations		(548,192)	(578,995)
Non-operating income (loss)			
Finance costs	7	(166,755)	(129,914)
Derivative liabilities revaluation adjustment	8	(3,124,462)	-
Gain (loss) on shares issued for debt	6(b)	67,721	-
Foreign currency differences		(18,067)	27,515
Total non-operating income (loss)		(3,241,562)	(102,399)
Loss and comprehensive loss		(3,789,754)	(681,393)
Basic and diluted loss per share	9	(0.11)	(0.03)

See accompanying notes to the consolidated financial statements.

Ventripoint Diagnostics Ltd.

Consolidated Statements of Cash Flows

Amounts in CDN Dollars

	Note	Three months ended March 31, 2017	Three months ended March 31, 2016
OPERATING ACTIVITIES			
Net loss		($3,789,754)	($681,393)
Adjustments for items not effecting cash:			
Depreciation and amortization	4	2,776	2,810
Share-based compensation	9	9,139	6,818
Accretion of debentures payable	6	13,907	102,235
Interest on debentures payable	6	18,981	27,319
Deferred Stock Unit expense		-	8,288
Derivative liabilities revaluation adjustment	8	3,124,462	-
Gain on shares issued for debt	6(b)	(67,721)	-
Transaction costs for financing activities	9	132,218	-
Gain on disposal of property and equipment		-	(661)
Foreign exchange gain		18,067	(27,515)
		(537,925)	(562,100)
Change in non-cash working capital items:			
Amounts receivable		(71,661)	(35,118)
Prepaid expenses		24,854	53,054
Inventory		(7,031)	-
Accounts payable and accrued liabilities		(63,822)	(286,207)
Deferred revenue		(38,902)	(782)
Cash used in operating activities		(694,487)	(831,153)
INVESTING ACTIVITIES			
Disposals of property and equipment		-	661
Intangible asset additions		-	(7,182)
Additions to property and equipment		-	(2,536)
Cash used in investing activities		-	(9,057)
FINANCING ACTIVITIES			
Issuance of share capital for cash	9	4,330,506	-
Interest paid on debentures in cash	6	(40,382)	(4,402)
Debenture repayment in cash	6(b)	(109,000)	(160,000)
Share issuance costs paid in cash	9	(272,000)	-
Cash provided by financing activities		3,909,123	(164,402)
Effect of foreign exchange on cash and equivalents		(15,066)	13,218
Net increase (decrease) in cash and equivalents		3,199,570	(991,393)
Cash and equivalents at beginning of period		191,282	1,975,006
Cash and cash equivalents at end of period		$3,390,852	$983,613

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	Number of Common Shares (Note 9)	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2016		32,138,218	$22,881,118	$3,701,841	$(28,832,801)	$(2,249,842)
Shares issued with sale of stock	9	10,496,938	3,359,020			3,359,020
Warrants issued with sale of stock	8, 9		(3,863,020)			(3,863,020)
Liabilities settled with shares	6(b), 9	1,575,000	504,000			504,000
Shares issued on conversion of convertible debentures	6(c)	766,667	355,851			355,851
Share-based compensation	9	-	-	9,139		9,139
Finder's Units issued in connection with sale of stock	9	282,555	(90,417)	90,417		-
Share & warrant issuance costs	9		(139,782)			(139,782)
Stock options exercised	9	325,000	94,117	(40,867)		53,250
Warrants exercised	8	4,306,923	2,269,030			2,269,030
Loss and comprehensive loss		-	-	-	(3,789,754)	(3,789,754)
Balance, March 31, 2017		49,891,301	$25,369,916	$3,760,530	$(32,622,555)	$(3,492,108)

	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)	$ (269,435)
Shares issued with sale of stock		4,246,674	637,000			637,000
Warrants issued with sale of stock			(194,265)			(194,265)
Liabilities settled with shares		1,095,763	154,920			154,920
Share-based compensation				70,918		70,918
Share & warrant issuance costs			(27,498)	(6,019)		(33,517)
Deferred Share Units issued				8,287		8,287
Deferred Share Units exercised		82,500	74,577	(74,577)		-
Loss and comprehensive loss					(2,623,752)	(2,623,752)
Balance, December 31, 2016		32,138,218	$22,881,118	$3,701,841	$(28,832,801)	$(2,249,842)

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 Company’s 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.

2. Basis of presentation

(a) Statement of compliance

These condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016, have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting.* Accordingly they do not include all disclosures which would otherwise be required in a complete set of financial statements and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company has applied the same accounting policies and methods of computation in its interim condensed consolidated interim financial statements as in its 2016 annual audited consolidated financial statements.

(b) Basis of measurement and going concern

These financial statements have been prepared on a historical cost basis, except for certain financial instruments. These condensed consolidated interim 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 $3,789,754 and had a negative operating cash flow of $694,487 for the three month period ended March 31, 2017, and has accumulated $32,622,555 of losses as at March 31, 2017. 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.

(d) Use of estimates and judgments

The preparation of the interim condensed consolidated interim financial statements in conformity with IAS 34 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. There have been no material revisions to the nature and amount of changes in estimates of amounts reported in the 2016 annual consolidated financial statements.

Amounts in Canadian Dollars unless otherwise stated

3. Amounts receivable

	As at March 31, 2017	As at December 31, 2016
Trade accounts receivable	$ -	$ -
Private placement subscription receivable	50,000	-
Goods and services taxes receivable	150,583	128,922
Total	$ 200,583	$ 128,922

4. Property and equipment

Cost:	
Balance January 1, 2016	$ 495,735
Additions/Disposals	6,806
Disposals	(258,033)
Balance, December 31, 2016	244,508
Additions	-
Balance, March 31, 2017	$ 244,508
Accumulated depreciation:	
Balance, January 1, 2016	$ (467,403)
Depreciation	(10,986)
Disposals	258,039
Balance, December 31, 2016	(220,350)
Depreciation	(2,776)
Balance, December 31, 2016	$ (223,126)
Net carrying amounts:	
December 31, 2016	$ 24,158
March 31, 2017	$ 21,382

5. Accounts payable and accrued liabilities

	As at March 31, 2017	As at December 31, 2016
Trade and other payables	$ 844,410	$ 842,087
Accrued liabilities	613,880	680,025
Total	$1,458,290	$ 1,522,112

Accrued liabilities include $571,120 (December 31, 2016 - $571,120) of accrued but unpaid compensation payable to the Company's CEO.

Amounts in Canadian Dollars unless otherwise stated

6. Debentures payable

As at March 31, 2017 the Debentures were fully paid out and the Company was debt free. The changes in the Debenture balance during the three months ended March 31, 2017 and the year ended December 31, 2016 consist of:

Balance, January 1, 2016	**$**	**$597,872**
Debentures repaid in cash		(160,000)
Debentures settled in shares, (a)		(38,000)
Loss on amendment of convertible debentures, (b)(c)		(136,282)
Costs of amendments of convertible debentures, (b)(c)		(9,382)
Accretion		342,914
Balance December 31, 2016	**$**	**$597,122**
Debentures repaid in cash,		(91,992)
Debentures settled in shares		(423,753)
Conversion of convertible debentures into shares		(95,284)
Accretion		13,907
Balance March 31, 2017	**$**	**-**

The conversion features of the convertible debentures and warrants issued in connection with the Company's debenture issuances have been valued for condensed consolidated interim financial statements using a Black Scholes pricing model as a proxy for a binomial pricing model, with assumptions that are further described in Note 8.

All outstanding warrants and debenture conversion features were treated as derivative financial liabilities. These Derivative Liabilities are revalued at each financial statement date and adjustments are reflected in the profit and 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, was 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.

On January 15, 2014 and March 14, 2014, $24,000 and $10,000 respectively, of the August Tranche debentures were converted into 24,000 and 10,000 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.

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.

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 6(b) below. The other $115,000 of the October Tranche debentures was amended with the reduction of the conversion price to $0.15 per share from $1.00, as described in 6(c) below.

Amounts in Canadian Dollars unless otherwise stated

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.

(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 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 Note 6(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

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 in losses on amendment of the August and October debentures of $129,838 and $184,461, respectively, which 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 $16,237 and $11,880 respectively, were recognized on the Amended Debentures in 2017.

In March, 2017, $109,000 of the Amended Debentures were repaid in cash, which resulted in a gain on retirement of the debenture of $10,400 and a reduction in the Debenture balance of $49,326 and in the Derivative Liability balance of $13,282.

The remaining $504,000 of the Amended Debentures were repaid in a shares-for-debt transaction which closed on March 21, 2017 (Note 9). 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 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. The accreted fair value of the debentures of $423,753 plus the fair value of the conversion feature exceeded the $504,000 share capital value of the Units resulting in a gain on the shares for debt transaction of $57,321, which is recognized in the profit or loss.

(c) **Amended Conversion Convertible Debentures:** Holders of $115,000 of the October Tranche Convertible Debentures (6(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 Exchange 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 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 $2,714 and $2,028 respectively, were recognized on the Amended Conversion Convertible debentures in 2017.

In March, 2017 all $115,000 of the Amended Conversion Debentures were converted to common shares with the issuance of 766,666 shares. The 766,666 shares were valued at the total of the accreted fair value of the debentures of $95,284 plus the fair value of the conversion feature of $260,555 at the conversion date.

7. Finance Costs

Finance costs for the three month periods ended March 31, 2017 and 2016 were as follows:

Finance costs	2017	2016
Bank charges, fees and other	$ 721	$ 360
Transaction Costs	132,218	-
Interest expense on debentures	18,981	27,319
Accretion on debentures and transaction costs	13,907	102,235
Total finance costs	$165,828	$129,914

8. Derivative liabilities and warrants

Warrants are issued in connection with private placements of common shares and convertible debentures with an exercise price in Canadian dollars. All warrants have been treated as derivative financial liabilities because the exercise price of the warrants may be adjusted if the Company issues common shares at less than 95% of the quoted market price. Under IFRS, these types of warrants are required to be accounted for as a liability, rather than as part of shareholders' equity. The change in the fair value of the warrants during each period was recognized in profit or 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.

Amounts in Canadian Dollars unless otherwise stated

The Company uses the Black-Sholes option pricing model or a binomial model to determine the fair value of the warrants and convertible debenture conversion features at issuance and at each period end.

The following table summarizes the changes in Derivative Liabilities during the three months ended March 31, 2017 and the year ended December 31, 2016:

Balance, December 31, 2015	**$**	**291,374**
Warrants issued with extension of debentures (Note 6(b))		357,093
Conversion features issued with extension of debentures (Note 6(b)(c))		93,488
Warrants issued with sale of common shares		194,265
Amendments of warrants with extension of maturity		208,550
Derivative revaluation adjustment		(401,962)
Balance, December 31, 2016	**$**	**742,808**
Warrants issued with sale of common shares (Note 9)		3,863,020
Conversion of debentures (Note 6(c))		(260,567)
Retirement of convertible debentures (Note 6(b))		(164,977)
Warrant exercises		(1,347,794)
Derivative revaluation adjustment		2,651,128
Balance, March 31, 2017		**$5,956,951**

Warrant Transactions – 2017

Unit Private Placement

As part of a Private Placement on March 23, 2017 (Note 9) the Company issued 10,496,938 Warrants. Each Warrant entitles the holder thereof to acquire one common share of the Company at an exercise price of $0.50 per common share for a period of 2 years after the issuance of the Warrant. The Warrants were initially valued on the grant date at $3,359,020 using the Black Scholes model with the assumptions outlined below. An officer and director of the Company purchased 312,500 of the Warrants.

The Company paid cash finder's fees of $188,030 and issued an aggregate of 282,555 common shares and 282,555 non-transferable warrants (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 chare for a period of two years from the date of issuance. The Finder’s Warrants were valued at $90,417 using the Black Scholes pricing model with assumptions outlined below.

	Warrants	**Finder’s Warrants**
Exercise price	$0.50	$0.50
Time to maturity	2.00	2.00
Risk-free rate	0.77%	0.77%
Volatility	94.8%	94.8%
Dividend rate	nil	nil

On March 21, 2017, as part of the same Private Placement, the Company completed a shares-for-debt transaction with holders of $504,000 of outstanding Amended Convertible Debentures (Note 6(b)). As part of the transaction, the Company issued to the debenture holders a total of 1,575,000 Warrants. An officer and director of the Company was issued 312,500 Units in payment of $100,000 of the Amended Convertible Debentures.

Amounts in Canadian Dollars unless otherwise stated

The Warrants were initially valued on the grant date at $504,000 using the Black Scholes model with the assumptions outlined below.

	Warrants
Exercise price	$0.50
Time to maturity	2.0
Risk-free rate	0.79%
Volatility	105.00%
Dividend rate	nil

Warrant exercises

During the month of March, 2017 the Company's warrant holders elected to exercise a total of 4,307,463 warrants at exercise prices ranging between $0.15 and $0.40 per common share. The proceeds to the Company from these warrant exercises totalled $921,236 in cash. Warrant exercises are accounted for as a reduction to the Derivative Liability of the warrant value, revalued at the date of exercise. The common shares issued are accounted for as the total of the cash exercise price plus the warrant value ($1,347,794 in total) for a total increase to share capital of $2,269,030.

Warrants outstanding

Changes in the number of warrants outstanding during the three month period ended March 31, 2017 and the year ended December 31, 2016 were as follows:

	March 31, 2017		December 31, 2016	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
Balance, January 1	13,171,402	$0.30	4,507,160	$1.13
Granted	12,354,493	$0.50	8,753,333	$0.23
Expired	-	-	(89,091)	$0.55
Exercised	(4,307,463)	$0.21	-	-
Balance, Period End	21,218,432	$0.44	13,171,402	$0.30

The following table reflects warrants outstanding, all of which are exercisable at March 31, 2017:

Exercise Price	Quantity	Remaining Avg Contractual Life
$0.15	1,165,000	1.56
$0.30	3,953,334	1.65
$0.40	3,445,605	1.87
$0.50	12,354,493	1.98
$1.10	300,000	0.61
$0.44	**21,218,432**	**1.86**

The fair value of the warrants and conversion features at the dates of the statement of financial position of re-measurement for March 31, 2017 and December 31, 2016 were valued using a binomial model and the Black-Scholes option pricing model with the following weighted average assumptions:

	March 31, 2017	December 31, 2016
Time to maturity	1.86	0.90
Risk-free rate	0.79%	0.56%
Volatility	107.7%	136.5%
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.

Share transactions – Three months ended March 31, 2017

On March 23, 2017 the Company closed a non-brokered private placement (the “Private Placement”) of 10,496,938 units (“Units”) at $0.32 per Unit for total gross cash proceeds of $3,359,020. Each Unit consists of one common share of the Company and one common share purchase 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.

An officer and director of the Company, subscribed for 312,500 Units in the Private Placement.

The Company paid cash finder's fees of $188,030 and issued an aggregate of 282,555 common shares and 282,555 non-transferable warrants (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 chare for a period of two years from the date of issuance. The Finder’s Warrants were valued at $90,417 using the Black-Scholes pricing model with assumptions described in Note 8.

As part of the Private Placement, on March 21, 2017 the Company completed a shares-for-debt transaction with holders of $504,000 of outstanding Amended Convertible Debentures (Note 6(b)). The Company issued to the holders of the Debentures a total of 1,575,000 Units. An officer and director received 312,500 Units in full payment of $100,000 of the Debentures.

In March, 2017 holders of the Amended Conversion Convertible Debentures (Note 6(c)) converted all $115,000 of the Debentures into a total of 766,667 common shares at an exercise price of $0.15 per common share.

In the first quarter of 2017, the Company issued 4,307,464 common shares due to the exercise of warrants at exercise prices between $0.15 and $0.40, for total proceeds received of $921,236. In addition, 325,000 shares have been issued as a result of the exercise of stock options for proceeds of $53,250. The common shares issued due to these warrant and stock option exercises are free-trading.

Weighted average number of shares

The weighted average number of shares for the three months ended March 31, 2017 was 34,121,458 (March 31, 2016 – 26,713,287). 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 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.

Stock Option Plan

The Company has adopted an incentive stock option plan in accordance with the policies of the TSXV Exchange (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, subject to the rules of the Exchange.

Amounts in Canadian Dollars unless otherwise stated

Stock option transactions – 2017

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 per quarter 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 per common share, vesting in equal quarterly installments over 12 months and expiring two years from the date of grant.

In the first quarter of 2017, 325,000 stock options were exercised with the issuance of 325,000 common shares, resulting in cash proceeds of $52,350. The value of the share capital recognized is the total of the proceeds from the exercise and the expense previously recognized for the issuance of the stock options, resulting in a total aggregate credit to share capital of $90,417. A Director of the Company exercised 75,000 of the stock options at an exercise price of $0.17 per common share.

Stock options outstanding

Changes in the number of options outstanding during the three months ended March 31, 2017 and the year ended December 31, 2016 were as follows:

	Three months ended March 31, 2017		Year ended December 31, 2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, January 1	1,106,400	$0.73	1,027,143	$1.00
Granted	200,000	$0.15	410,400	$0.17
Exercised	325,000	$0.17	-	-
Cancelled/forfeited/expired	(107,000)	$1.69	(331,143)	$0.99
Balance, December 31	874,400	$0.70	1,106,400	$0.73

The following table reflects stock options outstanding and exercisable at March 31, 2017:

	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	285,400	3.66	$0.16	135,400	5.78	$0.18
$0.60 - $1.00	489,000	1.89	$0.89	472,333	1.87	$0.90
> $1.00	100,000	3.48	$1.25	100,000	3.48	$1.25
	874,400	2.65	$0.70	707,733	2.84	$0.81

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:

	March 31, 2017	March 31, 2016
Expected option life	4.4 years	5 years
Risk-free rate	1.12%	1.58%
Expected forfeiture rate	6.00%	6.00%
Expected volatility	135.41%	127.89%
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.

Amounts in Canadian Dollars unless otherwise stated

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 options 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.

10. Related parties

The key management personnel of the Company are the Directors, the President and Chief Executive Officer, and the Chief Financial Officer. Compensation for key management personnel of the Company for the three month periods ended March 31, 2017 and 2016 was as follows:

	2017	2016
Salaries, fees and short-term benefits	$88,980	$ 88,980
Deferred Share Units	-	8,288
Share-based compensation	955	6,818
Directors' fees	9,728	-
Debenture interest	2,630	1,496
Total key management personnel expenses	$102,294	$105,582

Executive officers and directors participate in the Stock Option Plan and the Deferred Share Unit (DSU) Plan. Directors generally receive annual and meeting fees for their services. As at March 31, 2017 the key management personnel control 3.51% of the outstanding voting shares of the Company (5.45% on a fully diluted basis).

At period end, 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.

An officer and director of the Company held $100,000 face value of the August Amended Convertible Debentures (Note 6(b)), which was paid out in the March 21, 2017 Shares for Debt Private Placement with the issuance of 312,500 Units (Note 9). The same officer and director also subscribed for 312,500 Units in the March 23, 2017 Private Placement (Note 9).

Also in March, 2017 a director of the Company exercised 75,000 of common stock options at an exercise price of $0.17 per common share.

11. Financial instruments

The Company's financial instruments consist of cash and equivalents, amounts receivable, accounts payables and accrued liabilities, debentures 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 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 and market 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.

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 profit or 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 March 31, 2017 and December 31, 2016 was:

	March 31, 2017	December 31, 2016
Cash and equivalents	$3,390,852	$ 191,282
Accounts receivable	200,583	128,922
Total	$3,591,435	$ 320,204

Accounts receivable include $150,583 in refundable sales tax due from the Government of Canada. Of this amount, $128,000 is currently due. Accounts receivable also includes $50,000 due from an investor in the March 23, 2017 Private Placement. This amount was received in early April, 2017.

(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 no long-term financial liabilities reflected on its statement of financial position.

All liabilities are due in the current quarter, aside from US$12,500 accrued minimum annual technology license royalty due to the University of Washington for payment in February, 2018.

(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 2017 and 2016. The Company's 2017 revenue and receivables are in Canadian dollars. 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 $8,377 for the three months ended March 31, 2017 (March 31, 2016 - $10,687). 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.

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, and by reducing the exposure of liabilities denominated in US dollars by maintaining the majority of financial assets in Canadian dollar denominated monetary assets. The Company has not entered into any forward foreign exchange contracts.

Amounts in Canadian Dollars unless otherwise stated

The Company was exposed to currency risk as at March 31, 2017 and December 31, 2016 as follows:

	March 31, 2017 US$	**December 31, 2016 US$**
Cash and equivalents	$78,625	$ 33,190
Accounts receivable	-	-
Accounts payable and accrued liabilities	550,080	556,060
Principal & interest due on debentures	-	-

12. Subsequent events

Subsequent to March 31, 2017 the Company has issued 1,596,667 common shares due to the exercise of warrants at exercise prices of $0.15 and $0.30, for total cash proceeds received of $329,000. In addition, 50,000 shares have been issued as a result of the exercise of stock options for proceeds of $7,500. The common shares issued for these warrant and stock option exercises are free-trading.

On May 2, 2017 the Board of Directors granted 495,000 common stock options to eight consultants with an exercise of $0.32 per share, and maturing in 2 years. 50,000 of these stock options vest immediately, and 445,000 options vest quarterly over one year. In addition, the Board granted 100,000 stock options to the CFO of the Company, with an exercise price of $0.32, a maturity date of May 2, 2022, and which vested immediately.