M PHARMACEUTICAL INC.

Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015
(Expressed in Canadian dollars)

NOTICE TO READER

The accompanying unaudited Interim Condensed Consolidated Financial Statements for M Pharmaceutical Inc. have been prepared by management in accordance with International Financing reporting Standards consistently applied. These Interim Condensed Consolidated Financial Statements have not been audited or reviewed by the auditors.

TABLE OF CONTENTS

M PHARMACEUTICAL INC.
Interim Condensed Consolidated Statements of Financial Position (Unaudited)
As at

(In Canadian Dollars)	***Notes***	**March 31, 2016**	December 31, 2015
		$	$
ASSETS			
Current Assets			
Cash and cash equivalents		**1,447**	1,474
Accounts receivable		**-**	-
Sales tax receivable		**334**	2,883
Prepaid expenses and deposits		**4,405**	8,743
Investments	*10*	**-**	-
Total Current Assets		**6,186**	13,100
Non-current Assets			
Intangible assets	*6*	**569,783**	569,783
Total Assets		**575,969**	582,883
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current Liabilities			
Accounts payable and accrued liabilities	*9*	**878,632**	748,128
Promissory notes payable	*11*	**99,170**	92,718
Convertible debenture	*12*	**139,957**	125,491
Derivative liability	*12*	**96,906**	357,647
Total Current Liabilities		**1,214,665**	1,323,984
Total Liabilities		**1,214,665**	1,323,984
Shareholders' Equity (Deficit)			
Share capital	*7(a)*	**44,292,890**	44,292,890
Contributed surplus	*7(c)*	**9,393,613**	9,383,936
Accumulated other comprehensive income		**-**	-
Deficit		**(54,325,200)**	(54,417,927)
Total Shareholders’ Equity (Deficit)		**(638,696)**	(741,101)
Total Liabilities and Shareholders’ Equity (Deficit)		**575,969**	582,883

Going concern (Note 2)
Subsequent events (Note 17)

Director

“Signed”
Rick Skeith

Director

“Signed”
George Tsafalas

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

M PHARMACEUTICAL INC.
Interim Condensed Consolidated Statements of Comprehensive Loss (Unaudited)
For the three months ended March 31, 2016

(In Canadian Dollars)	***Notes***	**March 31, 2016**	March 31, 2015
		$	$
Expenses			
Professional fees	*9*	**14,744**	156,350
General and administrative		**2,537**	128,056
Travel and promotion	*9*	**14,615**	38,703
Consulting fees	*9*	**105,000**	171,130
Stock based compensation	*7&8*	**9,677**	-
Loss before the following items		**(146,573)**	(494,239)
Impairment reversal of exploration and evaluation assets	*10*	**-**	(6,140)
Accretion	*11 &12*	**(14,466)**	-
Derivative fair value adjustment	*12*	**260,741**	-
Interest expense		**(6,974)**	(1,673)
Net loss for the year		**(92,727)**	(502,052)
Other comprehensive loss			
Fair value gain (loss) on investments	*10*	**-**	(20,000)
Total comprehensive loss		**(92,727)**	(522,052)
Net loss per share - basic & diluted		**(0.00)**	(0.00)
Weighted average number of shares - basic & diluted		**33,150,355**	11,642,158

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

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

	Notes	Share capital					
		Number of shares*	Amount	Contributed surplus	Accumulated other comprehensive income	Deficit	Total equity (deficit)
			$	$	$	$	$
Balance at December 31, 2014		8,066,678	40,969,783	8,231,930	(50,000)	(49,355,291)	(203,578)
Common shares issued for private placement	7	5,400,000	1,080,000	-	-	-	1,080,000
Common shares issued for debt issue	7	2,494,014	504,379	-	-	-	504,379
Common shares issued for consulting contract	7	2,000,000	200,000	-	-	-	200,000
Common shares issued for M Diagnostics Inc. acquisition	6	806,667	107,333	-	-	-	107,333
Common shares issued for RX Global Capital Inc. acquisition	6	9,522,400	1,173,584	-	-	-	1,173,584
Common shares issued for TriMtec Biomedical Inc. acquisition	6	1,000	200	-	-	-	200
Common shares issued for cash		70,000	9,100				9,100
Common shares issued for warrant exercise	7	330,000	42,900	-	-	-	42,900
Common shares issued for debenture interest prepayment	12	4,459,596	267,576	-	-	-	267,576
Finder's fees		-	(61,965)	9,000	-	-	(52,965)
Fair value loss on investment		-	-		50,000		50,000
Warrant issued for convertible debentures		-	-	162,964	-	-	162,964
Warrants issued for RX Global acquisition		-	-	813,000	-		813,000
Stock based compensation		-	-	167,042	-		167,042
Loss for the period		-	-	-	-	(5,062,636)	(5,062,636)
Balance at December 31, 2015		33,150,355	44,292,890	9,383,936	-	(54,417,927)	(741,101)

M PHARMACEUTICAL INC.

Interim Condensed Consolidated Statements of Changes in Equity (Deficit) (Unaudited)

As at

	Notes	Share capital					
	Notes	Number of shares*	Amount	Contributed surplus	Accumulated other comprehensive income	Deficit	Total equity (deficit)
			$	$	$	$	$
Stock based compensation		-	-	9,677	-		9,677
Loss for the period		-	-	-	-	(92,727)	(92,727)
Balance at March 31, 2016		33,150,355	44,292,890	9,393,613	-	(54,325,200)	(638,696)

* Post Consolidated

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

M PHARMACEUTICAL INC.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

For the three months ended March 31, 2016

(In Canadian Dollars)	***Notes***	**March 31, 2016**	March 31, 2015
		$	$
Cash and cash equivalents provided by (used in):			
Operating Activities			
Net (loss) for the year		**(92,727)**	(502,052)
Adjustments for items not affecting cash			
Derivative fair value adjustment	12	**(260,741)**	-
Accretion and accrued interest	11	**21,440**	1,673
Stock based compensation		**9,677**	-
Changes in non-cash components of working capital			
Sales tax receivable		**2,549**	(16,367)
Accounts receivable		**-**	334
Prepaid expenses		**4,338**	(75,571)
Accounts payable and accrued liabilities		**129,983**	(44,191)
		(27)	(636,174)
Financing Activities			
Issue of common shares	*7(a)*	**-**	1,080,000
Share issue costs	*7(a)*	**-**	(40,320)
		-	1,039,680
Investing Activities			
M Diagnostics acquisition	*6*	**-**	(188,910)
		-	(188,910)
Decrease in cash and cash equivalents		**(27)**	214,596
Cash and cash equivalents, beginning of the year		**1,474**	41,266
Cash and cash equivalents, end of the year		**1,447**	255,862

SUPPLEMENTAL INFORMATION

Interest paid		-	-

1. General information

M Pharmaceutical Inc. ("the Company") is a clinical-stage company developing innovative technologies for the monitoring and treatment of obesity, diabetes, and other gastroenterological indications. The Company was incorporated on March 11, 2003 under the laws of the Province of Ontario. On November 26, 2014, the Company was continued into the Province of Alberta from Ontario. The address of the head office is suite 430-580 Hornby Street, Vancouver, BC V6C 3B6.

2. Going concern

The ability of the Company to realize its business plan and continue operations is dependent upon the Company being able to commercialize a product for sale, to finance research, development and commercialization costs and compete in a competitive marketplace for the monitoring and treatment of obesity, diabetes, and other gastroenterological indications. There is no certainty whether the Company will generate significant revenues or attain profitable operations in the near future and there can be no assurance that it will achieve profitability in the future, as it incurred a loss of $92,727 and had a negative operating cash flow of $27 for the three months ended March 31, 2016, and has accumulated $54,335,205 of losses as at March 31, 2016.

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

3. Basis of preparation

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

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, International Accounting Standards 34 "*Interim Financial Reporting*". Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed.

The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2015.

The policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS issued and outstanding as of May 20, 2016, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2015 could result in restatement of these unaudited interim condensed consolidated financial statements.

4. Summary of significant accounting policies

These unaudited interim condensed consolidated financial statements have been prepared using the same policies and methods as the annual consolidated financial statements of the Corporation for the year ended December 31, 2015. Refer to note 4 and 5 of the Corporation's audited annual consolidated financial statements for the year ended December 31, 2015 for more information on new accounting standards and amendments not yet effective.

5. Acquisitions

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

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

On March 10, 2015, the Company entered into an agreement with various parties, which included directors of the Company, to purchase all the issued and outstanding shares of RX Global Capital Inc. The purchase price shall be paid as follows: 9,522,400 common shares, 5,664,000 replacement warrants at an exercise price of $0.25. Directors of the Company received 1,587,200 of the common shares issued and 1,440,000 of the warrants. 3,500,000 of the common shares are subject to a 3 year escrow agreement, with 10% of the escrowed shares being immediately releasable, and the balance being released in equal tranches every six months thereafter. The acquisition also included a 4% royalty on sales of any product based on the intellectual property rights (Note 16). The fair value of the consideration paid exceeded the net assets acquired, the difference was noted as an unidentified asset and recorded as stock based compensation. The transaction was determined to be an asset acquisition.

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

On April 5, 2016, the Company entered into a definitive agreement to acquire assets from Chelatexx, LLC related to a reformulated version of orlistat (product "C-103"). The Company will pay an up-front cash payment of US$ 200,000, 10 million common shares of M Pharmaceutical, and a single-digit royalty on net sales.

6. Intangible assets

	M Diagnostics	RX Global	TriMtec	Total
At December 31, 2014 and January 1, 2014	$-	$-	$-	$-
Acquisition of intellectual property (Note 6)	321,242	569,783	200	891,225
Licence payment	-	-	270,000	270,000
Impairment	(321,242)	-	(270,200)	(591,442)
At December 31, 2015 and March 31, 2016	$-	$569,783	$-	$569,783

The activity related to M Diagnostics has been suspended. As a result the intangible assets related to M Diagnostics were impaired.

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

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

7. Share capital

(a) **Authorised**

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

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

In February 2015, the Company completed a private placement and raised gross proceeds of $1,080,000 by issuing 5,400,000 units at $0.20 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable for 2 years from closing at an exercise price of $0.50 per common share. The Company issued 110,600 finder's warrants related to the private placement. The Company recognized $9,000 of share issue costs related to the finder' warrants, using the following assumptions: Term 1 year, Share Price $0.20, Exercise Price $0.50, Volatility 169%, Risk Free Rate 1.25%, Dividend Rate Nil.

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

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

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

On September 15, 2015, the Company issued 330,000 common shares. The common shares are being issued pursuant to exercised warrants with an exercise price of $0.13 per common share. The warrants were repriced from $0.50 per common share and subsequently exercised.

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

(b) Common share purchase warrants

On February 6, 2016 110,600 common share purchase warrants expired unexercised.

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

	Number of Warrants (Post Consolidated)	Weighted Average Exercise Price
Balance, January 1, 2015	**13,026,265**	**$ 0.05**
Exercised	(330,000)	$ 0.13
Expired	(1,104,000)	$ 0.50
Issued	9,316,925	$ 0.18
Balance, December 31, 2015	**20,909,194**	**$ 0.05**
Expired	(110,600)	$ 0.50
Balance, March 31, 2016	**20,798,594**	**$ 0.35**

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

Expiry date	Exercise Price ($)	Warrants
June 18, 2016	0.50	5,174,998
July 24, 2017	0.50	100,000
February 6, 2017	0.50	4,375,000
February 13, 2017	0.50	1,025,000
October 27, 2017	0.10	4,459,596
February 7, 2017	0.25	5,440,000
February 7, 2020	0.25	224,000
		20,798,594

(c) Contributed surplus

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

	March 31, 2016	December 31,2015
Balance, beginning of the period	**$ 9,383,936**	$ 8,191,930
Stock based compensation	**9,667**	167,042
Warrants issued for RX Global acquisition (Note 6)	**-**	813,000
Warrants issued with convertible debenture (Note 13)	**-**	162,964
Finder's warrants (Note 8)	**-**	9,000
Estimated fair value of common share purchase warrants	**-**	-
Balance, end of the period	**$ 9,393,613**	$ 9,383,936

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

	Warrants April 27, 2015 (Note 6)	Warrants October 27, 2015 (Note 13)	Stock Options	Warrants 2014 (Note 12)
Exercise price	$0.25	$0.10	$0.11-$0.17	$0.50
Grant date share price	$0.16	$0.06	$0.06-$0.21	$0.40
Time to maturity	4.8 years	2 years	5 years	3 years
Risk-free rate	1.25%	1.25%	1.25%	1.25%
Volatility	169%	169%	169%-172%	233%
Dividend rate	nil	nil	nil	nil

8. Share based payments

The Company has established a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors and employees of the Company as well as persons providing ongoing services to the Company. The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed 10% percent of the total number of common shares outstanding immediately prior to such an issuance. Under the plan, the Board of Directors has the choice of either vesting or allowing options issued to be exercisable upon issuance. Options are normally issued for a five-year term. During the year ended December 31, 2015, 2,775,000 options were granted. The stock options granted vest 1/3 of the immediately, 1/3 on the first anniversary and 1/3 on the second anniversary. During the three months period ended March 31, 2016 no stock options were granted

A summary of the share option transactions for the three month ended March 31, 2016 and the years ended December 31, 2015 and 2014 are summarized as follows:

	Number of Options*		Weighted Average Exercise Price
Balance, December 31, 2014	54,083	$	1.92
Expired	(51,333)	$	2.00
Granted	2,775,000	$	0.17
Forfeited	(425,000)	$	0.17
Balance, December 31, 2015 and March 31, 2016	**2,352,750**	**$**	**0.17**

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

Expiry date	Options Outstanding*	Exercise Price per share ($)	Options Exercisable
Nov 18, 2016	2,750	0.50	2,750
May 17, 2020	700,000	0.17	233,333
June 10, 2020	1,250,000	0.17	416,667
August 31, 2020	400,000	0.11	100,000
	2,352,750	0.17	752,750

9. Related party transactions

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

(a) Key Management compensation consists of:

(i) Consulting fees

During the three months ended March 31, 2016, the Company incurred total consulting fees to the directors and to the director's companies for $Nil (2015 - $25,400) of which $Nil (2015 - $40,450) is owed at period end.

During the three months ended March 31, 2016, the Company incurred total consulting fees to Management and to Management's companies for $105,000 (2015 - $10,500). A balance of $9,994 (2014 - $1,000) is owed at period end.

(ii) Accounting fees

During the three months ended March 31, 2016, the Company incurred and paid total accounting fees to the Management's company for $Nil (2015 – 3,900).

(iii) Legal and Professional fees

During the three months ended March 31, 2016, the Company incurred and paid total legal and professional fees to a director's company for $Nil (2015 - $98,195). A balance of $342,874 (2015 - $260,119) is owed at period end.

10. Investments

In February 2015, the Company disposed of its assets held for sale and the associated decommissioning obligation in exchange for 5,000,000 common shares in a private company and 5,000,000 common shares of the private company's subsidiary. The value attributed to the shares is equal to the carrying value of net assets disposed of which was $nil. 2,000,000 common shares of the private company were transferred to a promissory note holder. The Company incurred $20,000 of expenditures related to the assets held for sale, which have been recognized in the statement of profit and loss.

11. Promissory notes payable

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

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

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

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

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

During the three months period ended March 31, 2016 $6,452 accretion and interest was recorded.

	March 31, 2016	December 31, 2015
Balance, beginning of the year	**$ 92,718**	$ 66,907
Issuance of promissory notes	**-**	208,400
Accrued accretion and interest expense	**6,452**	76,411
Repayment, principle and interest	**-**	(259,000)
Balance, end of the period	**$ 99,170**	$ 92,718

12. Convertible debentures

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

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

The terms of the Debentures are 36 months at 10% annual simple interest. The interest shall be paid up front, through the issuance of an Interest Unit. Each Interest Unit consists of one common share of the Company's common stock and one common share purchase warrant with an exercise price of $0.10 and a term of two years.

The modification of terms resulted in an extinguishment of the trade payables and promissory notes and recognition of a new convertible debt instrument. This resulted in a loss of $102,544 related to the trade payables and a loss of $99,003 related to the promissory notes.

The Company has determined that the fair value of the modified loan should be recognized together with the conversion derivative liability. The fair value of the loan was determined to be $114,183 by applying a risk-adjusted rate of 84% to discount the monthly repayments and coupon payments over the remaining life of the loan. During the year accretion and interest of $11,308 was recorded. The embedded derivative was estimated using an option pricing model.

The fair value of the derivative liability was determined to be $364,942 at initial recognition using the below assumptions. It was re-measured at the financial position date, with adjustments made to the derivative liability and reflected in the profit and loss. A fair value adjustment of $260,741 (December 31, 2015 - $7,295) was recognized at March 31, 2016.

	October 27, 2015	December 31, 2015	March 31, 2016
Exercise price	$0.10	$0.10	$0.10
Share Price	$0.06	$0.06	$0.02
Time to maturity	3 years	2.8 years	2.6 years
Risk-free rate	1.25%	1.25%	1.25%
Volatility	169%	169%	169%
Dividend rate	nil	nil	nil

The 4,459,596 common shares issued with the Interest Units were recognized using the quoted market price (Note 8).

The 4,459,596 warrants granted with the Interest Units have been valued using the Black-Scholes option pricing model with assumptions that are further described in Note 8(c).

13. Decommissioning obligation

The Company's decommissioning obligation results from ownership interests in petroleum and natural gas assets. At December 31, 2014, the estimated total undiscounted inflation-adjusted amount of cash flows required to settle the Company's obligations were approximately $180,000. In February 2015, the Company disposed of its New Brunswick and Quebec properties which were classified as held for sale as at December 31, 2014 (Note 11).

14. Commitments and contingencies

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

15. Capital management

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

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

16. Financial risk management

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

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

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly (ie, as prices) or indirectly (ie. derived from prices); and
- Level 3: Inputs that are not based on observable market data.

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

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

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

<u>Risk exposures:</u>

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

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

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's policy is to ensure that its investments are liquid and not to invest in asset backed commercial paper products. At March 31, 2016 the Company's credit risk was $1,448 (December 31, 2015- $13,100) and is concentrated in cash and cash equivalents, investments and accounts receivable.

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

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

(ii) Liquidity risk

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

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

Accounts payable and accrued liabilities are due on demand, the promissory note is due June 29, 2016 and convertible debentures are due October 27, 2018.

(iii) Market risk

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

(iv) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not exposed to interest rate risk as at December 31, 2015 as the promissory note payable (Note 11) and the convertible debentures (Note 12) is at a fixed rate of interest.

17. Subsequent events

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