Lattice Biologics Ltd.

Unaudited Condensed Interim Consolidated Financial Statements
Fiscal 2017 First Quarter
For the Three Month Periods Ended December 31, 2016 and December 31, 2015
(Expressed in U.S. dollars)

To the Shareholders of Lattice Biologics Ltd.:

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by the Company's management and approved by the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditor.

March 1, 2017

Lattice Biologics Ltd.
Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in U.S. dollars)
As at

	December 31, 2016 (Unaudited)	September 30, 2016
Assets		
Current assets:		
Cash	$ 3,209	$ 53,350
Accounts receivable (Note 6)	370,398	423,761
Prepaid expenses and other current assets	128,785	102,979
Inventory (Note 5)	2,322,799	2,197,838
Total current assets	2,825,191	2,777,928
Property and equipment (Note 3)	698,847	677,098
Intangible assets (Note 4)	519,984	554,650
Goodwill (Note 4)	606,428	606,428
Total assets	$ 4,650,450	$ 4,616,104
Liabilities and Deficit		
Current liabilities:		
Accounts payable and accrued liabilities (Note 7)	$ 4,099,833	$ 4,306,825
Obligations under finance lease, current portion (Note 8)	21,987	29,441
Factoring advances (Note 9)	62,497	124,785
Notes payable, current portion (Note 10)	2,222,162	2,211,535
Warrant liability (Note 11)	731,941	366,041
Royalty funding, current portion (Note 12)	750,000	750,000
Total current liabilities	7,888,420	7,788,627
Obligations under finance lease, long-term portion (Note 8)	54,519	45,808
Notes payable, long-term portion (Note 10)	550,000	550,000
Royalty funding, long-term portion (Note 12)	2,123,793	2,123,793
Total liabilities	10,616,732	10,508,228
Deficit:		
Share capital (Note 13)	7,883,959	6,744,627
Warrant reserve (Note 11)	21,862	21,862
Accumulated deficit	(13,872,103)	(12,658,613)
Total deficit	(5,966,282)	(5,892,124)
Total liabilities and deficit	$ 4,650,450	$ 4,616,104

Nature of Business and Going Concern *(Note 1)*
Commitments and Contingencies *(Note 16)*

Approved by the Board

Cheryl Farmer — Director (Signed)

Guy Cook — Director (Signed)

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

Lattice Biologics Ltd.
Unaudited Condensed Interim Consolidated Statements of Comprehensive Loss
(Expressed in U.S. dollars)

	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015
Revenue	$ 891,451	$ 1,065,654
Cost of sales:		
Cost of sales - Exclusive of depreciation	545,050	826,472
Cost of sales - Depreciation	19,781	13,315
Total cost of sales	564,831	839,787
Gross profit	326,620	225,867
Operating expenses:		
Depreciation and amortization	37,039	99,547
General and administrative	91,546	170,949
Research and development	135,436	21,857
Professional fees	161,443	124,491
Rent	44,975	36,775
Salaries	321,327	213,924
Sales and marketing	151,582	218,262
Utilities	11,500	11,908
Total operating expenses	954,848	897,713
Loss from operations	(628,228)	(671,846)
Other income (expense):		
Interest and finance charges	(167,041)	(285,439)
Loss on convertible note revaluation	-	(61,900)
Share based payments (Note 13)	-	(1,240,205)
Listing expense	-	(1,639,390)
Loss on settlement of payables	(247,237)	-
Other income (expense)	5,628	(11,872)
Change in fair value of warrants	43,850	-
Royalty	(220,462)	(93,750)
Total other expense	(585,262)	(3,332,556)
Net loss and comprehensive loss	$ (1,213,490)	$ (4,004,402)
Basic and diluted loss per share	$ (0.02)	$ (0.11)
Weighted average number of common shares outstanding	67,511,699	36,834,421

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

Lattice Biologics Ltd.
Unaudited Condensed Interim Consolidated Statements of Changes in Deficit
(Expressed in U.S. dollars)

	Number of Shares	Number of Warrants	Share Capital	Warrant Reserve	Accumulated Deficit	Total Deficit
Balances at September 30, 2016……………	63,137,222	182,530	$ 6,744,627	$ 21,862	$ (12,658,613)	$ (5,892,124)
Shares issued…………………………………	8,696,187	-	1,139,332	-	-	1,139,332
Net loss for the period………………………	-	-	-	-	(1,213,490)	(1,213,490)
Balances at December 31, 2016……………	71,833,409	182,530	$ 7,883,959	$ 21,862	$ (13,872,103)	$ (5,966,282)

	Number of Shares	Number of Warrants	Share Capital	Warrant Reserve	Accumulated Deficit	Total Deficit
Balances at September 30, 2015……………	14,699	-	$ 913,845	$ -	$ (4,806,606)	$ (3,892,761)
Share consolidation…………………………	(1,987)	-	-	-	-	-
Shares issued…………………………………	1,987	-	1,240,205	-	-	1,240,205
Reverse takeover adjustment………………	39,607,192	-	954,536	-	-	954,536
Shares issued…………………………………	8,801,092	182,530	1,524,257	21,862	-	1,546,119
Net loss for the period………………………	-	-	-	-	(4,004,402)	(4,004,402)
Balances at December 31, 2015……………	48,422,983	182,530	$ 4,632,843	$ 21,862	$ (8,811,008)	$ (4,156,303)

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

Lattice Biologics Ltd.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Expressed in U.S. dollars)

	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015
Operating activities:		
Net loss	$ (1,213,490)	$ (4,004,402)
Non-cash adjustments to reconcile net loss to net cash flows used in operations:		
Depreciation of property and equipment	22,154	14,346
Amortization of intangible assets	34,666	98,517
Debt accretion	85,627	180,208
Loss on convertible note revaluation	-	61,900
Non-cash listing expense	-	954,536
Change in fair value of warrants	(43,850)	-
Loss on settlement of payables	247,237	-
Share-based payments	-	1,240,205
Changes in working capital:		
Accounts receivable	53,363	175,868
Prepaid expenses and other assets	(25,806)	4,576
Inventory	(124,961)	374,167
Accounts payable and accrued liabilities	504,853	126,761
Factoring advances	(62,288)	(175,128)
Cash used in operating activities	(522,495)	(948,446)
Investing activities:		
Purchase of property and equipment	(25,678)	-
Cash used in investing activities	(25,678)	-
Financing activities:		
Issuance of common shares and warrants	590,000	1,277,954
Repayment of finance lease obligations	(16,968)	(24,160)
Proceeds from officer loans	-	175,000
Repayment of notes payable	(75,000)	(153,439)
Cash provided by financing activities	498,032	1,275,355
Increase (decrease) in cash and cash equivalents	(50,141)	326,909
Cash, beginning of period	53,350	50,293
Cash, end of period	$ 3,209	$ 377,202
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 16,636	$ 44,421
Cash paid for income taxes	$ -	$ -
Non-cash investing and financing activities:		
Conversion of accounts payable to equity	$ 711,845	$ -
Finance lease obligation	$ 18,225	$ -
Conversion of convertible investor note payable	$ -	$ 500,000

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

(Expressed in U.S. dollars)

1. NATURE OF BUSINESS AND GOING CONCERN

Lattice Biologics Ltd. (the "Company" or "Lattice") develops, manufactures and markets biologic products to domestic and international markets. The Company's products are used in a variety of applications including enhancing fusion in spine surgery, enhancing breast reconstruction post mastectomy for breast cancer patients, sports medicine applications including ACL repair, promotion of bone in foot and ankle surgery, promotion of skull healing following neurosurgery and subchondral bone defect repair in knee and other joint surgeries.

On August 3, 2015 (as amended September 3, 2015), Lattice Biologics, Inc. entered into a letter of intent to engage in an acquisition whereby Blackstone Ventures Inc. ("Blackstone"), an arm's-length Public Corporation registered in British Columbia, Canada, would acquire all of the issued and outstanding securities of Lattice Biologics, Inc. (the "Reverse Takeover"). Lattice Biologics Inc. was incorporated under the laws of Delaware on July 18, 2013; however, Lattice Biologics, Inc. did not commence operations until September 21, 2013. The Reverse Takeover was completed on December 23, 2015 and Blackstone was renamed as Lattice Biologics Ltd. In accordance with International Financial Reporting Standards ("IFRS") 3, Business Combinations, the substance of the transaction was a reverse takeover of a non-operating company by Lattice Biologics, Inc. and as such, the transaction did not constitute a business combination as Blackstone did not meet the definition of a business under this standard. As a result, the transaction was accounted for as an acquisition of a stock exchange listing with Lattice Biologics Inc. being identified as the acquirer, and the equity consideration transferred by Lattice Biologics, Inc. measured at fair value. Following the Reverse Takeover, Lattice Biologics, Inc. became a wholly owned subsidiary of the Company. Accordingly, the accounts of the Company consist of the consolidated balances of Lattice Biologics, Inc. and Blackstone following the Reverse Takeover and only the accounts of Lattice Biologics, Inc. prior to the Reverse Takeover. Separately, on September 20, 2013, Lattice Biologics, Inc. acquired certain assets and liabilities of International Biologics, LLC ("International Biologics"), a non-related, privately held company. The Company's common shares are listed under the symbol "LBL" on the TSX Venture Exchange ("TSX-V").

As described above, the former shareholders of Lattice Biologics, Inc. control the resulting entity following the Reverse Takeover. As Blackstone had no operations it did not constitute a business, and accordingly, the acquisition of Blackstone is accounted for under IFRS 2 at the fair value of the equity instruments granted to the former Blackstone shareholders, less the remaining net assets of Blackstone at the Reverse Takeover date. As Lattice Biologics, Inc. shareholders control the Blackstone entity, these financial statements present the continuation of the business of Lattice Biologics, Inc. The fair value of the consideration for the Reverse Takeover is as follows:

Deemed issuance of 3,891,141 common shares	$	954,536
Issuance of 392,489 broker/agents' common shares		96,281
Total consideration		1,050,817
Total Consideration has been allocated as follows:		
Cash received		(9,460)
Accounts payable and accrued liabilities		203,474
Additional cash costs and other		394,559
Total listing expense	$	1,639,390

The Company's consolidated financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company incurred a net loss of $1.2 million for the three months ended December 31, 2016, a net loss of $7.9 million for the year ended September 30, 2016 and has incurred losses in the past, has an accumulated deficit of $13.9 million at December 31, 2016 (September 30, 2016 - $12.7 million), and has a working capital deficiency of $5.1 million at December 31, 2016 (September 30, 2016 - $5.0 million). These conditions reflect a material uncertainty that casts significant doubt to the Company's ability to continue as a going concern. In order to meet its obligations and realize its investment in its assets, the Company is dependent on the continued support from investors and related parties. The Company may not be able to achieve or maintain profitability and may continue to incur losses in the future. In addition, it is expected that the Company will continue to increase operating expenses as it implements initiatives to continue to grow its business.

The Company plans to continue to make investments to support the growth of the business and is expected to require additional funds to respond to business challenges, including the need to develop new services or enhance existing services, enhance operating infrastructure and acquire complementary businesses and technologies. Accordingly, the Company is subject to liquidity risk. Management will be required to continue to raise capital to develop, market and promote the Company's products and technology, and to maintain its ongoing operations.

The Company's registered office is located at 16701 North 90th St, Suite 101 Scottsdale, Arizona 85260, United States of America. The Company's secondary office is located at 1413-181 University Ave, Toronto, Ontario M5H 3M7, Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Statement of Compliance

These interim condensed financial statements are unaudited and have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These interim financial statements do not include all the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements and accordingly should be read in conjunction with the Company's audited financial statements for the year ended September 30, 2016 prepared in accordance with IFRS as issued by the IASB. The financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair value, as discussed in the accounting policies below. The accounting policies have been consistently applied throughout the period unless otherwise stated. These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on March 1, 2017.

As discussed above, subsequent to the Reverse Takeover, these financial statements consolidate the accounts of the Company and its wholly owned subsidiary, Lattice Biologics Inc. and consist of only the accounts of Lattice Biologics, Inc. prior to the Reverse Takeover. Intercompany balances and transactions are eliminated upon consolidation. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are discussed below.

Certain adjustments have been made to the results of operations for the three months ended December 31, 2015, as compared to data contained in the quarterly filing for such period. These changes relate to certain adjustments for the Reverse Takeover, cost of sales and operating costs, which were not recognized until the fourth quarter of fiscal 2016.

Functional and Presentation Currency

These consolidated financial statements are presented in United States dollars, which is also the Company's and its subsidiaries' functional currency. Unless otherwise noted as being denominated in Canadian dollars ("C$"), all amounts presented herein are stated in United States dollars.

Future Accounting Changes

The following pronouncements were issued by the IASB or the IFRIC. Those pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the summary below. The following have not yet been adopted and are being evaluated to determine the resultant impact on the Company.

Financial Instruments

IFRS 9 Financial Instruments was issued in final form in July 2014 by the IASB and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements.

The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

Leases

In January 2016, the IASB issued IFRS 16 Lease, which requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with earlier adoption permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16. The Company is currently assessing the impact of IFRS 16 on the Company's consolidated financial statements along with the planned timing of our adoption of IFRS 16.

Revenue from Contracts with Customers

In May 2014, IASB issued IFRS 15 Revenue from Contracts with Customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, 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.

Earnings Per Share

Basic earnings (loss) per share is calculated by dividing net earnings (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing the applicable net earnings (loss) for the period by the sum of the weighted average number of shares outstanding during the period and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. For purposes of calculating earnings (loss) per share, the number of the Company's common shares outstanding have been retroactively adjusted to reflect the Reverse Takeover to the earliest period presented.

Revenue Recognition

Revenue is recognized in the statement of comprehensive loss when goods are delivered and title has passed, at which time all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue represents the amounts receivable after the deduction of discounts, other sales taxes, allowances given, provisions for chargebacks, other price adjustments and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted in light of contractual and historical information.

Financial Instruments

The Company classifies all financial instruments as held-to-maturity, available-for-sale, fair value through profit or loss ("FVTPL"), loans and receivables or other liabilities. Financial assets held-to maturity, loans and receivables and financial liabilities other than those classified as FVTPL, are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss).

Financial liabilities are classified as either financial liabilities classified as FVTPL or other financial liabilities. Financial liabilities are classified as FVTPL when the liability is either classified as held-for-trading or it is designated as FVTPL. A financial liability may be designated at FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in net income (loss). Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial liabilities are included in the initial carrying amount of the liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

Cash is reported at level 1, warrants are classified as level 2 and convertible notes (up to the time of the Reverse Takeover) are classified as level 3. There have been no movements or reclassifications between the two levels during the past two reporting periods. The Company has classified its financial assets and liabilities as follows:

Financial Instrument	Classification
Cash	FVTPL
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Officer loans	Other liabilities
Convertible notes	FVTPL
Notes payable	Other liabilities
Warrant liability	FVTPL
Royalty funding	Other liabilities
Factoring advances	Other liabilities
Finance lease obligations	Other liabilities

Accounting Estimates and Judgements

The preparation of financial statements in compliance with IFRS requires the Company's management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of the Company's assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the amortization of and measurement of impairment of property and equipment and other assets, and deferred income taxes. The judgments notably relate to the assessment of going concern uncertainties, the Company's inventory costing technique, the determination of cash generating units and review of impairment and the Company's accounting applied to the royalty funding. The most significant estimates and judgements are described below:

(i) *Inventory costing technique.* The Company uses a specific identification approach to capture the costs of raw materials and overhead to bring the inventory to its present salable condition. This specific identification approach best reflects the physical inputs of raw materials, direct labor and direct overhead.

(ii) *Determination of Cash Generating Unit and review of impairment.* The Company has determined that it presently operates as one cash generating unit and has allocated goodwill to this single cash generating unit. The Company is required to test all indefinite life intangible assets at least annually.

(iii) *Accounting for Royalty Funding.* The Company's royalty funding agreement has been accounted for as a financial liability and measured at fair value at initial recognition. The Company made this determination after reviewing the substance of the agreement and determining that the cash received at the inception of the arrangement did not represent advance payments for any future sales. The Company has valued the royalty agreement at fair value when it became party to the arrangement using the prevailing discount rate at the time.

(Expressed in US dollars)

3. PROPERTY AND EQUIPMENT

Property and equipment cost is summarized as follows:

	September 30, 2015	Additions	Disposals	Other	September 30, 2016	Additions	Disposals	December 31, 2016
Freezers and freeze dryers…….	$ 124,077	$ -	$ -	$ 13,750	$ 137,827	$ -	$ -	$ 137,827
Sensor thermometers………….	52,393	-	-	-	52,393	-	-	52,393
Medical tools and equipment…	217,791	88,711	-	6,450	312,952	18,225	-	331,177
Leasehold improvements……..	326,451	-	-	-	326,451	-	-	326,451
Office and other equipment…..	29,129	28,912	-	-	58,041	25,678	-	83,719
Total cost………………………	$ 749,841	$ 117,623	$ -	$ 20,200	$ 887,664	$ 43,903	$ -	$ 931,567

Property and equipment accumulated depreciation is summarized as follows:

	September 30, 2015	Additions	Disposals	Other	September 30, 2016	Additions	Disposals	December 31, 2016
Freezers and freeze dryers…….	$ 26,179	$ 21,448	$ -	$ 13,750	$ 61,377	$ 3,612	$ -	$ 64,989
Sensor thermometers………….	11,328	5,664	-	-	16,992	1,416	-	18,408
Medical tools and equipment…	33,008	30,398	2,400	6,450	72,256	9,312	-	81,568
Leasehold improvements……..	27,822	21,763	-	-	49,585	5,441	-	55,026
Office and other equipment…..	5,828	4,528	-	-	10,356	2,373	-	12,729
Total accumulated depreciation	$ 104,165	$ 83,801	$ 2,400	$ 20,200	$ 210,566	$ 22,154	$ -	$ 232,720

Property and equipment net book value is summarized as follows:

	December 31, 2016	September 30, 2016
Freezers and freeze dryers………………………….	$ 72,838	$ 76,450
Sensor thermometers………………………………	33,985	35,401
Medical tools and equipment………………………	249,609	240,696
Leasehold improvements……………………………	271,425	276,866
Office and other equipment………………………..	70,990	47,685
Total…………………………………………………….	$ 698,847	$ 677,098

Carrying amounts for property under finance leases at December 31, 2016 totaled $218,078 (September 30, 2016 - $207,862). See Note 8 for further details.

(Expressed in US dollars)

4. INTANGIBLE ASSETS AND GOODWILL

Gross amortizable intangible assets cost consist of customer lists of $766,210 and intellectual property and licenses of $970,637 at December 31, 2016, September 30, 2016 and September 30, 2015.

Amortizable intangible accumulated amortization is summarized as follows:

	September 30, 2015	Amortization	September 30, 2016	Amortization	December 31, 2016
Customer list……………………	$ 510,806	$ 255,404	$ 766,210	$ -	$ 766,210
Intellectual property and licenses…………………	277,325	138,662	415,987	34,666	450,653
Total accumulated depreciation	$ 788,131	$ 394,066	$ 1,182,197	$ 34,666	$ 1,216,863

Amortizable intangible carrying balances consist of intellectual property and licenses of $519,984 and $554,650 at December 31, 2016 and September 30, 2016, respectively. Customer lists were fully amortized at September 30, 2016.

The Company operates in one CGU and performs annual impairment testing on its CGU at September 30 to determine whether any impairment was required on its goodwill based on a value in use calculation, which uses management's cash flow projections, which are described more fully in the Company's annual report for the year ended September 30, 2016. No indicator of impairment was noted at September 30, 2016 or 2015 based on these discounted cash flow projections and the Company's market capitalization.

5. INVENTORY

Inventory consists of the following:

	December 31, 2016 (Unaudited)	September 30, 2016
Unprocessed goods…………………………………………………………	$ 1,119,016	$ 998,172
Finished goods………………………………………………………………	1,234,452	1,215,334
Reserve………………………………………………………………………	(30,669)	(15,668)
Total inventory………………………………………………………………	$ 2,322,799	$ 2,197,838

6. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	December 31, 2016 (Unaudited)	September 30, 2016
Accounts receivable…………………………………………………………	$ 435,140	$ 488,503
Less: Allowance for doubtful accounts………………………………………	(64,742)	(64,742)
Accounts receivable, net……………………………………………………	$ 370,398	$ 423,761

A portion of the accounts receivable balance is factored (see Note 10).

(Expressed in US dollars)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	December 31, 2016 (Unaudited)	September 30, 2016
Accounts payable	$ 2,914,526	$ 2,752,683
Accrued liabilities	1,185,307	1,535,467
Shares to be issued	-	18,675
Accounts payable and accrued liabilities	$ 4,099,833	$ 4,306,825

8. FINANCE LEASE OBLIGATION

During October 2016, the Company entered into a finance lease for certain medical equipment. The gross amount of the minimum lease payments related to the assets under this finance lease was $23,102. The lease bears interest at 32% and the term of the lease is for 37 monthly payments of $453.

The Company is also subject to various other finance lease arrangements, which are discussed more fully in the Company's annual financial statements for the year ended September 30, 2016.

9. FACTORING ADVANCES

On April 17, 2015, the Company entered into a factoring arrangement of up to $1.0 million (up to 85% of the face value of the accounts receivable assigned to be factored). The Company must offer a minimum of $250,000 in accounts receivable to be factored on a monthly basis. Under the terms of the factoring agreement, the Company may be requested to repay any amounts owing plus applicable interest. The fees charged under this agreement are (i) an administrative fee of 0.25% on the face value of each account submitted; (ii) a discount fee of 0.25% for each fifteen-day period after the initial thirty-day period; (iii) a funding fee of 3.50% above the prime rate for each account purchased for which the Company has received an advance, which funding fee shall be calculated on net funds employed and shall in no event be less than 6.75%. The credit facility is secured by the Company's accounts receivable. As part of the covenants of the agreement, the Company must maintain a tangible net worth of more than negative $3,500,000; however, at December 31, 2016 and September 30, 2016, the Company was in violation of this covenant, but such violation has been waived by the lender. This arrangement is being recorded as a financing from the factoring company and factoring costs are being charged to operations as incurred. At December 31, 2016, the amounts advanced under this facility totaled $62,497 (September 30, 2016 – $124,785).

(Expressed in US dollars)

10. NOTES PAYABLE

Notes payable consist of the following:

	December 31, 2016 (Unaudited)	September 30, 2016
Assumed International Biologics loan	$ 765,696	$ 774,994
Lifeshare Transplant Donor Services	288,326	285,393
Redwood Fund	59,285	74,916
Grenville notes	1,108,855	1,076,232
Investor notes	550,000	550,000
Total notes payable	2,772,162	2,761,535
Less: Current portion	(2,222,162)	(2,211,535)
Long-term portion	$ 550,000	$ 550,000

Assumed International Biologics Loan

During September 2013, the Company assumed a $2,200,000 loan from an Officer of International Biologics. This loan is non-interest bearing and was valued using a discount rate of 8%. This loan originally had a maturity date of August 31, 2015; however, it was restructured on May 6, 2015 to extend the maturity date to February 2017. The restructured loan remained non-interest bearing; however, the payment terms were restructured resulting in 22 monthly instalments of $50,000, which commenced on May 15, 2015. At the conclusion of the 22nd payment, the entire amount due and owing under the note shall be deemed paid in full. This loan is secured by the Company’s inventory, equipment and accounts receivable. This note is currently in default as the Company has not remitted the $50,000 monthly payment since December 2015 due to the Company’s working capital deficiency; however, the Company made payments totaling $45,000 for this note during the three months ended December 31, 2016. The note’s carrying value at December 31, 2016 is $765,696 (September 30, 2016 – $774,994).

Lifeshare Transplant Donor Services

On July 17, 2014, a non-related, third party vendor, LifeShare Transplant Donor Services, converted their outstanding payable balance of $615,819 into a promissory note with a maturity date of December 26, 2014, which bears security over all assets held by the Company. The Company was unable to repay the loan by December 26, 2014 and restructured the note on May 8, 2015. The amended note bears interest at 1.5% compounded monthly, and featured two balloon payments of $250,000 in May 2015, and the remaining balance due at maturity in August 2015. As part of this restructuring, Lifeshare still bears security over all of the Company’s assets, except the Company’s accounts receivable, which was released after the Company met the initial $250,000 payment in May 2015. The Company was not able to make the August 2015 payment and the Company restructured the note once again on December 29, 2015. Following this second restructuring, $50,000 was paid at the time of the restructuring and the remaining principal plus accrued interest was due in two separate payments on March 31, 2016 and June 30, 2016. This note is currently in default as the Company was not able to make the payment due on March 31, 2016 or June 30, 2016 due to the Company’s working capital deficiency; however, the Company made payments totaling $10,000 for this note during the three months ended December 31, 2016. The note’s carrying value at December 31, 2016 is $288,326 (September 30, 2016 – $285,393).

Redwood Fund

On June 26, 2015, the Company secured a note from Redwood Fund, LP, a non-related Company, in the amount of $287,356 with an original issue discount of 13% (a resultant amount of $250,000). This note bears interest at 24% and is secured by all assets held by the Company. In accordance with the terms of this note, the Company is currently making monthly payments of 1/5 of the interest incurred. This loan was previously due during June 2016, but has been amended and required payment in full of all outstanding principal and interest balances during September 2016. The Company has made payments totaling $180,000 from July 1, 2016 to August 29, 2016 and was required to make additional payments totaling $120,000 during September 2016. The Company made additional payments of $20,000 during October 2016 and, as of the date of these financial statements, is in litigation regarding remaining balances due. The Company believes its exposure to this matter to be limited to amounts recognized for the note payable due Redwood Fund, LP. The note's carrying value at December 31, 2016 is $59,285 (September 30, 2016 – $74,916).

Grenville Notes

On July 31, 2015, the Company secured a $700,000 note from Grenville Royalty Corp ("Grenville", a non-related Company), which bears interest of 12.50%. No payments of principal or interest were due until July 31, 2016, at which time, all amounts outstanding were due. This note is secured by all assets of the Company pursuant to a General Security Agreement dated July 31, 2015 between the Company and Grenville. In connection with the loan, the Company granted 500,000 warrants at an exercise price of $0.60 on December 23, 2015, exercisable for a period of 12 months following the date of completion of the Reverse Takeover. At any time on or after July 31, 2016, the outstanding debt may be converted into additional royalty interests (see Note 12). The note's carrying value at December 31, 2016 is $834,846 (September 30, 2016 – $809,292). No payments have been made on this note to the date of these financial statements and the Company obtained a waiver for its default related to its failure to make required payments under this note payable when due. Management is currently in discussions with Grenville regarding the timing of payments due under this note payable.

During February and April 2016, Grenville loaned the Company an additional $150,000 and $100,000, respectively. These loans bear interest at 10.50% per annum and have maturity dates of February 5, 2017 and April 6, 2017, respectively. No principal or interest amounts are due until the maturity dates of these loans. The loans may be prepaid by the Company in whole, or in part, without notice, penalty or bonus. The carrying value of these notes at totaled $274,009 at December 31, 2016 (September 30, 2016 – $266,940).

Investor Notes

On January 9, 2015, the Company issued convertible notes to four separate investors totaling $1,050,000. These notes were convertible, at the holder's option, into the Company's common shares at the time of the Reverse Takeover on December 23, 2015 at a conversion price equal to 70% of the price per share of the common stock offered to the public at such time. Upon such conversion, no further amounts are due the holder of the note, including, but not limited to, any accrued interest due under the note. These notes bear interest at 24% and are due February 1, 2018; however, the notes can be prepaid by the Company at any time following the Reverse Takeover. Monthly payment equal to the amount of all accrued interest on the then outstanding principal balance are due and payable in arrears on the first day of each month for the immediate preceding month beginning March 1, 2015. One of the note holders with a principal balance of $500,000 converted their note into the Company's common shares at the time of the Reverse Takeover (Note 13). At such time, the remaining $550,000 of these notes relinquished their conversion rights to their notes, effectively rendering amounts due as promissory notes. The relinquishment of the conversion right was considered a substantial modification to the notes, resulting in an extinguishment of the original notes. Upon both the conversion and the relinquishment of conversion rights taking place, a loss of $61,900 was realized as a fair value adjustment to the carrying value of the notes. Following this extinguishment, these notes are recorded at amortized cost of $550,000, and are reflected as long-term notes payable. Prior to the Reverse Takeover, any embedded derivatives were not separated from the host contract as the entire instrument was recorded at fair value.

Management determined the fair value of these instruments at September 30, 2015 using the following assumptions:

(i) At initial recognition, the fair value of the note equaled the payable amount as this reflected the amount of cash required to settle the liability at inception.
(ii) At September 30, 2015, the Company employed a valuation technique to model the expected value of the liability given observable and non-observable inputs. The key assumptions in this model are as follows:

Offering price of the shares	$	0.23
Exercise (conversion) price	$	0.16
Discount rate		27%
Risk-free interest rate		0.54%
Expected volatility		61%
Expected life in years		2.3
Expected dividend yield		0%

The inputs above reflected information management had at the valuation date, about the timing of the initial public offering and the incremental cost of debt at such time.

11. Warrants

The Company's outstanding warrants that were issued in conjunction with offerings of the Company's debt or common stock, or as settlement for liabilities incurred, have been classified as liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position as the Company's functional currency is the United States dollar while the strike price of the warrants is denominated in Canadian dollars. Changes in the fair value of these warrants are recognized as income or loss within the Unaudited Condensed Interim Consolidated Statement of Comprehensive Loss and resulted in $43,850 of income recognized during the three months ended December 31, 2016.

Warrants directly issued as compensation for services rendered are classified as a warrant reserve within the Company's deficit in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

Warrants to acquire voting common shares at December 31, 2016 were as follows:

Date Issued	Exercise Price (C$)	Date of Expiry	Outstanding and Exercisable
Warrant liabilities:			
March 31, 2016	0.30	May 2, 2019	663,129
June 29, 2016	0.20	June 29, 2019	843,376
August 8, 2016	0.20	August 8, 2019	801,363
September 15, 2016	0.27	September 15, 2019	323,625
October 12, 2016	0.27	October 18, 2019	660,387
October 21, 2016	0.27	October 24, 2019	1,278,118
December 5, 2016	0.25	December 5, 2019	1,333,196
Total warrants (all accounted for as liabilities)			5,903,194

(Expressed in US dollars)

The fair value of these warrants at the time of issuance, and at December 31, 2016 and September 30, 2016 for the warrants accounted for as liabilities, was estimated using the Black Scholes model with the following significant assumptions:

	Three Months Ended December 31, 2016		
	Liabilities - Beginning of Period	Issued During Period	Liabilities - End of Period
Weighted average risk-free interest rate (%)………………………	0.51%	0.62%	0.73%
Expected dividend yield (%)……………………………………	0.00%	0.00%	0.00%
Expected stock price volatility (%)………………………………	113%	124%	125%
Weighted average warrant life in years……………………………	1.4	3.0	2.7
Weighted average exercise price (C$)……………………………	$0.43	$0.26	$0.25
Weighted average fair value (C$)…………………………………	$0.08	$0.16	$0.17

Expected volatility was estimated by reference to comparable listed entities including those of which the Company's share price was based on.

During the three months ended December 31, 2016, the following warrants expired unexercised:

- 3,116,999 warrants with a strike price of $0.60 per share that had been accounted for as liabilities in prior periods; and
- 182,530 warrants with a strike price of $0.30 per share that are recognized within the warrant reserve as a component of deficit.

12. ROYALTY FUNDING

During the year ended December 31, 2014, the Company secured an advance of $2,000,000 from Grenville, in exchange for a gross sales royalty payable. On this advance, each monthly royalty payment will be equal to $41,667 (a "Minimum Monthly Payment") payable up to December 31, 2015. Effective January 1, 2016, the royalty rate was to be determined based on the greater of the Minimum monthly payment or 6% of revenue. If revenue for the 2015 calendar year was more than $15,000,000, the royalty rate would have been 2.74%; if 2015 revenues were less than $8,000,000 the royalty rate would have been 6%; and if revenue was between $8,000,000 and $15,000,000 the royalty rate would have been calculated on a proportional basis.

On May 8, 2015, Grenville elected to purchase an additional royalty from the Company. The aggregate funds advanced increased from $2,000,000 to $3,000,000 and the Minimum Monthly Payment was increased to $62,500.

On August 1, 2015, Grenville adjusted the Minimum Monthly Payment ("Secondary Minimum Monthly Payment") from $62,500 to $31,250, which was applicable up to December 31, 2015. Effective January 1, 2016 to July 31, 2016, the Company was required to pay a monthly royalty payment of the greater of the Secondary Minimum Monthly Amount of $31,250 and a sliding scale between 1.37% and 3% of monthly revenue. After July 31, 2016, the applicable royalty rate will be determined based on the greater of the Minimum Monthly Payment of $62,500 or 6% of revenue. The Company is currently in discussions with Grenville regarding the timing and amounts due under this agreement.

The Company has the right to buy down 50% (and no more or less) for the aggregate installment amount advanced to the Company multiplied by 50%, once Grenville has received aggregate royalty payments of $6,000,000. If the buy-down option is exercised and completed, the aggregate installment amount and Minimum Monthly Payment will thereafter be reduced by 50%. The Company also has the right to buyout the royalty in the event a change of control of the Company or a sale of substantially all of the assets of the Company. The buyout amount would equal the greater of (i) 2x the Aggregate installment amount or (ii) a formula determined by the Aggregate Installment Amount divided by $20,000,000 multiplied by 0.8 multiplied by the net equity value of the Company (or the purchase price in the case of an asset sale), as determined by the royalty agreement.

(Expressed in US dollars)

The royalty funding has been reflected as perpetual debt for accounting purposes. Until such time as the Company buys out all or a portion of the royalty, the principal will continue to be reflected in the original funded amount, less any transaction costs which will be amortized on an effective yield basis. A portion of this principal amount will be shown as current, reflecting the minimum payments due within the next fiscal year (see Note 16).

13. SHARE CAPITAL

Authorized and Issued Share Capital

The Company is authorized to issue an unlimited amount of voting common shares without par value, an unlimited number of non-voting restricted common shares without par value and an unlimited number of preferred shares without par value. The non-voting restricted common shares are not entitled to vote other than in connection with a change of control; however, these shares are entitled to receive dividends and are entitled, in the event of any liquidation, dissolution or winding-up or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs, to share rateably, together with the holders of the voting common shares. Each non-voting restricted share is convertible into one voting common share at the option of the holder, unless such conversion would result in greater than 45% of the voting common shares being held, directly or indirectly, by persons resident in the United States of America. The foregoing restriction will expire in 18 months from the date the non-voting restricted common share was issued. Holders of the non-voting restricted common shares holding in the aggregate at least 50% of the outstanding non-voting restricted common shares may, by written consent, extend the restricted period for further 12 month periods. In the event of a take-over offer, for so long as the offer remains outstanding, holders of the non-voting restricted common shares may, subject to board approval, elect to redeem their non-voting restricted common shares at the offered take-over price, or alternatively, they may elect to convert them into voting common shares.

Activity for the Company's share capital for the three months ended December 31, 2016 is summarized as follows:

	Shares	Amount
Balances, September 30, 2016	63,137,222	$ 6,744,627
Shares issued through private placement (i)	3,877,010	334,780
Shares issued to vendors for settlement of payables and services (ii)	4,819,177	804,552
Balances, December 31, 2016	71,833,409	$ 7,883,959

At December 31, 2016, there were 40,457,761 voting common shares issued and outstanding and 31,375,648 non-voting restricted common shares outstanding.

(i) During the three months ended December 31, 2016, the Company closed several private placements, whereby the Company issued 3,877,010 units at a price of C$0.20 per unit, with each unit consisting of one common share and ½ warrant, for aggregate gross proceeds of $590,000. The 1,938,505 warrants issued under this offering have an exercise price C$0.265 per share, expire 36 months from the date of issuance and are classified as liabilities, as discussed in Note 11. The common shares and warrants were allocated $334,780 and $255,220 of the proceeds, respectively.

(ii) During the three months ended December 31, 2016, the Company issued 4,819,177 common shares and 1,333,196 warrants in settlement of various liabilities totaling $711,845, which were outstanding at September 30, 2016. These warrants have a strike price of C$0.25 per share, expire three years from the date of issuance and are classified as liabilities, as discussed in Note 11. The common shares and warrants were recognized at fair value of $804,552 and $154,530, respectively. The difference between the total fair value of the common shares and warrants issued of $804,552 and the liabilities settled of $711,845 was recognized as a loss on settlement of payables for the three months ended December 31, 2016.

(Expressed in US dollars)

Activity for the Company's share capital for the three months ended December 31, 2015 is summarized as follows:

	Shares	Amount
Balances, September 30, 2015	14,699	$ 913,845
Share consolidation (i)	(1,987)	-
Shares issued (i)	1,987	1,240,205
Reverse takeover adjustment (ii)	39,607,192	954,536
Shares issued (iii)	8,801,092	1,524,257
Balances, December 31, 2015	48,422,983	$ 4,632,843

(i) On October 1, 2015, Lattice performed a share consolidation in which it reduced its share capital by 1,987 shares on a pro-rata basis from its existing shareholders. On the same day, the Company issued 1,987 shares to certain employees and a Director of the Company. These shares were issued prior to the Reverse Takeover and translated into 4,830,060 shares of the Company, post consolidation, on December 23, 2015. These shares were valued at C$0.34 per share.

(ii) On December 23, 2015, upon the completion of the Reverse Takeover, the former shareholders of Lattice Biologics, Inc. received 35,730,750 shares and the former shareholders of Blackstone retained 3,891,141 shares. All shares issued to these shareholders were valued at C$0.34 per share.

(iii) On December 23, 2015, concurrent with the Reverse Takeover, the Company closed a private placement, whereby the Company issued 5,234,000 units at a price of C$0.30 per unit for proceeds of $1,154,762, with each unit consisting of one common share and ½ warrant. The 2,616,999 warrants issued have an exercise price of C$0.60 per share and expire 12 months from the date of issuance. The warrants were valued at $194,646 and are classified as liabilities, as discussed in Note 11. In conjunction with this sale of units, the Company also issued 182,530 finders' warrants, with an exercise price of C$0.30 expiring one year following the date of issuance. The finders' warrants were valued at $21,862. The fair value of warrants and finders' warrants, have been applied against the proceeds of the issuance of the common shares.

On December 23, 2015, concurrent with the Reverse Takeover and described further in Note 10, one of the convertible note holders of the Company enacted their conversion rights to convert the face value of the note of $500,000 in exchange for 3,174,603 common shares.

On December 23, 2015, concurrent with the Reverse Takeover, the Company issued 392,489 shares to a service provider for acting as the Sponsor for the Transaction. The shares were valued at C$0.34 per share.

Share Purchase Options

Under the common share option plan ("Share Option Plan"), the Company may grant options to acquire up to 10% of the issued and outstanding common shares of the Company to directors, officers, employees, partners and service providers of the Company. The related vesting period over which share-based compensation expense is determined by the Company at the time of grant. Each share option awarded under the Share Option Plan is equity-settled and the share-based compensation expense is based on the fair value estimate on the business day prior to the grant date.

There were no share purchase options outstanding at December 31, 2016, however, the Company's board of directors has approved, and the Company has granted, a total of 3,300,000 options during January 2017 (Note 18). These stock options have a strike price of C$0.30, vest at different times from January 2017 to September 2019 and expire three years from the date of vesting. These stock options were issued to members of the Company's Scientific Advisory Board ("SAB") and were called for as part of various agreements with the SAB members that were entered into prior to September 30, 2016, but were contingent upon the approval of the Company's board of directors. Accordingly, a grant date had not been met for accounting purposes until this board of director approval, at which time the underlying option agreements were issued to the SAB members. As such, the Company has not recognized any expense for these grants to January 2017.

14. INCOME TAXES

Information on statutory tax rates and deferred taxes is outlined in the Company's September 30, 2016 audited financial statements.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The carrying amount of cash, accounts receivables, accounts payable and accrued liabilities, due to related parties and other payables approximate their fair values due to the short-term maturities of these instruments. The long-term portions of finance lease obligation, officer loans, notes payable, and royalty funding have been discounted at a rate that approximates current market rates and therefore, approximates fair values.

Financial Risk Management

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), fair value risk, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

Market Risk

Currency risk: The Company's revenues, expenses and financing are primarily denominated in US dollars. There is minimal exposure to currency risk.

Interest rate risk: Interest rate risk is the risk that the future cash flows or the fair value of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Company's debt is at fixed rates and due in the short term. Accordingly, there is limited exposure to cash flow or price interest rate risk.

Credit Risk

For the three months ended December 31, 2016, the Company has one customer that accounted for more than 10% of sales (year ended September 30, 2016 – two customers). The Company mitigates this risk by evaluating the outstanding balances on a regular basis and abiding by the credit limit that is dictated by the customer's credit rating. At December 31, 2016, the Company has $128,202 of receivables past due (September 30, 2016 – $117,592).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

At December 31, 2016, the Company has current liabilities of $7.9 million (September 30, 2016 – $7.8 million) due within 12 months and has cash of less than $0.1 million (September 30, 2016 – less than $0.1 million) to meet its current obligations. At December 31, 2016, the Company has a working capital deficiency of $5.1 million (September 30, 2016 - $5.0 million) and accordingly, the Company is subject to liquidity risk. Management plans to continue to raise capital to develop, market and promote its products and technology to maintain its ongoing operations.

(Expressed in US dollars)

Capital Management

The Company's objective is to develop a strong capital base to sustain future development and growth of the business. The Company manages its capital by maintaining a flexible capital structure which optimizes the cost of capital at an acceptable level of risk and makes adjustments on it in the light of changes in economic conditions and the risk characteristics of its underlying assets. The Company's capital base is currently represented by shareholders' equity, officer loans, notes payable, and royalty funding. Management reviews the Company's business plans as part of its strategic initiatives in conjunction with its financial forecast. There has been no change in the capital management policies of the Company during the current fiscal year. The Company is in default of certain covenant violations relate to the Company's debt, which are discussed in Notes 9 and 10.

The Company regularly monitors and reviews the amount of capital in proportion to risk and future development. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company has no additional externally imposed capital requirements other than as disclosed in Note 9.

The Company's debt and royalty funding obligations are due as follows for the years ending December 31:

	2017	2018	2019	2020	2021	Thereafter
Notes payable…………….	$ 2,222,162	$ 550,000	$ -	$ -	$ -	$ -
Accounts payable and accrued liabilities……….	4,099,833	-	-	-	-	-
Factoring advances……….	62,497	-	-	-	-	-
Finance leases…………….	21,987	21,291	25,329	7,899	-	-
Royalty (i)………………….	750,000	750,000	750,000	750,000	750,000	750,000/annum

(i) Based on minimum royalty (see Note 12)

16. COMMITMENTS AND CONTINGENCIES

Commitments

The Company is committed to leases of its premises and equipment. Minimum lease payments for the remainder of fiscal 2017 and successive fiscal years are as follows:

	Remainder of 2017	2018	2019	2020	2021	Thereafter	Total
Equipment…………….	$ 17,127	$ 22,836	$ 3,806	$ -	$ -	$ -	$ 43,769
Premises………………..	209,026	276,765	264,171	266,914	273,679	196,946	1,487,501

Contingencies

During October 2016, a distributor of the Company's products filed a claim in the amount of approximately $90,000 related to commissions the distributor claimed to be due. The Company has recognized an accrual for the commissions the distributor claims are due at both December 31, 2016 and September 30, 2016; however, the Company does not believe its exposure to this matter to be greater than the amount accrued.

During October 2016, a member of the Company's SAB filed a claim in the amount of $40,000 for unpaid services. The Company has recognized a total of approximately $6,000 relative to this matter, which management believes is the accurate amount due, and expects to prevail in this matter relative to any additional amounts the SAB member believes are due.

During November 2016, a note holder of the Company filed a notice of default for nonpayment of approximately $75,000. The Company has recognized an accrual for this amount and is currently negotiating repayment terms to satisfy this debt obligation.

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, vendors and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

17. RELATED PARTY TRANSACTIONS

For the three months ended December 31, 2016 and year September 30, 2016, two of the Company's officers, who are key management personnel, elected to defer payment of their salaries totaling $118,983 and $499,300, respectively, resulting in a total balance due such officers of $618,283 and $499,300 at December 31, 2016 and September 30, 2016, respectively. These balances are included in accounts payable and accrued liabilities on the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position. At December 31, 2016, the Company also owes one of these individuals $40,879 for interest, which is also included in accounts payable and accrued liabilities on the accompanying Unaudited Condensed Interim Consolidated Statements, which is associated with a note payable that was converted to equity during the year ended September 30, 2016 (September 30, 2016 – $53,774 for both individuals).

18. SUBSEQUENT EVENTS

During January 2017, the Company finalized grants for stock options to members of the Company's Scientific Advisory Board, which is discussed in more detail in Note 13.

During January and February 2017, the Company closed several private placements, whereby the Company issued 2,112,725 units at a price of C$0.20 per unit, with each unit consisting of one common share and ½ warrant, for aggregate gross proceeds of $320,000. The 1,056,463 warrants issued under this offering have an exercise price C$0.265 per share and expire 36 months from the date of issuance.