Vaxil Bio Ltd.

(formerly Emerge Resources Corp)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2016

*The following is a discussion and analysis of the activities, consolidated results of operations and financial condition of Vaxil Bio. Ltd. ("**Vaxil**", "**we**", "**our**", "**us**", or the "**Company**") for the year ended December 31, 2016, which has been prepared on the basis of information available up until May 1, 2017. This Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016, together with the notes thereto.*

All monetary amounts are reported in Canadian dollars and in accordance with IFRS unless otherwise noted. This MD&A is dated May 1, 2017.

Forward-Looking Statements

This MD&A (including, without limitation, the sections discussing Vaxil's Financial Conditions and Results of Operations) contains certain forward-looking statements. All statements other than statements of historical fact that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "contemplate", "target", "believe", "plan", "estimate", "expect" and "intend" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. These statements are based upon certain assumptions and analyses made by management in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. However, whether actual results and developments will conform with management's expectations is subject to a number of risks and uncertainties, including the considerations discussed herein and in other documents filed from time to time by the Company with Canadian security regulatory authorities, general economic, market or business conditions, the opportunities (or lack thereof) that may be presented to and pursued by management, competitive actions by other companies, changes in laws or regulations and other factors, many of which are beyond the Company's control. These factors may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements and there can be no assurance that the actual results or developments anticipated by management will be realized or, even if substantially realized, that they will have the expected results on Vaxil. All of the forward-looking statements made herein are qualified by the foregoing cautionary statements. The Company expressly disclaims any obligation to update or revise any such forward-looking statements.

Business overview and Significant Developments during the period

Corporate Structure

Name and Incorporation

Vaxil Bio Ltd. ("Vaxil" or the "Company") was incorporated under the Business Corporations Act (BC) on July 26, 2006 and is listed on the TSX Venture Exchange under the symbol "VXL". The Company's head office is located at 6th Floor, 4576 Yonge Street, Toronto, Ontario, M2N 6N4, Canada. Vaxil's Israel office is within the Weizmann Science Park, an Israeli biotech hub and adjacent to the famed Weizmann Institute of Science, at 13A Einstein Street, P.O. Box 4058, Nes Ziona, 74140, Israel. This is also the principal place of business where Vaxil currently hosts its scientific laboratory.

Reverse Take Over

On February 29, 2016, the Company entered into a Share Exchange Agreement with Vaxil Israel whereby the parties completed a share exchange and the Company acquired all the outstanding equity interests of Vaxil Israel, in a transaction whereby the shareholders of Vaxil Israel received common shares of the Company. As a result of the transaction, the Company became the sole beneficial owner of all outstanding shares of Vaxil Israel. Completion of the transaction resulted in a Reverse Takeover and Change of Business for the Company (the "**RTO**").

The terms of the RTO provided for the Company to consolidate its common shares on a 2 old shares for 1 new share basis resulting in an aggregate of 7,538,043 shares being outstanding subsequent to consolidation. The Company then issued 24,726,087 post consolidation shares to the shareholders and warrant holders of Vaxil Israel in exchange for 100% of the issued and outstanding share capital of Vaxil Israel and the cancellation of all warrants issued by Vaxil Israel. The shares issued to Vaxil Israel are subject to an Escrow Arrangement.

On February 29, 2016, the Company received TSX Venture Exchange approval to consolidate all the Company's issued and outstanding common shares without par value on a 2 old for 1 new basis. All periods presented have been retroactively adjusted to reflect this reverse split.

Concurrent with the RTO, a private placement (the "**Financing**") was conducted and 11,403,565 Subscription Units were issued at $0.23 for gross proceeds of $2,623 thousand. Each Unit consists of one common share and one common share purchase warrant of the Company. Each warrant is exercisable into one common share of the Company at a price of $0.31 for a period of 12 months after closing and a price of $0.36 for the subsequent 24 months. The Company retained Sunel Securities Inc. and M Partners Inc. as agents for the Financing.

The Agents received a corporate finance fee and cash commission of $177 thousand, 988,568 broker warrants and reimbursement of Agent expenses. Finder's fees to the agents in the form of 1,000,000 common shares were also issued and 1,300,000 common shares were issued to two directors as a retention fee.

Business of Vaxil

Vaxil Bio Ltd., is an Israeli immuno-oncology biotechnology company developing novel immunotherapies including neoantigen-like peptide products, and antibodies to treat cancer and infectious diseases. Vaxil's products are derived from its fully owned proprietary platform VaxHitTM, which in effect allows for the identification, isolation, and production of uniquely specific antigen based immunotherapy products. Vaxil's products are derived from its fully owned proprietary technology VaxHitTM, which uses the Signal Peptide (SP) domain in selected targets as core antigens (see technology section). Vaxil's lead product, ImMucin, which has received FDA Orphan Drug Status, was designed for the treatment of multiple myeloma (MM) cancer. ImmucinTM is composed of the entire SP domain of the MUC1 tumor associated antigen (TAA), and has successfully completed a Phase I/II clinical trial in 15 MM patients demonstrating a high safety profile, robust immunity and initial hints for clinical efficacy. Vaxil is currently performing an additional Phase I/II study with ImMucin in metastatic breast cancer patients being treated with 1st line hormonal therapy. Vaxil also isolated SPmAb-2.1 and SPmAb-6, the only anti-MUC1 SP antibodies harbouring superior therapeutic and diagnostic properties vs. other MUC1 antibodies. Vaxil further validated its VaxHit technology for anti-infective indications, isolated MTBuVax, a multi-antigenic sub-unit LP vaccine against mycobacterium Tuberculosis (MTb) currently in pre-clinical animal studies.

About Immunotherapy

Immunotherapy has become the most promising field in the fight against cancer. Whereas chemotherapy was once seen as a breakthrough and still utilized successfully in many patients, today's scientists recognize immunotherapy is the way of the future. Immunotherapy is intended to train and harness the body's own robust and complex immune system in order to recognize, identity, and target the cancer cells. Contrast this to chemotherapy, which is a blunt and toxic approach, essentially inserting harmful chemicals into the body which often kill all cells, cancer and normal, indiscriminately. Moreover, a patient once treated with chemotherapy is often at risk of relapse, wherein the cancer can return in a more dangerous form than before.

Immunotherapy Trends

Work done, mainly with immune check point inhibitors (ICI), e.g. CTLA-4, PD-1, LAG-3, TIM-3, engineered T-cells and cancer vaccines validated that immune cells, predominantly T-cells but to some extent also antibodies, can recognize TAA and effectively kill tumor cells. Still, while ICI and engineered T-cells showed dramatic effects in metastatic patients, they do have moderate to high adverse effects mainly in older/obese patients and therefore are less applicable for a long term maintenance treatment in patients with minimal residual disease (MRD). Thus, it is anticipated that a cancer vaccine like Vaxil's ImMucin, can fill the gap in those patients with MRD or be combined with other immunotherapy modalities in more advance cancer patients. Moreover, given that all immunotherapeutic modalities are based on antigens, they are the most important component for safety and efficacy. Key parameters include:

I. Expression on tumor cells and not on naïve healthy cells or as a soluble variant in patient's blood.

II. Expression on cancer stem cells, i.e. those cells leading to metastasis and chemo-resistance rather than only on the primary tumor.

III. Potent in inducing a strong, broad and long lasting response in the majority of the target population via two cardinal immune subpopulations; CD4+/CD8+ T-cells and antibodies.

IV. An ability to cope with immune-evade mechanism behaviour mediated by the target tumor cells.

To date, immunotherapy products in development do not fulfil many of these requirements. Vaxil has specifcally designed its VaxHitTM immunotherapy platform and resulting products, to address these issues.

Cancer & Multiple Myeloma

Cancer is the leading cause of death worldwide, accounting for 8,000,000 deaths per annum and 12,000,000 new cases. Multiple Myeloma (MM) is the second-most common blood cancer, in which plasma cells accumulate in bone marrow leading to bone destruction and marrow failure. MM accounts for 1% of all cancers and is still considered incurable given the vast majority of patients eventually relapse. A better approach is desperately needed.

Vaxil Technology Portfolio

Vaxil owns all of its technology and intellectual property outright, with no royalties. Currently, Vaxil maintains a robust IP portfolio including 4 fully issued patents obtained, with an additional 13 patents pending.

VaxHit Immunotherapy Platform

Vaxil's VaxHit™ platform technology combines proprietary algorithms which enable in-silico identification of signal peptides domains and their subsequent use as immunotherapeutic products, essentially a launchpad for unique and specific targeted immunotherapy products.

VaxHit's novelty includes its ability to identify and select immunotherapies which cause a robust immune response, with T-Cells - CD4+ (Helper T-cells and CD8+ (Killer T-cells) and B-cell producing antibodies as well. This immune response may be directed against cancer cells, or in the case where the patient is suffering from an infectious disease, against the relevant pathogen.

In addition, VaxHit-derived potential immunotherapies offer the unique potential to cope with attempts by cancer cells and/or other pathogens to seek to evade the immune system's response against them. As well as identifying potential VCs for use in therapeutic and prophylactic situations against cancer and infectious diseases. More recently

Vaxil has demonstrated the ability of its VaxHit technology to isolate superior antibodies against key SP domains. This has a variety of applications both in the fields of diagnostics and therapy for both cancer and infectious diseases. Vaxil has already identified tens of possible immunotherapy product candidates utilizing its platform. Most importantly, VaxHit™ derived immunotherapy products all contain the following critical advantages:

I. While, SP domains have the considerable advantage of being relatively short sequences, they induce a broader, stronger and antigen specific Th1, Th17 type immunity via promiscuous activation of multiple T-cell clones both $CD4^+$ and $CD8^+$ T-cells and the production of key cytokines like IFN-g, IL-12 and IL-2. Moreover, although SP domains are mainly located inside cells (intracellular), they can still induce an antigen/strain specific humoral response since they are migrating to the cell surface only in tumor cells.

II. Vaxil's immunotherapeutic products are “universal” in the sense that they can induce an efficient response in the majority of the patient population due to their ability to bind multiple HMC molecules. This is critical as every individual expresses different sets of MHC molecules. Unlike many other peptide vaccines, Vaxil's SP domains do not require patients selected based on their MHC repertoire (type).

III. T-cells specific clones against SP domains are less likely to be “exhausted” in cancer patients. I.e. they are likely to be more potent vs. other epitopes in killing tumor cells. (Validated for MUC1, tuberculosis).

IV. Vaxil's products are able to efficiently overcome difficulties posed by immune evade mechanisms, mainly Transporter associated with antigen processing (TAP) deficiency, mediated by cancer cells and intracellular pathogens. To the best of our knowledge, these are the only products which currently possess this crucial characteristic.

Vaxil’s Lead Immunotherapy – ImmucinTM

ImMucin which targets the SP domain of the MUC1 cancer antigen. According to the National Cancer Institute, MUC1 is the second most promising cancer antigen, and it is expressed by over 90% of tumor types. MUC1 has therefore been heavily targeted, but with little success to date. Vaxil however, has developed its VaxHitTM immunotherapy platform specifically in order to target antigens like MUC1 in a unique and significantly advantageous manner.

Unlike other MUC1 clinical programs which target the extracellular soluble Tandem Repeat Array (TRA) domain on MUC1, ImMucin is directed against the less explored cellular located SP domain with its unique antigenic (MUC1 specificity) and immunodominant properties. In preclinical studies including the use of MUC1 transgenic mice, ImMucin and its internal 9-mer epitopes manifested superior immunity, anti-tumor activity vs. a selection of other MUC1-TRA derived products. In addition, ImMucin’s epitopes were the most abundant MUC1 epitope in tens of non-vaccinated cancer patients.

In a Phase I/II clinical study involving 15 MM patients, ImMucin induced a strong and specific response of both CD4+ and CD8+ T-cells in all patients, coupled with an antibody response in ~66% (10/15) of the patients.

Moreover, as anticipated, ImMucin was able to cause this in patients with vastly different immune repertoires with no need for prior patient selection based on their immune MHC typing. Importantly, 9 out of 10 patients having abnormal soluble MUC1 blood levels prior to ImMucin therapy experienced a significant reduction in soluble MUC1. Reduction in the % of plasma cells in the bone marrow and other accepted measures such as M-protein and FLC was demonstrated post treatment in certain patients.

Lastly, stable disease or improvement, persisting for 17.5-41.3 months (on-going) was achieved in 11/15 patients and appeared to be associated with low-intermediate PDL1 (CD274) bone marrow levels pre- and post-ImMucin treatment. Vaxil’s trial was published in the British Journal of Haematology.

Vaxil’s Antibody Platform - SPmAbTM

Recently, using the VaxHit technology, Vaxil has isolated and developed novel proprietary antibodies against MUC1 SP epitopes. The company is using the isolated antibodies SPmAb-2.1 and SPmAb-6 as a “companion diagnostic” to identify and follow the 'best patients' to benefit from ImMucin’s therapy. Since anti-MUC1 SP antibodies SPmAb-2.1 and SPmAb-6 target cellular MUC1 on tumor cells but not soluble MUC1 in patients’ blood they are far more specific vs. anther MUC1 antibodies and have huge potential for both therapeutic and diagnostic applications. Vaxil believes that its antibody platform has significant potential and is working to explore potential partnerships or other avenues for value realization.

Vaxil Tuberculosis Vaccine - MTBuVaxTM

VaxHit also enables the identification of vaccines against selected intracellular pathogens. Vaxil is developing a Tuberculosis vaccine – MTBuVax. This is a multi-antigenic, multi-epitopes subunit vaccine with epitopes derived from the SP domains of up to 5 known and novel MTb antigens. MTBuVax has already manifested superior immunity in a large number of blood samples derived from healthy individual and patient with active TB comparing to known peptide vaccines from the same antigens. It also performed robust cellular and humoral immunogenicity in mice. MTBuVax is currently being evaluated in pre-clinical studies at the University of Siena under the sponsorship of the EU Aditec program. Vaxil strategy is to locate the best partner for clinical development of this vaccine.

Vaxil's Accomplished Milestones

The following major events have occurred during the past three fiscal years that have influenced Vaxil's business:

- Completion of VAXIL-001 a Phase I/II clinical study using ImMucin in patients with MM. This was completed in April 2013.)
- Initiation of VAXIL-002 a Phase I/II clinical study monitoring the long-term safety and potential efficacy of ImMucin on MM patients who responded clinically to treatment with ImMucin in the VAXIL-001 study.
- Initiation of VAXIL-010 a Phase I/II clinical study to assess safety, immunological response and signs of clinical efficacy, when ImMucin is given in combination with hormone therapy to patients with metastatic breast cancer.
- Confirming VaxHit's ability to be used in the isolation and production of MUC1 SP specific antibodies.
- Patents in respect of VaxHit and ImMucin were obtained in Australia and Israel in 2013. Patents in other jurisdictions covering this and other aspects of Vaxil's intellectual property have been filed and are still under examination. Various fundraising agreements – public offerings, private placements and a rights issue. Please consult section Signing of the Letter of Intent with Emerge in respect of the RTO and Agency Agreement with the Agents to raise finance (2015).
- Signing of a research and development agreement with Mayo Clinic, USA (June 2015).
- Receipt of "Orphan Drug" status from the European Medicine Agency ("**EMA**") in February 2015 and from the United States' FDA in June 2015.
- Preparing work to submit and IND (Investigative New Drug Application) to the FDA to initiate a Phase II study using ImMucin in Multiple Myeloma. A preliminary application to the FDA called a pre-IND is being prepared.
- Completion of TSX Venture listing and $2.7-Million financing Vaxil
- Receives Canadian, EU, and US Patents for its immunotherapy technologies
- Hires Dr. Limor Chen as VP overseeing clinical operations in Israel
- Vaxil Receives first US Patent on immunotherapy technology since inception of Company
- Vaxil signs collaboration with Hadassah Hospital, one of Israel's leading hospitals, in order to enhance R&D efforts

Capital Expenditures and Divestitures

During the year ended December 31, 2016, the Company incurred $164 thousand (2015 - $Nil) of capital expenditures. The Company estimates capital expenditures for the next twelve months will be $40 thousand.

Additional Disclosure for Venture Issuers without Significant Revenues:

	Year ended December 31	
	2016	**2015**
Research and development costs, net	$ 585	$ 345
General and administration costs	843	725

Discussion of Operations

The following is a discussion of the results of operations which have been derived from the consolidated financial statements of the Company for the year ended December 31, 2016:

	Year ended December 31	
	2016	**2015**
Expenses:		
Research and development costs, net	**$ 585**	$ 345
General and administration costs	**905**	725
Share based compensation	**260**	-
Transaction costs	**324**	-
Listing costs	**2,475**	-
Total Expenses	**4,549**	1,070
Operating Loss	**(4,549)**	(1,070)
Financial Expenses	**(10)**	(3)
	(10)	(3)
Net loss for the period	**(4,539)**	(1,073)
Other Comprehensive Loss		
Foreign currency translation adjustment	**(22)**	(66)
Net loss and comprehensive loss for the period	**$ (4,561)**	$ (1,139)

Year ended December 31, 2016, compared to the year ended December 31, 2016

Research and Development costs, net

For the year ended December 31, 2016, research and development costs expenses amounted to $585 thousand as compared to $345 thousand for the year ended December 31, 2015. The increase in R&D expenses in 2016 was due focused in R&D efforts to support the preparations for the Company's next clinical trial. During the period, the Company has analyzed dozens of clinical samples from hematological cancer patients to elucidate the mechanism of action of our lead product ImMucin. In addition, the Company has also advanced its regulatory efforts by preparing the required information to apply for a meeting with FDA.

General and Administrative Expenses

For the year ended December 31, 2016, general and administrative expenses amounted to $905 thousand as compared to $725 thousand for the year ended December 31, 2015. The increase in general and administrative expenses relates primarily to increased costs relating the listing of the Company on the TSX.

Share based compensation

For the year ended December 31, 2016, share based compensation amounted to $260 thousand as compared to $Nil for the year ended December 31, 2015. In 2016, the Company issued shares to certain directors and suppliers in lieu of services rendered to the Company.

Transaction costs

For the year ended December 31, 2016, transaction costs amounted to $324 thousand as compared to $Nil for the year ended December 31, 2015. The transaction costs were incurred in connection with RTO.

Listing costs

For the year ended December 31, 2016, listing costs amounted to $2,475 thousand as compared to $Nil for the year ended December 31, 2015. The listing costs reflects the total purchase price for the acquisition of the Company by Vaxil Israel with respect to the RTO.

Net Losses

The Company reported a net loss for the year ended December 31, 2016 of $4.6 million as compared to a net loss of $1.1 million for the year ended December 31, 2015. The primary reason for the increase in the net loss between these periods are the listing costs and transaction costs in respect of the RTO.

Inflation

During the year ended December 31, 2016 and 2015, inflation has not had a material impact on our operations.

Litigation

(a) On June 26, 2014, lawsuits were served in the Tel Aviv Magistrate Court against Vaxil Israel and its key management personnel at Vaxil Israel at that time (together: "the Defendants"). The lawsuit was served by service providers ("the plaintiffs") claiming they did not receive their full compensation for consulting and brokerage services provided to the Company with respect to acquiring control in the public company shell in the Transaction.

On February 13, 2017, the Defendants and the Plaintiffs reached a settlement according to which the Company will issue 386,663 shares based on the value as of February 10, 2017. As of the date of this report, the Plaintiffs have not provided the information required to issue there shares and therefore they have not been issued.

(b) On November 8, 2016, a lawsuit was served in the Tel Aviv Magistrate Court against the Company and its two Israeli subsidiaries (together: "the Defendants"). The lawsuit was served by a service provider of the Israeli subsidiaries ("the plaintiff") claiming that they did not receive their full compensation for services provided by the them in the past and claiming a termination fee in respect of future services, as they claim that the Israeli subsidiaries agreed to retain their services for at least three years. The plaintiff demanded an amount of approximately $185,000 (including VAT) for the above-mentioned services. The Company believes these claims to be baseless and intends to vigorously pursue its interests in defending this matter. At this early stage of the proceedings and based on the limited information currently available, the Israeli subsidiaries' legal advisors believe that it is more likely than not, that the claim will be dismissed by the court or that the plaintiff will be awarded an insignificant amount.

Summary of Quarterly Results

	Quarter ended			
	December 31, 2016	**September 30, 2016**	**June 30, 2016**	**March 31, 2016**
	Canadians dollars in thousands, except per share data			
Revenues	$ -	-	-	-
Net loss	$ (634)	(293)	(374)	(3,238)
Net loss and comprehensive loss	$ (704)	(290)	(342)	(3,225)
Net loss per share	$ (0.01)	(0.01)	(0.01)	(0.11)

	Quarter ended			
	December 31, 2015	**September 30, 2015**	**June 30, 2015**	**March 31, 2015**
	Canadians dollars in thousands, except per share data			
Revenues	$ -	-	-	-
Net loss	$ (119)	(274)	(345)	(335)
Net loss and comprehensive loss	$ (117)	(339)	(326)	(357)
Net loss per share	$ (0.00)	(0.02)	(0.02)	(0.02)

Net loss per quarter is a function of the exploration and operational activity during that quarter. The loss per quarter and related loss net loss per share is a function of the level of research and development activity that took place during that quarter. In 2015 and 2016, the losses per quarter relates to wok completed in respect of the submission of an application to commence a Phase II clinical trial.

Liquidity

Liquidity is a measure of a company's ability to meet potential cash requirements. The Company has historically met its capital requirements through the issuance of common shares.

The Company has an accumulated deficit of $12,441 thousand as of December 31, 2016 ($7,902 thousand as of December 31, 2015), and the Company had negative cash flows from operations of $1,498 thousand for the year ended December 31, 2016 (negative cash flows of $624 thousand during the year ended December 31, 2015). The ability of the Company to continue as a going concern depends upon the ability of the Company to obtain financing to complete development, and upon future profitable operations from the properties or proceeds from their disposition. The Company is an exploration stage company and has not earned any revenues to date.

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. The Company is considering various alternatives with respect to raising additional capital to remedy any future shortfall in capital, but to date has made no specific plans or arrangements. Because of the early stage of the Company's operations, there can be no assurance this capital will be available and if it is not, the Company may be forced to substantially curtail or cease research and development expenditures.

Year ended December 31, 2016, compared to the year ended December 31, 2016

During the year ended December 31, 2016, the Company's overall position of cash and cash equivalents increased by $993 thousand. This increase in cash and cash equivalents can be attributed to the following activities:

The Company's net cash used in operating activities during the year ended December 31, 2016 was $1,498 thousand as compared to $624 thousand for the year ended December 31, 2015. The increase was due primarily to the expenses incurred in respect of the RTO.

Cash used in investing activities during the year ended December 31, 2016 was $165 thousand as compared to cash generated of $1 thousand during the year ended December 31, 2015. This amount in 2016 represents the investment in fixed assets.

Cash provided by financing activities for the year ended December 31, 2016 was $2,326 as compared to $461 thousand during the year ended December 31, 2015. The cash provided in 2016 relates to two private placements completed during the first quarter, and the exercise of warrants and options during the year. In 2015 the cash was provided by one private placement during the period.

Capital Resources

As of December 31, 2016, the Company's cash and cash equivalents were $1,023 thousand (December 31, 2015- $12 thousand). The majority of this balance is being held in Canadian Dollars. Our working capital at December 31, 2016 was $491 thousand as compared to negative working capital of $240 thousand at December 31, 2015. The Company increased its working capital by way of two private placements that were completed during the first quarter, and by way of equity payments in respect of cash obligations.

Commitments

The Company has an agreement for the lease of the offices in Israel for a period ending in May 2017. The total future minimum lease payments under the operating lease is $10 thousand.

Disclosure of Outstanding Share Data

As of the date of this report, the Company has 50,429,350 ordinary shares outstanding, of 18,202,6767 warrants outstanding and 2,661,064 options granted. Each warrant and option entitles the right of the holder thereof to acquire one ordinary share.

Management of Capital

The Company is an early-stage biotechnology research and development company and currently does not generate significant cash flows from operations. The Company's primary source of funds comes from the issuance of share capital. The Company does not use other sources of financing that require fixed payments of interest and principal and is not subject to any externally imposed capital requirements.

The Company defines its capital as share capital plus warrants. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget to manage its costs and commitments.

The Company's capital management objective is to maximize investment returns to its equity-linked stakeholders within the context of relevant opportunities and risks associated with the Company's operations. Achieving this objective requires management to consider the underlying nature of research and development activities, the availability of capital, the cost of various capital alternatives and other factors. Establishing and adjusting capital requirements is a continuous management process.

Although the Company has been successful at raising funds in the past through the issuance of share capital, there can be no assurance that future financings will be successful.

Off-Balance Sheet arrangements

See "Commitments" above.

Transactions with Related Parties

No director or senior officer of the Company, and no associate or affiliate of the foregoing persons, and no insider has or has had any material interest, direct or indirect, in any transactions, or in any proposed transactions, which in either such case has materially affected or will materially affect the Company or the Company's predecessors since the beginning of the Company's last completed fiscal year except as follows:

During the year ended December 31, 2016, the Company incurred $233, in consulting fees from one officer and two directors of the Company, as compared to $429 during the year ended December 31, 2015.

As at December 31, 2016, the Company has no outstanding liabilities to related parties.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Critical Accounting Policies and Estimates

Our results of operation and financial condition are based on our consolidated financial statements, which are presented in accordance with IFRS. Certain accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at that time. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The significant accounting policies and estimates that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Determination of functional currency

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Determination of functional currency

These condensed consolidated interim financial statements are presented in Canadian dollars. The functional currency of Vaxil is the Canadian dollar. The functional currency of Vaxil Israel is the New Israeli Shekel ("NIS").

Translation gains or losses resulting from the translation of the financial statements of Vaxil Israel into Canadian dollars are recorded in other comprehensive (loss) income.

Within each entity, transactions in currencies other than the functional currency ("foreign currencies") are translated to the functional currency at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the end of each reporting period at the period-end exchange rate. Exchange gains and losses on the settlement of transactions and the translation of monetary assets and liabilities to the functional currency are recorded in profit or loss.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

There were no changes to the Company's internal controls over financial reporting during the year ended December 31, 2016, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

As of December 31, 2016, the Company evaluated its disclosure controls and procedures and internal control over financial reporting, as defined by the Canadian Securities Administrators. These evaluations were carried out under the supervision of and with the participation of management, including the Company's chief financial officer. Based on these evaluations, the chief financial officer concluded that the design of these disclosure controls and procedures and internal control over financial reporting were effective.

Financial Instruments and Other Instruments

The Company's financial instruments have been designated as follows:

Financial assets and liabilities	*Classification*
Cash and cash equivalents	Loans and receivables
Accounts receivable (excluding for HST)	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Other long term liabilities	Other financial liabilities

The carrying values of cash and cash equivalents, other receivables, trade payables and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

Risks and Uncertainties

Credit risk

The Company manages credit risk, in respect of cash and cash equivalents and restricted deposits, by holding them at major Canadian and Israeli financial institutions in accordance with the Company's investment policy. The Company places its cash and cash equivalents with high credit quality Israeli and Canadian financial institutions. Concentration of credit risk exists with respect to the Company's cash and cash equivalents and other receivables. The Company's exposure as at December 31, 2016 and December 31, 2015 was $1,052 thousand and $267 thousand respectively, which consisted of $1,023 thousand (December 31, 2015 - $12 thousand) in cash held in bank accounts, and $29 thousand (December 31, 2015 - $25 thousand) in accounts receivable and prepaid expenses and $Nil deferred issuance costs (December 31, 2015 - $25 thousand) None of the Company's accounts receivable are overdue as at December 31, 2016.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet current obligations and future commitments. The Company's approach to managing liquidity risk is to forecast cash requirements to provide reasonable assurance that it will have sufficient funds to meet its liabilities when due. As of December 31, 2016, the Company had cash and cash equivalents of $1,023 thousand (December 31, 2015 - $12 thousand) and accounts receivable and prepaid expenses of $29 thousand (December 31, 2015 - $25) to settle current liabilities in the amount of $477 thousand (December 31, 2015 - $507 thousand). Subsequent to the year-end, $289 thousand of accounts payable were settled by the issuance of 2,630,772 shares.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of two types of risk: interest rate risk, and foreign currency risk.

(i) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its cash equivalents.

(ii) Foreign currency risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. The Company operates in Israel and most of the Company's expenditures are currently incurred in NIS. However, the Company also has expenditures in US Dollars, and following that Vaxil RTO, the Company incurs expenses in Canadian dollars. The Company has not hedged its exposure to currency fluctuations. An increase or decrease of 5% of the NIS or the US Dollar relative to the Canadian dollar would not have a significant effect on the Company.

Development Stage Company

Vaxil has only a limited history upon which one can evaluate its business and prospects as its technologies are still at an early stage of development and thus Vaxil has limited experience and have not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the biopharmaceutical area. Vaxil has not begun to market or generate revenues from the commercialization of any products related to human health. The likelihood of the success of the Company must be considered in light of the risks inherent in, and the difficulties, costs and complications associated with the early growth stages of a business enterprise, as well as with the development and marketing of new products.

Future Capital Needs

The Company may not be able to fully implement and execute its business strategy without additional financing. There can be no assurance that such additional financing will be available, and if available, there can be no assurance that the cost of obtaining such financing will be on favorable or reasonable commercial terms or that it will not result in substantial dilution to its shareholders. If additional funds are raised through the issuance of equity or equity-linked debt securities, the percentage ownership in Vaxil of the shareholders will be reduced, and such securities may have rights, preferences, or privileges senior to or equal to those of the Company's shares held by the current shareholders, or any other securities outstanding on the date hereof.

If adequate funds are not available to satisfy ongoing capital requirements, the Company may be required to curtail its operations significantly or to obtain funds, if available, through arrangements with strategic partners or others that may require the Company to relinquish material rights to certain technologies or potential markets. There is no certainty that financing will be available in amounts or on acceptable terms, if at all.

Any failure to raise additional funds on favorable terms is likely to have a material adverse effect on the Company's liquidity and financial condition.

Dependence on Key Personnel

The Company's future success depends on its ability to retain key employees and attract, train, retain and successfully integrate new talent into its management team. Vaxil is dependent on the services of its senior management team. The loss of any of the members of the Company's senior management team could have a material adverse effect on the Company's results of operations, business and prospects. The Company's future success also depends, to a significant extent, on its ability to attract and retain talented personnel. Recruiting and retaining talented personnel, particularly those with the expertise required for the Company's business is vital to the Company's success and may prove difficult.

Changes in Technology and Industry Standards

The pharmaceutical and biotechnology drug development industry is susceptible to technological advances and the introduction of new technologies. Further, this industry is also subject to changing industry standards, market trends and customer preferences and to competitive pressures, which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The success of the Company will depend, in part, on its ability to secure technological superiority in its products and operations and maintain such superiority in the face of new technologies. No assurance can be given that further modification of product offerings of Vaxil will not be required in order to meet demands or to make changes necessitated by developments made by competitors that might render services and operations of the Company less competitive. The future success of the Company will be influenced by its ability to continue to adapt its products. Although Vaxil has committed resources to research and develop its products, there can be no assurance that these efforts will be successful.

Applicability of Patents and Proprietary Technology

Competitors may have filed patent applications, or hold issued patents, relating to products or processes competitive with those Vaxil has developed or will in future develop. The Company's patent applications for a product may not be approved or approved as desired. The patents of the Company's competitors may impair its ability to do business in a particular area. Others may independently develop similar products or duplicate any of the Company's unpatented products or technologies. The Company's success will depend, in part, on its ability in the future to obtain patents, protect trade secrets and other proprietary information and operate without infringing the proprietary rights of others. Patent protection is uncertain and involves many complex legal, scientific and technical questions. The degree of legal protection afforded under patents is unclear. As a result, the scope of patents issued to Vaxil or their partners may not successfully prevent third parties from developing similar or competitive products.

Vaxil has and will continue to enter into confidentiality agreements with its employees, suppliers and vendors. However, these confidentiality agreements may be breached, and the Company may not have adequate remedies for such breaches. Others may independently develop substantially equivalent proprietary information without infringing upon any proprietary technology belonging to the Company. Third parties may otherwise gain access to the Company's proprietary information and adopt it in a competitive manner.

In addition, the coverage claimed in a patent application can be significantly reduced before a patent is issued. Also, Vaxil faces the following intellectual property risks: (i) some or all patent applications may not result in the issuance of a patent; (ii) patents issued may not provide the holder with any competitive advantages; (iii) patents could be challenged by third parties; (iv) the patents of others could impede our ability to do business; (v) competitors may find ways to design around our patented products; and (vi) competitors could independently develop products which duplicate our products.

Patent Litigation

A number of industry competitors and institutions have developed technologies, filed patent applications or received patents on various technologies that may be related to or affect our business. Claims by these companies that Vaxil infringes their proprietary technology may result in liability for damages or may delay the development and commercialization efforts for the Company's products. Such conflict could limit the scope of the patents, if any, that the Company may be able to obtain or result in the denial of its patent applications. In addition, if patents that cover the Company's activities are issued to other companies, there can be no assurance that Vaxil would be able to obtain licenses to these patents at a reasonable cost or be able to develop or obtain alternative technology. If the Company does not obtain such licenses, it could encounter delays in the introduction of products, or could find that the development, manufacture or sale of products requiring such licenses could be prohibited. In the pharmaceutical industry, it is not uncommon for competitors to advance such claims for strategic purposes. Furthermore, there can be no assurance that patent or other litigation will not arise in connection with any of the Company's or future products or product candidates. Patent litigation, with or without merit, is time-consuming and costly and may significantly impact the Company's financial condition and results of operations, even if the Company prevails. In addition, the Company could incur substantial costs in defending suits brought against it on patents it might infringe or in filing suits against others to have such patents declared invalid.

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