

**VAXIL BIO LTD.**  
**(formerly Emerge Resources Corp.)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

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**(formerly Emerge Resources Corp.)**

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## Independent Auditors' Report

To the Shareholders of Vaxil Bio Ltd. (formerly Emerge Resources Corp.):

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Vaxil Bio Ltd., (formerly Emerge Resources Corp.) which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Vaxil Bio Ltd. (formerly Emerge Resources Corp.) as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes material uncertainty that raises significant doubt about the Company's ability to continue as a going concern.

The consolidated financial statements as at December 31, 2015 and 2014 and for the years then ended were audited by other auditors who expressed an opinion without reservation on the consolidated financial statements in their audit report dated April 26, 2016.

*MNP LLP*

**Chartered Professional Accountants  
Licensed Public Accountants**

Mississauga, Ontario  
May 1, 2017

**VAXIL BIO LTD.**

(formerly Emerge Resources Corp.)

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Expressed in Thousands of Canadian Dollars, except per share data)

	<b>December 31,</b>	<b>December 31,</b>
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash (Note 6)	\$ 1,023	\$ 12
Accounts receivable and prepaid expenses (Note 7)	29	25
Deferred issuance costs (Note 8)	-	230
<b>Total current assets</b>	<b>1,052</b>	<b>267</b>
Equipment, net (Note 9)	165	23
<b>Total Assets</b>	<b>\$ 1,217</b>	<b>\$ 290</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 370	\$ 39
Other accounts payable and accrued liabilities (Note 10)	107	468
<b>Total current liabilities</b>	<b>477</b>	<b>507</b>
<b>Long term liabilities</b>		
Other long term liabilities (Note 11)	84	-
<b>Total liabilities</b>	<b>561</b>	<b>507</b>
<b>Shareholders' equity (deficiency)</b>		
Share capital (Note 12)	9,807	5,376
Shares to be issued (Note 12)	43	201
Warrant reserve (Note 12)	1,547	435
Contributed surplus (Note 12)	1,761	1,712
Foreign currency transaction reserve	(61)	(39)
Accumulated deficit	(12,441)	(7,902)
<b>Total shareholders' equity (deficiency)</b>	<b>656</b>	<b>(217)</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,217</b>	<b>\$ 290</b>
<b>Nature and continuance of operations and going concern (Note 1)</b>		
<b>Commitments (Note 17)</b>		
<b>Contingencies (Note 20)</b>		
<b>Subsequent events (Note 21)</b>		

Approved and authorized by the Board on May 1, 2017:

"Saeid Babaei"

Director

"Isaac Maresky"

Director

Saeid Babaei

Isaac Maresky

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

VAXIL BIO LTD.  
(formerly Emerge Resources Corp.)  
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS  
(Expressed in Thousands of Canadian Dollars, except per share data)

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	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Expenses:</b>		
Research and development costs, net (Note 18)	\$ 585	\$ 345
General and administration costs (Notes 12(b)(iii) and 19)	905	725
Share based compensation (Note 12(b)(vii))	260	-
Transaction costs	324	-
Listing costs (Note 2)	2,475	-
<b>Total Expenses</b>	<b>4,549</b>	1,070
<b>Operating Loss</b>	<b>(4,549)</b>	(1,070)
Financial Expenses	(10)	(3)
<b>Net loss for the year</b>	<b>(4,539)</b>	(1,073)
<b>Other Comprehensive Loss</b>		
Foreign currency translation adjustment	(22)	(66)
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (4,561)</b>	<b>\$ (1,139)</b>
<b>Basic and Fully Diluted Loss Per Share</b>	<b>\$ (0.12)</b>	<b>\$ (0.05)</b>
<b>Weighted Average Number Of Shares Outstanding</b>	<b>39,410,407</b>	24,762,973

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

VAXIL BIO LTD.  
(formerly Emerge Resources Corp.)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Expressed in Thousands of Canadian Dollars, except per share data)

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	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Net loss for the year	\$ (4,539)	\$ (1,073)
Items not affecting cash:		
Depreciation	22	8
Listing costs	2,475	-
Share-based compensation	260	84
Changes in non-cash working capital:		
Accounts receivable and prepaid expenses	(617)	35
Deferred issuance costs	223	-
Accounts payable	314	8
Other accounts payable and accrued liabilities	364	314
	<b>(1,498)</b>	<b>(624)</b>
<b>Cash flows from investing activities</b>		
Short term deposit	-	1
Purchase of equipment	164	-
Cash acquired in reverse take over	1	-
	<b>165</b>	<b>1</b>
<b>Cash flows from financing activities</b>		
Proceeds from the exercise of warrants and options	222	20
Proceeds from private placements, net	2,104	441
	<b>2,326</b>	<b>461</b>
<b>Increase in cash and cash equivalents</b>	<b>993</b>	<b>(162)</b>
Effect of changes in foreign exchange rates	18	17
Cash, beginning of year	12	157
Cash, end of year	<b>\$ 1,023</b>	<b>\$ 12</b>

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

VAXIL BIO LTD.  
(formerly Emerge Resources Corp.)  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)  
(Expressed in Thousands of Canadian Dollars, except per share data)

	Ordinary share capital	Share Capital	Shares to be issued	Warrant reserve	Contributed surplus	Foreign currency transaction reserve	Accumulated deficit	Total Equity (Capital Deficiency)
	Number of shares	Amount						
<b>Balance - January 1, 2016</b>	<b>21,749,528</b>	<b>- \$ 5,376 \$</b>	<b>201 \$ 435 \$</b>	<b>1,712 \$ (39) \$</b>	<b>(7,902) \$ (217)</b>			
Shares issued in private placement, net of issuance expenses (Note 12(b)(i))	672,253	- 103	- -	- -	- -	- -	- -	103
Settlement of liabilities by issuance of shares (Note 12(b)(ii))	807,356	- 179	- -	- -	- -	- -	- -	179
Shares issued in respect of settlement of liabilities recorded in the prior period (Note 12(b)(iii))	1,254,760	- 263	(201) -	- -	- -	- -	- -	62
Share based compensation (Note 12(b)(iii))	106,354	- 23	- -	- -	- -	- -	- -	23
Shares issued to former warrant holders of Vaxil Israel ((Note 12(b)(iv))	135,836	- 435	- (435)	- -	- -	- -	- -	-
Acquisition of Emerge Resources Corp. (Note 12(b)(v))	7,538,043	- 1,508	- 780	76 -	- -	- -	- -	2,364
Shares issued in private placement, net of issuance expenses (Note 12(b)(vi))	11,403,565	- 1,275	- 726	- -	- -	- -	- -	2,001
Share issue costs related to the private placement (Note 12(b)(vi))	1,000,000	- -	- 142	- -	- -	- -	- -	142
Shares issued as a retention fee (Note 12(b)(vii))	1,300,000	- 260	- -	- -	- -	- -	- -	260
Shares issued for services (Note 12b)(viii))	834,883	- 149	- -	- -	- -	- -	- -	149
Shares issued in respect of settlement of liabilities recorded in the prior period (Note 12(b)(ix))	65,000	- 14	43 -	- -	- -	- -	- -	57
Exercise of options (Note 12b(x))	150,000	- 42	- -	- (27)	- -	- -	- -	15
Exercise of warrants (Note 12b(xi))	781,000	- 180	- (101)	- -	- -	- -	- -	79
Net comprehensive loss for the year	-	- -	- -	- (22)	- (4,539)	- (4,561)		
<b>Balance - December 31, 2016</b>	<b>47,798,578</b>	<b>- \$ 9,807 \$</b>	<b>43 \$ 1,547 \$</b>	<b>1,761 \$ (61) \$</b>	<b>(12,441) \$ 656</b>			

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

VAXIL BIO LTD.

(formerly Emerge Resources Corp.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY(DEFICIENCY) (CONTINUED)

(Expressed in Thousands of Canadian Dollars, except per share data)

	Ordinary share capital		Share premium	Shares to be issued	Receipts on account of warrant	Contributed Surplus	Foreign currency translation reserve	Accumulated deficit	Total Equity Capital) (Deficiency)
	Number of shares	Amount							
<b>Balance - January 1, 2015</b>	<b>14,406,571</b>	<b>\$ 4,322</b>	<b>\$ -</b>	<b>\$ 464</b>	<b>\$ 1,439</b>	<b>\$ 27</b>	<b>\$ (6,838)</b>	<b>\$ (586)</b>	
Shares issued, net of issuance expenses	5,315,385	-	481	-	-	-	-	481	
Exercise of unlisted options	99,815	-	13	-	-	-	-	13	
Cancellation of options	-	-	250	-	(250)	-	-	-	
Share based compensation	-	-	192	-	-	110	-	9	311
Deferred issuance costs	-	-	(192)	-	-	(35)	-	(227)	
Settlement of liabilities by way of shares and options	1,927,757	-	310	201	221	198	-	-	930
Net comprehensive loss for the year	-	-	-	-	-	-	(66)	(1,073)	(1,139)
<b>Balance - December 31, 2015</b>	<b>21,749,528</b>	<b>- \$ 5,376</b>	<b>\$ 201</b>	<b>\$ 435</b>	<b>\$ 1,712</b>	<b>\$ (39)</b>	<b>\$ (7,902)</b>	<b>\$ (217)</b>	

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS AND GOING CONCERN

Vaxil Bio Ltd. (formerly Emerge Resources Corp) ("Vaxil" or the "Company") was incorporated under the Business Corporations Act (BC) on July 26, 2006 and is listed on the TSX Venture Exchange ("TSX-V"). The Company's head office is located at 6th Floor, 4576 Yonge Street, Toronto, Ontario.

On February 28, 2016, Vaxil completed the acquisition of Vaxil Bio Ltd. ("Vaxil Israel"), a previously publicly traded company on the Tel-Aviv stock exchange, which was incorporated on June 13, 1982. The transaction was accounted for as a reverse takeover ("RTO"). Upon the completion of the transaction Emerge Resources Corp changed its name to Vaxil Bio Ltd., to distinguish its change of business. The Company's principal activity is research and development of the ImMucin vaccine to treat cancer. The Company trades on the TSX Venture under the symbol "VXL.V".

The accompanying consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception of \$12,379, is currently in the development stage and has not commenced commercial operations. The Company's ability to continue as a going concern is dependent upon its ability to achieve future profitable operations and to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations as they come due. As at December 31, 2016, the Company had not yet achieved profitable operations and expects to incur further losses in the development of its products, all of which casts significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company not be able to continue as a going concern.

These consolidated financial statements were authorized for issue by the Board of Directors on May 1, 2017.

## 2. REVERSE TAKE OVER

On February 29, 2016, the Company entered into a Share Exchange Agreement with Vaxil Israel whereby the Company acquired all the outstanding equity interests of Vaxil Israel, in exchange for common shares of the Company. As a result of the transaction, the Company became the sole beneficial owner of all the outstanding shares of Vaxil Israel. The 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 prior to the RTO on a 2:1 basis resulting in an aggregate of 7,538,043 shares being outstanding after 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 shares 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.

The Transaction has been accounted for as a reverse acquisition that does not constitute a business combination; consequently, the consolidated financial statements are issued under the legal parent Vaxil, but are deemed to be a continuation of the legal subsidiary Vaxil Israel.

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 2:1 basis. All periods presented have been retroactively adjusted to reflect this consolidation.

**2. REVERSE TAKE OVER (CONTINUED)**

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. Each Unit consisted 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 agents received a corporate finance fee and cash commission of \$177 and 988,568 broker warrants as well as reimbursement of agent expenses and 1,000,000 common shares.

The total purchase price for the acquisition of the Company by Vaxil Israel is as follows:

Fair value of 7,538,043 common shares issued	\$	1,508
Fair value of 6,652,024 warrants issued		780
Fair value of 465,064 options issued		76
<b>Total Purchase Price</b>		<b>\$ 2,364</b>
Cash and cash equivalents	\$	1
Accounts receivable and prepaid expenses		2
Accounts payable and accrued liabilities		(114)
<b>Excess attributed to the Listing costs</b>		<b>\$ 2,475</b>

**3. BASIS OF PREPARATION**

*Statement of Compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

*Basis of Presentation*

The consolidated financial statements are presented in Canadian dollars which is the Company’s reporting currency. A summary of the significant accounting policies is provided in Note 4. Standards and guidelines not effective for the current accounting period are described in Note 5.

*Basis of Measurement*

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments which have been measured at fair value.

*Basis of Consolidation*

These consolidated financial statements include the accounts of Vaxil and its wholly-owned subsidiaries Vaxil Israel, and Vaxil Biotherapeutics Ltd. (Israel) (“Vaxil Biotherapeutics”). All intercompany balances and transactions have been eliminated on consolidation.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

##### *Cash*

Cash includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

##### *Translation of Foreign Currencies*

These consolidated financial statements are presented in Canadian dollars. The functional currency of Vaxil is the Canadian dollar. The functional currency of Vaxil Israel and Vaxil Biotherapeutics is the New Israeli Shekel (“NIS”).

Translation gains or losses resulting from the translation of the financial statements of Vaxil Israel and Vaxil Biotherapeutics into Canadian dollars for presentation purposes 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.

##### *Research and Development*

Research and development costs are expensed as incurred.

Expenditures during the development phase are deferred as intangibles if the Company can demonstrate each of the following criteria: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale, (ii) its intention to complete the intangible asset and to then either use or sell it, (iii) its ability to use or sell the intangible asset, (iv) how the intangible asset will generate probable future economic benefits, (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development; otherwise, they are expensed as incurred.

##### *Impairment of Long lived Assets*

The Company’s equipment and intangibles with finite lives are reviewed for an indication of impairment at the end of each reporting period. If indication of impairment exists, the asset’s recoverable amount is estimated. The recoverable amount is the greater of the asset’s fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *Equipment*

Equipment is stated at cost less accumulated depreciation and impairment losses, if any. The cost of an item is initially recognized as its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated under the straight-line method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless is fully depreciated. The principal rates used for this purpose are:

Computers and software	33%
Laboratory equipment	5-15%

The depreciation method, and the useful lives and residual values are reviewed and adjusted as appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the assets.

##### *Financial Instruments*

###### Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statements of loss and comprehensive loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statements of loss and comprehensive loss.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in the consolidated statements of loss and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at the end of each reporting period. Financial assets are impaired when there is any objective evidence that the cash flows related to a financial asset or group of financial assets have been negatively impacted. Different criteria to determine impairment are applied for each category of financial assets described above.

###### Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the corresponding asset was acquired. The Company's accounting policy for each category is as follows:

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Financial Instruments (Continued)***

Financial liabilities (Continued)

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statements of loss and comprehensive loss.

*Other financial liabilities* - This category includes accounts payables and accrued liabilities, all of which are recognized at amortized cost.

The Company's financial instruments consist of the following:

Financial assets:	Classification:
Cash	Loans and receivables
Accounts receivable (excluding for HST)	Loans and receivables
Financial liabilities:	Classification:
Accounts payable, other accounts payable and accrued and accrued liabilities	Other financial liabilities
Other long term liabilities	Other financial liabilities

Financial instruments recorded at fair value in the consolidated statement of financial position are classified according to a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three levels of fair value hierarchy are as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- Level 3 - Inputs for assets or liabilities that are not based on observable market data.

Financial assets measured at fair value on a recurring basis include the following:

FAIR VALUE INPUT LEVEL	As at December 31, 2016		As at December 31, 2015	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
Financial Assets:				
Cash (Note 6)	1	\$ 1,023	\$ 12	\$ 12

***Government Grants***

The Company is eligible for grants from the Office of Chief Scientist, Ministry of Economy of the State of Israel ("OCS") granted as support in Vaxil Biotherapeutics' research and development ("OCS grants"). The Company classified these grants as "forgivable loans" as set out in IAS 20 – "Accounting for Government Grants and Disclosure of Government Assistance". The accounting treatment for the grant depends on the Company's ability to obtain FDA approval of which it may go into production in the future. Accordingly, the grant is recorded against research and development costs. Credit related to grants recognized against research and development costs are recorded at fair value which there is reasonable assurance that they will be received and the Company will comply with the condition associated with the credits.

Government loans are recognized and measured as set out in IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37"). No liability has been recognized during the period, as it is not reasonable that a provision shall be recognized. A government grant that becomes repayable shall be accounted for as a change in accounting estimate.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *Share-based Payments*

Equity-settled share based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense with a corresponding increase to share-based payment reserve in the consolidated financial statements.

The fair value determined at the grant date of equity-settled share based payments is expensed using the graded vesting method over the vesting period based on the Company's estimate of shares that will eventually vest. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in share-based payment reserve is recorded as an increase to share capital. Upon expiry, the amounts recorded for share-based compensation are transferred to the deficit from the share-based payment reserve. Shares are issued from treasury upon the exercise of equity-settled share based instruments.

Compensation expense on stock options granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

##### *Share Capital*

Common shares are classified as equity. Proceeds from unit placements are allocated between shares and warrants issued using the relative fair value method. Costs directly identifiable with share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations in the period they are incurred.

##### *Warrant Reserve*

The fair value of warrants is determined upon their issuance either as part of unit private placements or in settlement of share issuance costs and finders' fees, using the Black-Scholes model. All such warrants are classified in a warrant reserve within equity. If the warrants are converted, the value attributable to the warrants is transferred to common share capital. Upon expiry, the amounts recorded for expired warrants is transferred to the deficit from the warrant reserve. Shares are issued from treasury upon the exercise of share purchase warrants.

##### *Income Taxes*

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent they relate to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *Income Taxes (Continued)*

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in profit or loss and comprehensive income (loss) or equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At the end of each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all of part of the asset to be recovered.

##### *Basic and Diluted Loss per Share*

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock.

The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Diluted amounts are not presented when the effect of the computations are anti-dilutive. Accordingly, at present, there is no difference in the amounts presented for basic and diluted loss per share.

##### *Reclassifications*

Certain prior year amounts have been reclassified for financial statement presentation purposes. These reclassifications had no effect on the reported results of the operations.

##### *Significant Accounting Judgments and Estimates*

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods when the revision affects both current and future periods.

The critical judgments and significant estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are:

- The series of loans made to the subsidiary company are considered part of the parent Company's net investment in a foreign operation as the Company does not plan to settle these balances in the foreseeable future. As a result of this assessment, the unrealized foreign exchange gains and losses on the intercompany loans are recorded through comprehensive loss. If the Company determined that settlement of these amounts was planned or likely in the foreseeable future, the resultant foreign exchange gains and losses would be recorded through profit or loss.
- The determination that the RTO constituted an asset acquisition and not a business combination (Note 2).
- The fair value of the share consideration deemed issued to acquire Vaxil Israel (Notes 2).

## 5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The IASB issued new standards and amendments not yet effective.

IFRS 9, Financial Instruments (“IFRS 9”) was initially issued by the IASB on November 12, 2009 and issued in its completed version in July 2014, and will replace IAS 39, "Financial Instruments: Recognition and Measurement" (“IAS 39”). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. 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. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for financial years beginning on or after January 1, 2018. The Company is currently assessing the effects of IFRS 9 and intends to adopt on its effective date.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) was issued by the IASB in May 2014 and clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (i.e. service revenue and contract modifications) and improve guidance for multiple-element arrangements. IFRS 15 is effective for periods beginning on or after January 1, 2018 and is to be applied retrospectively. The Company's preliminary assessment of IFRS 15 has determined there will not be a significant impact to the consolidated financial statements as a result of the adoption of this standard

IFRS 16, Leases (“IFRS 16”) was issued by the IASB in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. An entity applies IFRS 16 for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The Company is currently assessing the effects of IFRS 16 and intends to adopt on its effective date.

## 6. CASH

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
In US dollars	\$ 22	\$ -
In Canadian dollars	983	-
In new Israeli shekels (“NIS”)	18	12
	<b>\$ 1,023</b>	<b>\$ 12</b>

VAXIL BIO LTD.  
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**7. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Unbilled receivables from the Israeli Chief Scientist	\$ -	\$ 11.00
Government institutions	<b>18</b>	14
Prepayments	<b>3</b>	
Other	<b>8</b>	-
	<u><b>\$ 29</b></u>	<u><b>\$ 25</b></u>

**8. DEFERRED ISSUANCE COSTS**

Deferred issuance costs were comprised of costs incurred during 2015 in respect of the RTO transaction.

**9. EQUIPMENT, NET**

	<b>Computers and software</b>	<b>Laboratory equipment</b>	<b>Total</b>
<b>Cost:</b>			
<b>Balance - January 1, 2016</b>	\$ 10	\$ 39	\$ 49
Purchases	7	157	164
<b>Balance - December 31, 2016</b>	<u><b>\$ 17</b></u>	<u><b>\$ 196</b></u>	<u><b>\$ 213</b></u>
<b>Depreciation:</b>			
<b>Balance - January 1, 2016</b>	\$ 10	\$ 16	\$ 26
Depreciation during the year	1	21	22
<b>Balance - December 31, 2016</b>	<u><b>\$ 11</b></u>	<u><b>\$ 37</b></u>	<u><b>\$ 48</b></u>
<b>Net book value:</b>			
<b>As at December 31, 2016</b>	<u><b>\$ 6</b></u>	<u><b>\$ 159</b></u>	<u><b>\$ 165</b></u>
<b>As at December 31, 2015</b>	<u><b>\$ -</b></u>	<u><b>\$ 23</b></u>	<u><b>\$ 23</b></u>

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**9. EQUIPMENT, NET (Continued)**

	<u>Computers and software</u>	<u>Laboratory equipment</u>	<u>Total</u>
<b>Cost:</b>			
<b>Balance - January 1, 2015</b>	\$ 10	\$ 36	\$ 46
Exchange differences	<u>-</u>	<u>3</u>	<u>3</u>
<b>Balance - December 31, 2015</b>	<u>\$ 10</u>	<u>\$ 39</u>	<u>\$ 49</u>
<b>Depreciation:</b>			
<b>Balance - January 1, 2015</b>	\$ 8	\$ 10	\$ 18
Depreciation during the year	<u>2</u>	<u>6</u>	<u>8</u>
<b>Balance - December 31, 2015</b>	<u>\$ 10</u>	<u>\$ 16</u>	<u>\$ 26</u>
<b>Net book value:</b>			
<b>As at December 31, 2015</b>	<u>\$ -</u>	<u>\$ 23</u>	<u>\$ 23</u>
<b>As at December 31, 2014</b>	<u>\$ 2</u>	<u>\$ 26</u>	<u>\$ 28</u>

**10. OTHER ACCOUNTS PAYABLE AND ACCURED LIABILITIES**

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Employee benefit and related institutions	\$ 13	\$ 14
Vacation provision	12	11
Current portion of other long term liabilities (Note 11)	17	-
Accruals	58	437
Government institutions	<u>7</u>	<u>6</u>
	<u>\$ 107</u>	<u>\$ 468</u>

**11. OTHER LONG TERM LIABILITIES**

Other long-term liabilities consist of a capital lease of \$138 signed on September 4, 2016 in respect of the purchase of a Fluorescence-activated cell sorting ("FACS") Instrument. The net carrying value of the new capital lease obligation was \$101 at December 31, 2016 (December 31, 2015 - \$Nil). Once all payments are made the ownership of the equipment will pass to the Company. At December 31, 2016, the future minimum lease payments under the capital lease are:

2017:	\$ 17
<u>2018 and thereafter:</u>	<u>84</u>
<b><u>Total</u></b>	<b><u>\$ 101</u></b>

## 12. SHARE CAPITAL AND RESERVES

### a) Authorized share capital

As at December 31, 2016, the authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares, consisting only of common shares are fully paid.

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 2:1 basis. All periods presented have been retroactively adjusted to reflect this consolidation.

### b) Issued share capital:

- (i) On January 21, 2016, the Company completed a non-brokered private placement of 388,019 shares for gross proceeds of \$57 at \$0.15 per share (NIS 0.43) and on February 29, 2016, the Company completed a second non-brokered private placement of 245,432 shares at \$0.21 (NIS 0.61) per share for gross proceeds of \$53. Issuance costs paid in cash for both private placements in the amount of \$7 were charged against share capital in the statements of changes in shareholders' equity. In addition, the Company issued 38,802 shares to a third party as a finders' fee.
- (ii) On January 21, 2016, the Company issued 92,719 shares at \$0.21 per share (NIS 0.61) in order to settle liabilities \$23 as of December 31, 2015 and on February 29, 2016, Vaxil Israel issued 54,541 shares, at \$0.25 per share (NIS 0.73) and 660,096 shares were issued at \$0.21 per share (NIS 0.61) in order to settle liabilities of \$78 as of December 31, 2015 and to pay for \$78 of consulting services incurred during the first quarter of 2016. \$101 was charged against accounts payable in the consolidated statements of financial position, \$78 was charged to the consolidated statements of loss and comprehensive loss and \$179 was credited to share capital in the statements of changes in shareholders' equity.
- (iii) On February 29, 2016, Vaxil Israel issued 1,254,760 shares in respect of liabilities that were settled in 2015 and were recorded in the statements of changes in shareholders' equity as of December 31, 2015 as shares to be issued. The fair value of the shares to be issued was \$263 on the date of issuance and it was recorded as share capital in the statements of changes in shareholders' equity with a \$62 loss on settlement in the consolidated statements of loss and comprehensive loss. On the same date, the Company also issued 106,354 shares at \$0.21 per share (NIS 0.61) to a consultant that facilitated the settlement of liabilities. The fair value of the shares issued was \$23 and it was recorded as share capital in the statements of changes in shareholders' equity with a corresponding charge to the consolidated statements of loss and comprehensive loss.
- (iv) As part of the RTO Closing, the Company issued 135,836 shares valued at \$435 to Vaxil Israel warrant holders as consideration for the cancellation of their warrants.

**12. SHARE CAPITAL AND RESERVES (Continued)**

b) Issued share capital (continued):

- (v) On February 29, 2016, the Company and Vaxil Israel completed the RTO transaction. Under the RTO accounting, Vaxil Israel is considered to have issued 7,538,043 common shares, 6,652,024 warrants, and 465,064 options to the former shareholders', warrant holders and option holders of the Company to acquire the net assets and public listing status of the Company.

The fair value of the 7,538,043 common shares issued of \$1,508 was charged to Share Capital in the statements of changes in shareholders' equity was determined by reference to the share price at the time of the RTO.

The fair value of the 6,652,024 warrants issued of \$780, which was charged to warrant reserve in the statements of changes in shareholders' equity and was determined using the Black Scholes option pricing model and the following assumptions:

Number of Warrants	178,571	2,380,953	1,992,500	2,100,000
Share price	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
Exercise price	\$ 1.40	\$ 1.40	\$ 0.10	\$ 0.10
Expected life (years)	2.36	2.36	0.78	1.06
Annualized Volatility	162%	162%	95%	123%
Dividend yield	-	-	-	-
Risk free rate	\$ 0.64%	\$ 0.64%	\$ 0.64%	\$ 0.64%

The fair value of the 465,064 options issued of \$76 which was charged to Contributed surplus in the consolidated statements of changes in shareholders' equity and was determined using the Black Scholes option pricing model and the following assumptions:

Number of Options	90,064	375,000
Share price	\$ 0.20	\$ 0.20
Exercise price	\$ 1.40	\$ 0.10
Expected life (years)	1.80	4.05
Annualized Volatility	242%	151%
Dividend yield	-	-
Risk free rate	0.64%	0.64%

**12. SHARE CAPITAL AND RESERVES (Continued)**

b) Issued share capital (continued):

- (vi) As noted in Note 2, on February 29, 2016 and concurrent with the RTO Closing, the Company closed a non-brokered private placement of 11,403,565 units at a price of \$0.23 per unit for gross proceeds of \$2,621,870.

Each unit consisted of one common share and one common share purchase warrant ("Private Placement Warrant"). Each common share purchase warrant entitles the holder to purchase 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. In addition, the Company issued 1,000,000 shares to the Agent.

The Agents received a corporate finance fee and cash commission of \$177, 988,568 brokers warrants ("Private Placement Broker Warrant") and reimbursement of their expenses and 1,000,000 common shares.

The fair value of each Private Placement Warrant and Broker Warrant was determined using the Black Scholes option pricing model and the following assumptions: share price - \$0.10; exercise price - \$0.36; expected life - 3 years; annualized volatility - 220%; dividend yield - 0%; risk free rate - 0.64%.

- (vii) On the date of the RTO, the Company issued 1,300,000 shares as a retention fee to two directors, the fair value of the shares of \$260 was charged to share based compensation in the consolidated statements of loss and comprehensive loss.
- (viii) During the year ended December 31, 2016, the Company issued 834,883 shares, for services provided in the amount of \$149. Of this amount, \$25 was in order to settle accounts payable. \$124 was charged to general and administration costs in the consolidated statements of loss and comprehensive loss, with a corresponding charge to share capital in the consolidated statements of changes in shareholders' equity.
- (ix) During the year ended December 31, 2016, the Company authorized to issue 260,000 shares to a former director in order to settle accounts payable of \$57. As at December 31, 2016, the 65,000 common shares were issued and 135,000 are included in shares to be issued in the statements of changes in shareholders' equity.
- (x) During the year ended December 31, 2016, 150,000 options were exercised for gross proceeds of \$15. The fair value of the options of \$27 were reclassified from contributed surplus to share capital in the consolidated statements of changes in shareholders' equity.
- (xi) During the year ended December 31, 2016, 781,000 warrants were exercised for a gross amount of \$79. The fair value of the warrants of \$101 were reclassified from warrant reserve to share capital in the consolidated statements of changes in shareholders' equity.
- (xii) As at December 31, 2016, 2,664,300 (December 31, 2015 - Nil) shares were held in escrow.

**12. SHARE CAPITAL AND RESERVES (Continued)**

c) Stock options

The Company's stock option plan provides that the Board of Directors may from time to time, in its discretion, and in accordance with the TSX requirements, grant to directors, officers, employees and technical consultants of the Company, non-transferable options to purchase the Company's shares, provided that the aggregate number of shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 10% of the issued and outstanding common shares at the time of grant. Options granted under the Plan may have a maximum term of ten (10) years. The exercise price of options granted under the Plan will not be less than, the last closing market price of the Company's shares on the last day shares are traded prior to the grant date less any discount permitted by the TSX-V. Stock options granted under the Plan vest immediately subject to vesting terms which may be imposed at the discretion of the Directors, however, options issued to investor relations persons must vest in stages over 12 months with no more than one-quarter of the options vesting in any three month period.

As at December 31, 2016, the Company had outstanding stock options, enabling the holders to acquire further common shares as follows:

Number of Options Outstanding as at December 31, 2016	Exercise Price	Expiry Date
90,064	\$1.40	December 7, 2017
225,000	\$0.10	March 18, 2020
<b>315,064</b>		

Stock option transactions are summarized as follows:

	<b>December 31, 2016</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Balance, December 31, 2015	-	\$ -
Issued as part of the RTO (note 12(b)(v))	465,064	0.36
Exercised	(150,000)	
Cancelled/forfeited	-	-
<b>Balance, December 31, 2016</b>	<b>315,064</b>	<b>\$ 0.47</b>
Options exercisable, December 31, 2016	315,064	\$ 0.47

**12. SHARE CAPITAL AND RESERVES (Continued)**

d) Warrants

As at December 31, 2016, the Company had outstanding subscriber's warrants, enabling the holders to acquire further common shares as follows:

Number of Warrants Outstanding as at December 31, 2016	Exercise Price	Expiry Date
2,380,953	\$1.40	July 8, 2018
178,571	\$0.21	July 8, 2018
1,319,000	\$0.10	March 23, 2017
928,087	\$0.31	February 29, 2019
11,403,565	\$0.31(*)	February 29, 2019
<b>16,210,176</b>		

(\*) through to February 29, 2017, and \$0.35 thereafter.

Subscriber's warrant transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2015	7,695,272	
Cancelled (Note 2)	(7,695,272)	
Issued:		
As part of the RTO (Note 12(b)(v))	6,652,024	0.58
Private placement (Note 12(b)(vi))	11,403,565	0.31
Agents warrants from private placement (Note 12(vi))	1,103,658	0.31
Expired	(2,168,071)	0.10
Exercised	(781,000)	0.10
Balance, December 31, 2016	16,210,176	\$ 0.45

**13. INCOME TAXES**

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% to the effective tax rates for the year ended December 31 is as follows:

	<b>2016</b>
Income (loss) before recovery of income taxes	\$ (4,539)
Expected income tax (recovery) expense	\$ (1,203)
Difference in foreign tax rates	11
Timing differences carryforward on the acquisition	(1,652)
Share based compensation and non-deductible expenses	822
Change in tax benefits not recognized	2,022
Income tax (recovery) expense	\$ -

**13. INCOME TAXES (Continued)**

**Unrecognized Deferred Tax**

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

		<b>2016</b>
Deferred income tax		
Share issuance costs	\$	492
Non-capital losses carried forward - Canada	\$	323
Net operating loss - Israel	\$	7,747

The Canadian non-capital loss carry forwards expire as noted in the table below. Share issue and financing costs will be fully amortized in 2021.

The Company's Canadian non-capital income tax losses expire as follows:

2036	\$ 323
------	--------

As of December 31, 2016, carryforward losses in Israel were approximately \$7,747 million and may be carried forward indefinitely.

#### **14. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2016, the Company incurred \$233, in consulting fees from one officer and two directors of the Company (December 31, 2015 - \$429).

These transactions are in the ordinary course of business and are measured at the amount of consideration set and agreed by the related parties.

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

#### **15. CAPITAL MANAGEMENT**

The Company's capital comprises share capital, share-based payment reserve, warrant reserve, and accumulated other comprehensive income (loss). The Company manages its capital structure, and makes adjustments to it, based on the funds available to the Company in order to support the Company's business activities. The Board of Directors does not establish quantitative return on capital criteria for management; it relies on the expertise of the Company's management to sustain future development of the business.

The intellectual property in which the Company currently has an interest is in the development stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned research and development and pay for administrative costs, the Company intends to raise additional amounts as needed (Note 1).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

#### **16. FINANCIAL AND CAPITAL RISK MANAGEMENT**

##### *Fair value*

The carrying value of account receivable and accounts payable and other accounts payable and accrued liabilities approximated their fair value because of the relatively short-term nature of these instruments. Cash, which is classified as held for trading and carried at fair value, has been determined using Level 1 inputs.

##### *Foreign exchange risk*

The Company is exposed to foreign currency fluctuation on its operations in Israel, which are denominated in Israel New Shekels. Sensitivity to a plus or minus 10% change in rates would not have a significant effect on the net income (loss) of the Company.

##### *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 and \$267, respectively, which consisted of \$1,023 (December 31, 2015 - \$12) in cash held in bank accounts, and \$29 (December 31, 2015 - \$25) in accounts receivable and prepaid expenses and \$Nil deferred issuance costs (December 31, 2015 - \$230). None of the Company's accounts receivable are overdue as at December 31, 2016.

##### *Interest rate risk*

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts which earn interest at variable rates but it does not believe it is currently subject to any significant interest rate risk.

**16. FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)**

*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 of \$1,023 (December 31, 2015 - \$12) and accounts receivable and prepaid expenses of \$29 (December 31, 2015 - \$25) to settle current liabilities in the amount of \$477 (December 31, 2015 - \$507).

*Capital management*

The Company defines its capital as shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration and development of mineral properties. The Board of Directors do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. As such, the Company has historically relied on the equity markets to fund its activities. In addition, the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will need to raise additional funds. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

**17. COMMITMENTS**

**a. Clinical trial agreements**

The Company has an agreement to conduct clinical trials with medical institutions and entities (Hadassa Medical Center, Rambam Medical Center, and Kaplan Medical Center). In the framework of these agreements, the Company is committed to pay quarterly payments in accordance with the number of patients participating in the relevant clinical trials.

The Company is committed, under certain conditions, to indemnify and release the medical institution of any responsibility for damages and/or expenses that might be incurred as a result of the clinical trial, including in consequence of lawsuit for product warranty or third party lawsuit or intellectual property.

**b. Office of the Chief Scientist ("OCS"), Ministry of Economy of the State of Israel**

On June 12, 2014, Vaxil received approval for support from the OCS for continuing its Research and Development plan of the ImMucin vaccine for treating multiple myeloma ("R&D Plan"). The approved amount for the R&D Plan budget ("the Budget") was NIS 3,000,000 (approximately \$1,065), and the grant shall be 50% of the Budget. At the end of the program, on December 31, 2015, the Company had utilized \$675 out of the Budget ("Grant Receipt").

The Company is committed to royalty payment to the OCS, at a rate 3%-6% of any revenues derived from knowhow developed with the participation of the OCS. The contingent liability to the OCS is limited to the Grant Receipt plus interest at the US\$ LIBOR rate. As of December 31, 2016 and 2015, the Company has not accrued a provision for the Grant Receipt.

**18. RESEARCH AND DEVELOPMENT COSTS, NET**

	<b>Years ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Wages, salaries and related expenses	\$ 194	\$ 269
Consultants and sub-contractors	260	135
Development materials	58	-
Patent registration	46	75
Depreciation (Note 9)	22	7
Others	5	15
	<u>585</u>	<u>501</u>
Less: Participation from the Office of the Chief Scientist (Note 17(b))	-	(156)
	<u>\$ 585</u>	<u>\$ 345</u>

**19. GENERAL AND ADMINISTRATION COSTS**

	<b>Years ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Consulting, management and directors fees (Note 14)	\$ 460	\$ 265
Professional fees	237	375
Office rental and other related expenses	81	35
Gain on settlement of liabilities (Note 12(b))	19	-
Loss on settlement of lawsuit	41	-
Other	67	50
	<u>\$ 905</u>	<u>\$ 725</u>

## 20. CONTINGENCIES

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 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 defend. 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.

## 21. SUBSEQUENT EVENTS

- a. Subsequent to the year-end, \$289 of accounts payable was settled by the issuance of 2,630,772 shares.
- b. On January 4, 2017, the Company granted 2,346,000 stock options to directors, officers, employees and consultants. The exercise price is \$0.125 per share, all options granted vest immediately on the date of grant and the options expire on January 3, 2022.
- c. 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 whereby 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 these shares and therefore they have not been issued.