

**VAXIL BIO LTD**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(Unaudited)**

**(Expressed in Canadian Dollars)**

**FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2018**

**INDEX**

	<u>Page</u>
<b>Condensed Consolidated Interim Statements of Financial Position</b>	<b>3</b>
<b>Condensed Consolidated Interim Statements of Loss and Comprehensive Loss</b>	<b>4</b>
<b>Condensed Consolidated Interim Statements of Changes in Shareholder' Equity (Deficit)</b>	<b>5</b>
<b>Condensed Consolidated Interim Statements of Cash Flows</b>	<b>6</b>
<b>Notes to the Condensed Consolidated Interim Financial Statements</b>	<b>8 - 15</b>

**NOTICE OF NO AUDITOR REVIEW OF THE  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 - *Continuous Disclosure Obligations*, of the Canadian Securities Administrators, the Company (as defined herein) discloses that its auditors have not reviewed the unaudited condensed interim consolidated financial statements.

The accompanying unaudited condensed interim consolidated financial statements of Vaxil Bio Ltd (the “Company”) for the three and nine months ended September 30, 2018 have been prepared by and are the responsibility of the Company’s management and have not been reviewed by the Company’s auditors.

**VAXIL BIO LTD**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited)  
(Expressed in Thousands of Canadian Dollars, except per share data)

	<b>September 30</b>	<b>December 31</b>
	<b>2018</b>	<b>2017</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,040	\$ 169
Amounts receivable and prepaid expenses	34	23
<b>Total current assets</b>	<b>1,074</b>	192
Fixed Assets, net	82	118
<b>Total Assets</b>	<b>1,156</b>	\$ 310
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	247	438
Other accounts payable and accrued liabilities	98	160
<b>Total current liabilities</b>	<b>345</b>	748
<b>Long term liabilities</b>		
Long Term accounts payable	24	49
<b>Total liabilities</b>	<b>369</b>	797
Shareholders' equity		
Share capital (Note 4)	11,282	10,139
Shares to be issued	-	41
Warrant reserve (Note 4)	2,177	1,376
Contributed surplus (Note 4)	2,254	2,224
Foreign currency transaction reserve	(38)	(28)
Accumulated deficit	(14,888)	(14,239)
<b>Total shareholders' equity (capital deficit)</b>	<b>786</b>	(487)
<b>Total liabilities and shareholders' equity (capital deficit)</b>	<b>\$ 1,156</b>	\$ 310

**Nature and continuance of operations** (Note 1)

**Commitments and Contingencies** (Note 7)

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

VAXIL BIO LTD  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)  
(Unaudited)  
(Expressed in Thousands of Canadian Dollars, except per share data)

	<b>Three months ended</b>		<b>Nine Months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Unaudited</b>		<b>Unaudited</b>	
<b>Expenses:</b>				
Research and development costs (Note 5)	\$ 132	\$ 212	\$ 338	\$ 539
General and administration costs (Note 6)	68	123	291	466
Share based compensation	23	-	23	252
<b>Total Expenses</b>	<b>223</b>	<b>335</b>	<b>652</b>	<b>1,257</b>
<b>Operating Loss</b>	<b>(223)</b>	<b>(335)</b>	<b>(652)</b>	<b>(1,257)</b>
Financial (income) expenses	7	1	(3)	3
<b>Net loss for the period</b>	<b>(230)</b>	<b>(336)</b>	<b>(649)</b>	<b>(1,260)</b>
<b>Other Comprehensive Income (Loss)</b>				
Foreign currency translation adjustment	(6)	48	(10)	63
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (236)</b>	<b>\$ (288)</b>	<b>\$ (659)</b>	<b>\$ (1,197)</b>
<b>Basic and Fully Diluted Loss Per Share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
<b>Weighted Average Number Of Shares Outstanding</b>	<b>88,241,349</b>	<b>50,429,350</b>	<b>84,793,668</b>	<b>50,095,053</b>

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

VAXIL BIO LTD  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)  
(Unaudited)  
(Expressed in Thousands of Canadian Dollars, except per share data)

	Ordinary share capital		Share Capital	Shares to be issued	Wararnt reserve	Contributed surplus	Foreign currency transaction reserve	Accumulated deficit	Total Equity (Capital Deficiency)
	Number of shares	Amount							
<b>Balance - January 1, 2018 (audited)</b>	<b>50,624,350</b>	<b>\$ -</b>	<b>\$ 10,139</b>	<b>\$ 41</b>	<b>\$ 1,376</b>	<b>\$ 2,224</b>	<b>\$ (28)</b>	<b>\$ (14,239)</b>	<b>\$ (487)</b>
Private Placement (see note 4(b))	36,200,000	-	936	-	805	-	-	-	1,741
Exericse of warrants (see note 4(b))	63,000	-	-	-	(4)	7	-	-	3
Shares issued in respect of settlement of liabilities recorded in the prior period (see note 4b)	2,042,097	-	207	(41)	-	-	-	-	166
Share based compensation	-	-	-	-	-	23	-	-	23
Net comprehensive loss for the period	-	-	-	-	-	-	(10)	(649)	(659)
<b>Balance -September 30, 2018 (unaudited)</b>	<b>\$ 88,929,447</b>	<b>\$ -</b>	<b>\$ 11,282</b>	<b>\$ -</b>	<b>\$ 2,177</b>	<b>\$ 2,254</b>	<b>\$ (38)</b>	<b>\$ (14,888)</b>	<b>\$ 786</b>
	Ordinary share capital		Share Capital	Shares to be issued	Wararnt reserve	Contributed surplus	Foreign currency transaction reserve	Accumulated deficit	Total Equity (Capital Deficiency)
	Number of shares	Amount							
<b>Balance - January 1, 2017 (audited)</b>	<b>47,798,578</b>	<b>\$ -</b>	<b>\$ 9,807</b>	<b>\$ 43</b>	<b>\$ 1,547</b>	<b>\$ 1,761</b>	<b>\$ (61)</b>	<b>\$ (12,441)</b>	<b>\$ 656</b>
Shares issued in respect of settlement of liabilities recorded in the prior period	2,630,772	-	289	-	-	-	-	-	289
Share based compensation	-	-	-	-	-	252	-	-	252
Shares issued in respect of settlement of liabilities recorded in the prior period	195,000	-	43	(43)	-	-	-	-	-
Net comprehensive loss for the period	-	-	-	-	-	-	63	(1,260)	(1,197)
<b>Balance -September 30, 2017 (unaudited)</b>	<b>50,624,350</b>	<b>\$ -</b>	<b>\$ 10,139</b>	<b>\$ -</b>	<b>\$ 1,547</b>	<b>\$ 2,013</b>	<b>\$ 2</b>	<b>\$ (13,701)</b>	<b>\$ (0)</b>
Share based compensation	-	-	-	-	-	40	-	-	40
Shares issued in respect of settlement	-	-	-	\$ 41	-	-	-	-	41
Expiration of warrants	-	-	-	-	(171)	171	-	-	-
Net comprehensive loss for the period	-	-	-	-	-	-	(30)	(538)	(568)
<b>Balance - December 31, 2017 (audited)</b>	<b>50,624,350</b>	<b>\$ -</b>	<b>\$ 10,139</b>	<b>\$ 41</b>	<b>\$ 1,376</b>	<b>\$ 2,224</b>	<b>\$ (28)</b>	<b>\$ (14,239)</b>	<b>\$ (487)</b>

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

VAXIL BIO LTD  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
(Unaudited)  
(Expressed in Thousands of Canadian Dollars, except per share data)

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	<b>Nine Months ended</b>	
	<b>September 30</b>	
	<b>2018</b>	<b>2017</b>
	<b>Unaudited</b>	
<b>Cash flows used to operating activities</b>		
Net loss for the period	\$ (649)	\$ (1,260)
Items not affecting cash:		
Depreciation	36	35
Interest on loan	3	12
Share-based compensation	23	252
Changes in non-cash working capital:		
Amounts receivable and prepaid expenses	(418)	(582)
Accounts payable	(205)	31
Other accounts payable and accrued liabilities	370	611
	<b>(840)</b>	<b>(901)</b>
 <b>Cash flows (used) from financing activities</b>		
Loan repayment	(23)	(22)
Proceeds for private placements, net	1,745	-
	<b>1,722</b>	<b>(22)</b>
 <b>Increase in cash and cash equivalents</b>	<b>882</b>	<b>(923)</b>
Effect of changes in foreign exchange rates	(11)	3
Cash and cash equivalents, beginning of period	169	1,023
Cash and cash equivalents, end of period	<b>\$ 1,040</b>	<b>\$ 103</b>

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS

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. The Company's head office is located at 6th Floor, 4576 Yonge Street, Toronto, Ontario.

The Company's principal activity is research and development of ImMucin vaccine to treat cancer. The Company trades on the TSX Venture under the symbol "VXL.V"

The accompanying condensed consolidated interim 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 \$14,888 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 attain future profitable operations and to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. As at September 30, 2018, the Company had not yet achieved profitable operations and expects to incur further losses in the development of its products, all of which may cast significant doubt about the Company's ability to continue as a going concern. These condensed interim 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.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 29, 2018.

## 2. BASIS OF PREPARATION

### Statement of Compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed consolidated interim financial statements should be read in conjunction with the Company's annual financial statements for the year ending December 31, 2017. Certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS are not included in these condensed consolidated interim financial statements.

### Basis of Presentation

The financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

### Basis of Consolidation

These consolidated financial statements include the accounts of Vaxil and its two wholly-owned subsidiaries: (i) Vaxil Israel, which owns 100% of Vaxil Biotherapeutics Ltd, and (ii) 9073647 Canada Inc. The financial statements of Vaxil are included in the consolidated financial statements from the date that control commences until the date control ceases. Control exists when the Company has the power directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All inter-company balances, and transactions, have been eliminated upon consolidation.

## 2. BASIS OF PREPARATION (CONTINUED)

### **Significant accounting judgments and estimates**

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the period.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the determination of functional currency.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

#### 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 income (loss).

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.

#### **New Standards adopted**

IFRS 9, Financial Instruments (“IFRS 9”) was initially issued by the IASB on November 12, 2009 and replaced 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 became effective on January 1, 2018 and the adoption of this standard did not have a material impact on the Company’s condensed consolidated interim financial statements.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”), which replaced IAS 18, Revenue, results 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 became effective on January 1, 2018 and the adoption of this standard did not have a material impact on the Company’s condensed consolidated interim financial statements.

**2. BASIS OF PREPARATION (CONTINUED)**

**New standards not yet adopted**

The IASB issued new standards and amendments not yet effective.

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.

**3. RELATED PARTY TRANSACTIONS**

The following are the expenses incurred with related parties for the nine months ended September 30, 2018 and 2017 and the balances owing as of September 30, 2018 and 2017:

For the nine months ended September 30, 2018

	<b>Directors Fees</b>	<b>Consulting Fees</b>	<b>Share based awards</b>	<b>Option based awards</b>	<b>Total</b>	<b>Amounts owing at September 30, 2018</b>
David Goren, Director and CEO	\$ -	\$ 9	\$ -	\$ -	\$ 9	\$ 9
Gadi Levin, Director and CFO	-	44	-	-	44	5
Isaac Maresky, Director	-	110	-	-	110	9
<b>Total</b>	<b>\$ -</b>	<b>\$ 162</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 162</b>	<b>\$ 23</b>

For the nine months ended September 30, 2017

	<b>Directors Fees</b>	<b>Consulting Fees</b>	<b>Share based awards</b>	<b>Option based awards</b>	<b>Total</b>	<b>Amounts owing at September 30, 2018</b>
Gadi Levin, Director and CFO	\$ -	\$ 32	\$ -	\$ -	\$ 32	\$ 4
Isaac Maresky, Director	-	84	-	-	84	8
Saeid Babaei	-	23	-	-	23	3
<b>Total</b>	<b>\$ -</b>	<b>\$ 139</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 139</b>	<b>\$ 15</b>

#### 4. SHARE CAPITAL AND RESERVES

a) Authorized share capital

As at September 30, 2018, 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.

b) Issued share capital issued during and nine months ended September 30, 2018:

- (i) On January 26, 2018, the Company completed a non-brokered private placement resulting in gross proceeds of \$1,810. The non-brokered private placement involved the sale of 36,200,000 units at a price of \$0.05 per unit (the "Non-Brokered Units"). Each Non-Brokered Unit comprised one Common Share and one common share purchase warrant (the "Non-Brokered Warrant"). Each Non-Brokered Warrant entitles the holder thereof to acquire one additional Common Share for a period of 36 months from at an exercise price of \$0.10.

The agent for the non-brokered private placement received a cash commission in the amount of \$57 and 1,143,849 compensation warrants (the "Compensation Warrants"). Each Compensation Warrant is exercisable into one Common Share in of the Company for a period of 24 months at a price of \$0.05.

The total fair value of each Non-Brokered Warrants and Compensation Warrants was \$805 and was determined using the Black Scholes option pricing model and the following assumptions:

Non-Brokered Warrants: share price - \$0.095; exercise price - \$0.01; expected life – 3 years; annualized volatility – 124.74%; dividend yield – 0%; risk free rate – 1.88%.

Compensation Warrants: share price - \$0.095; exercise price - \$0.05; expected life – 2 years; annualized volatility – 124.74%; dividend yield – 0%; risk free rate – 1.88%. This amount was charged against warrant reserve in the statement of changes in shareholders' equity.

Gross proceeds, less issuance costs paid in cash and less the total fair value of the Non-Brokered Warrants and Compensation Warrants were charged against share capital and warrant reserve in the statement of changes in shareholders' equity.

c) Issued share capital issued during and nine months ended September 30, 2018 (continued):

- (ii) During second quarter of 2018, 63,000 Compensation Warrants were exercised at an exercise price of \$0.05 for aggregate gross proceeds of \$8.
- (iii) On July 31, 2018, the Company issued 2,042,097 shares at \$0.10 per share in order to settle certain liabilities that accrued to related parties and an employee in 2017. The fair value of the shares issued was \$207, of which \$41 was included in Shares to be Issued in the Statement of Changes in Shareholder' Equity as of December 31, 2017. Therefore, \$201 was recorded as Share Capital with a corresponding decrease in Shares to be Issued of \$41 and a decrease in accruals in the Statement of Financial Position of \$166.

d) Stock options

- (i) On September 4, 2018, the Company granted 4,446,472 stock options to the CEO of the company. The exercise price is \$0.09 per share, all options granted vest immediately on the date of grant and the options expire on September 3, 2023.

The fair value of the 4,446,472 stock options issued of \$303 which was charged to Contributed surplus in the Statement of Changes in Shareholders' Equity and was determined using the Black Scholes option pricing model and the following assumptions: share price - \$0.08; exercise price - \$0.09; expected life – 5 years; annualized volatility – 130%; dividend yield – 0%; risk free rate – 2%.

**4. SHARE CAPITAL AND RESERVES (CONTINUED)**

d) Stock options (continued)

(ii) Stock option transactions during the nine months ended September 30, 2018 are summarized as follows:

	<b>Options Issued</b>	<b>Average Exercise Price</b>
<b>Balance outstanding at December 31, 2017</b>	2,725,000	\$ 0.12
Granted	4,446,472	\$ 0.09
Exercised	-	
Cancelled	-	
<b>Balance outstanding at September 30, 2018</b>	<b>7,171,472</b>	<b>\$ 0.10</b>

(iii) As at September 30, 2018, the Company had outstanding stock options, enabling the holders to acquire further common shares as follows:

<b>Options Outstanding</b>			<b>Options Exercisable</b>	
<b>Number Outstanding at September 30, 2018</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Exercisable at September 30, 2018</b>	<b>Weighted Exercise Price</b>
225,000	\$ 0.10	March 18, 2020	225,000	\$ 0.10
2,500,000	\$ 0.125	January 3, 2022	2,500,000	\$ 0.125
4,446,472	\$ 0.090	September 4, 2023	4,446,472	\$ 0.090
<b>7,171,472</b>			<b>7,171,472</b>	<b>\$ 0.10</b>

e) Warrants

(i) Warrant transactions during the nine months ended September 30, 2018 are summarized as follows:

<b>Warrant activity</b>	<b>September 30, 2018</b>	<b>Weighted average exercise price</b>
<b>Balance – January 1, 2018</b>	<b>14,891,176</b>	<b>\$ 0.52</b>
Issued - see note 4b(i)	36,200,000	0.10
Issued - see note 4b(i)	1,143,849	0.05
Expired	-	-
Exercised- see note 4b(iii)	(63,000)	0.05
<b>Balance – September 30, 2018</b>	<b>52,172,025</b>	<b>\$0.21</b>

**4. SHARE CAPITAL AND RESERVES (CONTINUED)**

e) Warrants

(ii) As at September 30, 2018, the Company had outstanding subscriber's warrants, enabling the holders to acquire further common shares as follows:

<b>Number of warrants outstanding as of September 30, 2018</b>	<b>Date of expiry</b>	<b>Exercise price</b>
2,380,953	July 8, 2018	\$ 1.40
178,571	July 8, 2018	\$ 0.21
11,403,565	Feb 29, 2019	\$ 0.31
928,087	Feb 29, 2019	\$ 0.31
36,200,000	January 26, 2020	\$ 0.10
1,080,849	January 26, 2020	\$ 0.05
<b>52,172,025</b>		

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

	<b>Three months ended September 30</b>		<b>Nine Months ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Unaudited</b>		<b>Unaudited</b>	
Wages, salaries and related expenses	\$ 35	\$ 70	\$ 90	\$ 224
Consultants, management and sub-contractors	67	34	149	117
Development materials	18	97	63	163
Depreciation	12	11	36	35
	<b>\$ 132</b>	<b>\$ 212</b>	<b>\$ 338</b>	<b>\$ 539</b>

**6. GENERAL AND ADMINISTRATION COSTS**

	<b>Three months ended September 30</b>		<b>Nine Months ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Unaudited</b>		<b>Unaudited</b>	
Consulting, management and directors fees	\$ 11	42	\$ 86	\$ 211
Professional fees	27	31	152	92
Office rental and other related expenses	11	45	24	146
Other	19	4	28	17
	<b>\$ 68</b>	<b>\$ 123</b>	<b>\$ 291</b>	<b>\$ 466</b>

## 7. COMMITMENTS AND CONTINGENCIES

- (a) The Company has an agreement for the lease of the offices in Israel for a period ending in February 2019. The total future minimum lease payments under the operating lease is \$25.
- (b) On November 8, 2016, a lawsuit was served in the Tel Aviv Magistrate Court against Vaxil Bio Ltd. (Israel), Vaxil Biotherapeutics Ltd. and the Vaxil Bio Ltd. (Canada) (together: the “Defendants”). The lawsuit was served by the former auditors (the “Plaintiffs”) of Vaxil Bio Ltd. (Israel), Vaxil Biotherapeutics Ltd. claiming that they did not receive their full compensation for services provided to the Defendants in the past. Additionally, the Plaintiffs claim to be entitled to a termination fee in respect of future audits because, as they claim, the companies agreed to retain them as auditors for at least three years. The Plaintiffs demanded an amount of NIS 532,695.8 (Approximately \$190,) for the abovementioned services.

The Company is defending these claims and although it is impossible to provide any guarantee as to the outcome of the case it is the Company’s assessment, based on advice from the Company’s legal counsel, that at this stage and based on the information know by the Company, that there is more than 50% chance that any claim in excess of NIS 100,000 (\$37) will be denied.

## 8. FINANCIAL AND CAPITAL RISK MANAGEMENT

The Company is exposed to varying degrees to a variety of financial instrument related risks:

### *Fair value*

The carrying value of due to/from related parties and accounts payable 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’s functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. As a result, the Company’s exposure to foreign currency risk is minimal.

### *Credit risk*

The Company’s cash is largely held in large Canadian financial institutions. The Company does not have any asset-backed commercial paper. The Company maintains cash deposits with Schedule A financial institutions, which from time to time may exceed federally insured limits. The Company has not experienced any significant credit losses and believes it is not exposed to any significant credit risk.

### *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.

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

*Liquidity risk*

The Company’s ability to continue as a going concern is dependent on management’s ability to raise required funding through future equity issuances and through short-term borrowing. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

*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.

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