

BIOHEP TECHNOLOGIES LTD.

Condensed Interim Financial Statements
For the Nine Months Ended October 31, 2017

(Unaudited)

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, continuous disclosure requirement, if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the unaudited condensed interim financial statements have not been reviewed by an auditor. The Company's independent auditor has not performed a review of these Unaudited Condensed Interim Financial Statements in accordance with standards established by the Chartered Professional Accountants for a review of unaudited condensed interim financial statements by an entity's auditor.

BioHEP Technologies Ltd.
Condensed Interim Statements of Financial Position
(Unaudited - Expressed in Canadian dollars)

As at	October 31, 2017	January 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 231,974	\$ 388,949
GST receivable	547	91
	232,521	389,040
NON CURRENT ASSETS		
Investments (Note 5)	7,188,492	3,996,366
Biotechnology assets (Note 6)	450,000	-
TOTAL ASSETS	\$ 7,871,013	\$ 4,385,406
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 9)	\$ 18,196	\$ 10,886
Interest payable	35,728	22,139
Income taxes payable	6,718	240,600
Notes payable (Note 7)	121,080	111,477
	181,722	385,102
NON-CURRENT LIABILITIES		
Deferred income tax (Note 5)	641,653	231,950
TOTAL LIABILITIES	\$ 823,375	\$ 617,052
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	486,704	38,383
Reserves (Note 7)	8,141	8,141
Accumulated other comprehensive income	3,744,945	887,827
Retained earnings	2,807,848	2,834,003
TOTAL SHAREHOLDERS' EQUITY	\$ 7,047,638	\$ 3,768,354
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 7,871,013	\$ 4,385,406

Nature of Operations and Going Concern (Note 1)

Subsequent events (Note 11)

Approved on behalf of the Board December 27, 2017:

"Chester Shynkaryk"

Director

"Donald Gordon"

Director

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

BioHEP Technologies Ltd.
Condensed Interim Statements of Operations and Comprehensive Income
(Unaudited - Expressed in Canadian dollars)

	For the three months ended October 31, 2017	For the three months ended October 31, 2016	For the nine months ended October 31, 2017	For the nine months ended October 31, 2016
EXPENSES				
Administrative	\$ 243	\$ 36	\$ 382	\$ 482
Audit fees	2,000	1,750	7,160	8,390
Investor relations	-	-	1,902	1,651
Professional fees (Note 9)	11,132	367	29,875	17,372
Transfer agent and regulatory	669	672	13,680	5,809
TOTAL EXPENSES	\$ 14,044	\$ 2,825	\$ 52,999	\$ 33,704
LOSS FROM OPERATIONS	(14,044)	(2,825)	(52,999)	(33,704)
OTHER ITEMS:				
Fair value of shares received (Note 5)	-	-	-	1,928,625
Fair value of warrants received (Note 5)	-	-	-	1,133,702
Gain on sale of investments	-	-	56,613	-
Reinvested dividends	-	-	2,051	-
Finance costs	(4,587)	-	(13,588)	(13,626)
Accretion of notes payable (Note 7)	(3,201)	(4,575)	(9,603)	(9,603)
Foreign exchange loss	(28)	(3,201)	(1,301)	-
TOTAL OTHER ITEMS	\$ (7,816)	\$ (7,776)	\$ 34,172	\$ 3,039,098
INCOME (LOSS) BEFORE INCOME TAX	(21,860)	(10,601)	(18,827)	3,005,394
INCOME TAX EXPENSE	-	-	(7,328)	(480,228)
NET INCOME (LOSS)	\$ (21,860)	\$ (10,601)	\$ (26,155)	\$ 2,525,166
Items that maybe reclassified to profit and loss				
Unrealized gain on investment	706,049	220,671	3,266,820	2,972,451
Deferred income tax expense	(127,591)	(59,551)	(409,702)	(822,881)
COMPREHENSIVE INCOME FOR THE PERIOD	\$ 556,598	\$ 150,519	\$ 2,830,963	\$ 4,674,736
Earnings per share - basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ 0.62
Weighted average number of common shares outstanding	4,381,198	4,200,387	4,274,580	4,096,606

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

BioHEP Technologies Ltd.
Condensed Interim Statements of Changes in Shareholders' Deficiency
(Unaudited - Expressed in Canadian dollars)

	Number of outstanding shares	Share capital \$	Obligation to issue shares \$	Reserves \$	Accumulated other comprehensive income \$	Retained earnings (deficit) \$	Total shareholders' equity (deficiency) \$
Balance, January 31, 2016	3,965,378	32,508	5,875	8,141	-	(115,554)	(69,030)
Shares issued for consulting fees	235,009	5,875	(5,875)	-	-	-	-
Unrealized loss on investment	-	-	-	-	2,972,451	-	2,972,451
Deferred income tax recovery	-	-	-	-	(822,881)	-	(822,881)
Net income	-	-	-	-	-	2,525,166	2,525,166
Balance, October 31, 2016	4,200,387	38,383	-	8,141	2,149,570	2,409,612	4,605,706
Unrealized loss on investment	-	-	-	-	(1,852,674)	-	(1,632,003)
Deferred income tax recovery	-	-	-	-	590,931	-	531,380
Net income	-	-	-	-	-	424,391	410,290
Balance, January 31, 2017	4,200,387	38,383	-	8,141	887,827	2,834,003	3,768,354
Balance, January 31, 2017	4,200,387	38,383	-	8,141	887,827	2,834,003	3,768,354
Shares issued on acquisition of Biotechnology license	448,321	448,321	-	-	-	-	448,321
Unrealized gain on investment	-	-	-	-	3,266,820	-	3,266,820
Deferred income tax	-	-	-	-	(409,702)	-	(409,702)
Net income	-	-	-	-	-	(26,155)	(26,155)
Balance, October 31, 2017	4,648,708	486,704	-	8,141	3,744,945	2,807,848	7,047,638

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BioHEP Technologies Ltd.
Condensed Interim Statements of Cash Flows
(Unaudited - Expressed in Canadian dollars)

	For the nine months ended October 31, 2017	For the nine months ended October 31, 2016
Cash and cash equivalents provided by (used in):		
OPERATING ACTIVITIES		
Net income for the period	\$ (26,155)	\$ 2,525,166
Items not involving cash:		
Accretion expense	9,603	9,603
Fair value of shares received	-	(1,928,625)
Fair value of warrants received	-	(1,133,702)
Gain on sale of investments	(56,613)	-
Interest expense	12,001	13,626
Income tax expense	-	480,228
	\$ (61,164)	\$ (33,704)
Net changes in non-cash working capital items:		
GST receivable	(456)	633
Accounts receivable	-	16,938
Income tax payable	(233,882)	-
Accounts payable and accrued liabilities	8,897	(25,539)
Net cash used in operating activities	(286,604)	(41,672)
INVESTING ACTIVITIES:		
Acquisition of Biotechnology license	(1,679)	-
Proceeds on sale of investments (note 5)	131,309	-
Net cash provided by investing activities	129,629	-
Change in cash and cash equivalents	(156,975)	(41,672)
Cash and cash equivalents, beginning of the period	388,949	50,808
Cash and cash equivalents, end of the period	\$ 231,974	\$ 9,136
OTHER SUPPLEMENT INFORMATION		
Non-cash transactions		
Shares issued for Acquisition of Biotechnology license	\$ 448,321	\$ -
Interest paid	\$ -	\$ -
Income taxes paid	\$ 240,568	\$ -
Cash and cash equivalents consist of:		
Cash	\$ 52,442	\$ 9,136
Money market funds	179,532	-
Total	\$ 231,974	\$ 9,136

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

1 NATURE OF OPERATIONS AND GOING CONCERN

BioHEP Technologies Ltd. ("BioHEP" or the "Company") was incorporated under the British Columbia *Business Corporations Act* as a private company on February 11, 2014. On April 11, 2014, BioHEP completed a Plan of Arrangement ("Arrangement") with Global Blockchain Technologies Corp. (formerly Carrus Capital Corporation) ("Carrus"). Under the terms of the Arrangement, BioHEP received substantially all of Carrus' interest in the SB-9000 technologies by way of a statutory arrangement to allow Carrus to divest itself of certain biotechnology assets with \$nil carrying value, its investment in Spring Bank Pharmaceuticals Inc. ("Spring Bank") of \$1,000 and \$5,000 cash to the Company. As consideration for the SB-9000 technologies, BioHEP issued 2,845,378 common shares to Carrus ("Arrangement Shares"), which were then distributed to the shareholders of Carrus pro rata based on their relative shareholdings of Carrus. The Company recognized a charge of \$33,333 directly against the Company's cumulative deficit for expenses related to the Arrangement, which were paid by Carrus and recorded against deficit.

As a result of completing the Arrangement and subsequent to issuing the Arrangement Shares, the Company became a reporting issuer in the jurisdictions of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec. The Company's head office is located at 2820 - 200 Granville Street, Vancouver, British Columbia, V6C 1S4.

These condensed interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. At October 31, 2017, the Company had a working capital of \$50,799 (January 31, 2017 - \$3,938). The Company's ability to continue as a going concern and realize the carrying value of its assets is dependent on its ability to raise capital through equity financing, or upon the generation of profits from its portfolio of bio-pharmaceutical assets, the outcome of which cannot be predicted at this time. These matters indicate the existence of a material uncertainty and may cast significant doubt about the Company's ability to continue as a going concern. These condensed interim financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

[a] Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the fiscal year ended January 31, 2017, which have been prepared with International Financial Reporting Standards ("IFRS"). These condensed interim financial statements were approved by the Company's Board of Directors on December 27, 2017.

[b] Basis of measurement

These condensed interim financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

[c] Functional and foreign currency

These condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency. Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at period-end rate of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Cash and cash equivalents

Cash and cash equivalents comprise cash at banks, cash on hand and highly liquid money market funds convertible into cash in less than one month. Cash and cash equivalents are classified as loans and receivables.

[e] Significant accounting estimates and judgments

The preparation of these condensed interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim 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 future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company reviews its estimates and underlying assumptions on an ongoing basis.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the condensed interim financial statements:

- i. Management is required to assess the functional currency of the Company. In concluding that the Canadian dollar is the functional currency of the Company, management considered the currency that mainly influences the operating expenditures in the jurisdiction in which the Company operates.
- ii. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- iii. Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future including the availability of financing and revenue projection, as well as liquidity of its assets, current working capital balance and future commitments of the Company.

2. BASIS OF PRESENTATION (CONTINUED)

[e] Significant accounting estimates and judgments (continued)

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the current and next fiscal financial years:

- i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- ii. The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.
- iii. The fair value of accrued liabilities at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual financial statements for the fiscal year ended January 31, 2017.

4. RECENT ACCOUNTING PRONOUNCEMENTS

New Standards Recently Adopted

The Company has adopted the following new accounting standards and interpretations effective February 1, 2016. These changes were made in accordance with the applicable transitional provisions and had no impact on its condensed interim financial statements.

- **IAS 7 Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)** - These amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. These amendments are effective for reporting periods beginning on or after January 1, 2017.

4. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

New Standards Not Yet Effective

The following is an overview of new accounting standards that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company continues to evaluate the impact of these standards on its condensed interim financial statements.

- **IFRS 9 - *Financial Instruments*** - This standard provides added guidance on the classification and measurement of financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2018.

5. LONG-TERM INVESTMENTS

On April 11, 2014 Carrus assigned a biotechnology license agreement (the "Agreement") to the Company as part of the Plan of Arrangement. The Agreement, originally dated December 17, 2003, between Carrus (formerly Migenix Inc.) and Spring Bank Pharmaceuticals Inc. ("Spring Bank"), a U.S. development stage company, granted Spring Bank the worldwide rights to a dinucleotide analogue compound (SB-9000) which was acquired by Migenix Inc. in September 2002 from Origenix Technologies Inc. As consideration related to the license granted, Spring Bank issued 1,000,000 Series A non-voting, convertible preferred shares of Spring Bank and 50,000 common shares of Spring Bank. In addition, the Company may receive in the future, payments related to the Agreement aggregating US\$3,500,000 upon the achievement of certain clinical development milestones and royalties on net sales and sublicensing revenues. Spring Bank is responsible for all development and related patent costs.

The value of the intellectual property relating to the SB-9000 could not be measured reliably and as such, did not have a carrying value at the period end.

On February 1, 2016, the Company enter into an amended and restated license agreement with Spring Bank Pharmaceuticals, Inc. ("Spring Bank") of Milford, MA ("New Agreement"). Under the amended and restated license agreement, BioHEP granted Spring Bank an exclusive worldwide license under certain patents and know-how to make, have made, use, sell, offer to sell and import certain product candidates comprising a novel phosphorothioate dinucleotide referred to as ORI-9020 and certain related compounds, for the diagnosis and/or treatment of all viral diseases and conditions. In exchange, Company received an additional 125,000 common shares of Spring Bank and 125,000 share purchase warrants with an exercise price of USD\$16 per share, expiring on August 1, 2018.

On March 18, 2016, Spring Bank completed a 4-for-1 reverse stock split. Following the reverse split the Company owned 250,000 convertible preferred shares, 137,500 common shares and 125,000 warrants with an exercise price of USD\$16 per share, expiring on August 1, 2018. The fair value of the shares was determined to be \$11.10 per share which is based on the closing price on May 6, 2016 when the 250,000 convertible preferred shares were converted to 250,000 common shares and Spring Bank became publicly traded on the NASDAQ stock exchange. As part of a share capital restructuring, on May 6, 2016, the 250,000 convertible Spring Bank preferred shares were converted to 250,000 common shares. The common shares have been measured at fair value based on their quoted market price at each reporting date.

During the nine months ended October 31, 2017, the Company sold 15,000 Spring Bank shares for net proceeds of \$131,309 with an adjusted cost base of \$74,696. A gain of \$56,613 was recognized in income for the nine months ended October 31, 2017.

BioHEP Technologies Ltd.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended October 31, 2017
(Unaudited - Expressed in Canadian dollars)

5. LONG-TERM INVESTMENTS (CONTINUED)

Warrants were valued using the Black-Scholes valuation method as at October 31, 2017 and January 31, 2017. The following assumptions were used in determining the fair value of the warrants as of:

		October 31, 2017		January 31, 2017
Share price	USD	15.29	USD	7.74
Exercise price	USD	16.00	USD	16.00
Expected life (years)		0.75		1.50
Interest rate		1.37%		0.72%
Volatility		74%		120%
Dividend yield		N/A		N/A
Estimated forfeitures		N/A		N/A

The following summarizes the Company's investment in Spring Bank as of:

	October 31, 2017			January 31, 2017		
	Number	Cost	Fair Value	Number	Cost	Fair Value
Trading equities (restricted)						
Spring Bank common shares	335,000	\$1,668,192	\$6,603,988	350,000	\$1,742,887	\$3,527,118
Other securities						
Spring Bank – warrants	125,000	-	584,504	125,000	-	469,248
		\$1,668,192	\$7,188,492		\$1,742,887	\$3,996,366

As at October 31, 2017, deferred income tax liability of \$641,653 has been estimated using the 2017 tax rate of 26% applied to the unrealized gain to date on shares classified as available for sale. During the nine months ended October 31, 2017, deferred income tax expense of \$409,703, was recognized in the statement of income.

6. BIOTECHNOLOGY LICENSE

On September 27, 2017 the Company closed the asset sale agreement ("Assignment Agreement") entered into on April 21, 2017 between the Company and Exro Technologies Inc. (formerly BioDE Ventures Ltd.) ("BioDE"). Pursuant to this agreement, BioDE assigned to the Company a license agreement and certain patents for its estimated fair value of \$450,000 which was paid by the Company by issuing 448,321 shares to BioDE and paying \$1,679 in cash.

7. NOTES PAYABLE

On November 13, 2015, the Company entered into a loan agreement for a total amount of \$130,000 with 7 parties, including two directors, Carrus and one officer (collectively, the "Lenders"). The loan agreement provides for a term of two years and bears simple interest of 14% per annum, with interest payable per annum. For the nine months ended October 31, 2017, interest expense of \$12,001 (2016 - \$13,626) has been recognized in the statement of earnings. Each loan is convertible in part or in whole at the option of the Lenders at deemed price of \$0.025 per share for a total of 5,200,000 potential common shares. As additional consideration for the risk associated with the loan, the Company is obligated to issue 1,040,000 common shares to the lenders, the 1,040,000 common shares were issued on December 2, 2015.

7. NOTES PAYABLE (CONTINUED)

Changes in the notes payable balance have been summarized as follows:

	Notes Payable
Balance, January 31, 2017	\$ 111,477
Add: Accretion of notes payable	9,603
Balance, October 31, 2017	\$ 121,080

The liability component of the notes payable was recognized initially at the fair value of a similar liability that does not have an obligation to issue shares, which was calculated based on the application of a market interest rate of 18%. The difference between the face value of \$130,000 and the carrying value of the notes payable represents 1) the fair value of the equity component related to the conversion option 2) the value of the obligation to issue shares component that will be amortized on a straight-line basis as accretion expense over the life of the loan.

8. SHARE CAPITAL

[a] Authorized common shares

There are an unlimited number of common shares without par value authorized for issue.

[b] Issued

At October 31, 2017, the Company had 4,648,708 common shares issued and outstanding (January 31, 2017 – 4,200,387).

During the nine months ended October 31, 2017 the Company issued 448,321 shares pursuant to the Biotechnology license acquired (note 5).

[c] Stock option plan

The Company has adopted an incentive stock option plan (the "Option Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the applicable stock exchange's requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares. Pursuant to the Option Plan, the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Options granted under the Option Plan can have a maximum exercise term of five years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors. During the nine months ended October 31, 2017, no options were granted, expired or cancelled. As at October 31, 2017, the number of outstanding options is nil (January 31, 2017 – nil).

9. RELATED PARTY TRANSACTIONS

The Company and Carrus, its former parent company, entered into an Arrangement described in Note 1. The Arrangement provided for the transfer from Carrus of \$5,000, the investment in Spring Bank and the SB-9000 technologies to the Company, a wholly-owned subsidiary, and the immediate distribution of a controlling interest in the common shares of the Company to the shareholders of Carrus as at April 11, 2014.

Key management personnel are persons responsible for planning, directing and controlling the activities of the Company. During the six months ended October 31, 2017 and 2016, key management personal were not paid any compensation, nor did they receive any employment benefits or other management incentives such as stock options.

During the nine months ended October 31, 2017, the Company incurred \$12,870 for professional fees (2016 – \$6,079) provided by an entity controlled by the Company's Corporate Secretary, of which \$nil (2016 - \$2,300) was included in accounts payable and accrued liabilities.

As at October 31, 2017, the Company had \$120,000 in notes payable to related parties (2017 – \$130,000).

10. FINANCIAL INSTRUMENTS

The Company has designated its cash as fair value through profit or loss, accounts payable and accrued liabilities, and notes payable, as other financial liabilities. The Company's long-term investments are classified as available-for-sale.

Fair value

At October 31, 2017 and January 31, 2017, the carrying values of cash, accounts payable and accrued liabilities approximate their fair values due their short-term maturity.

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

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

At October 31, 2017 and January 31, 2017, the Company has designated its notes payables as Level 2. The investments in Spring Bank Pharmaceuticals Inc. are designated as Level 1.

Financial risk management

The Company's activities potentially expose it to a variety of financial risks, including credit risk, liquidity risk, and market risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at October 31, 2017, the Company's exposure to credit risk is the carrying value of cash and cash equivalents. The Company reduces its credit risk by holding its cash at a major Canadian financial institution and its money market funds are held within a notable low risk fund.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through equity or debt financing.

The Company currently does have adequate cash to meet short-term business requirements. At October 31, 2017, the Company had cash and cash equivalents of \$231,974, accounts payable and accrued liabilities of \$18,196, taxes payable of \$6,718, notes payable 121,080 and interest payable of \$35,728. All accounts payable and accrued liabilities are due within 90 days and interest expense is due annually.

10. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk

Market risk consists of currency risk, interest rate risk and other price risk. These are discussed further below.

Currency risk

Currency risk is the risk that the fair value of the Company's financial assets and liabilities will fluctuate due to changes in foreign exchange rates. The Company is not exposed to currency risk.

Interest rate risk

Interest rate risk consists of two components:

- i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- ii) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or currency risk. The Company is exposed to other price risk on its investments due to fluctuations in the current market prices and fluctuations in trading volumes of those securities.

11. SUBSEQUENT EVENT

Subsequent to October 31, 2017, the Company issued 4,800,000 common shares to 6 lenders pursuant to the conversion of \$120,000 aggregate principal amount of convertible promissory notes including 4,200,000 shares issued to clients of Pathfinder Asset Management Limited ("Pathfinder"). As a result, Pathfinder, increased the shares under management to 61.28% of the Company's total issued and outstanding shares. In addition, the Company paid accrued interest owed on the promissory notes settled.