

BIOHEP TECHNOLOGIES LTD.

Financial Statements
For the Year Ended January 31, 2018

(Expressed in Canadian dollars)

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charlton & company
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
BioHEP Technologies Ltd.

We have audited the accompanying financial statements of BioHEP Technologies Ltd., which comprise the statements of financial position as at January 31, 2018 and January 31, 2017 and the statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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 financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 company'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 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, these financial statements present fairly, in all material respects, the financial position of BioHEP Technologies Ltd. as at January 31, 2018 and January 31, 2017 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Charlton & Company

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
May 31, 2018

BioHEP Technologies Ltd.
Statements of Financial Position
(Expressed in Canadian dollars)

As at	January 31, 2018	January 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 172,232	\$ 388,949
Recoverable Income tax	14,640	-
GST receivable	910	91
	187,782	389,040
NON CURRENT ASSETS		
Biotechnology asset (note 6)	450,000	-
Investments (Note 5)	5,307,932	3,996,366
TOTAL ASSETS	\$ 5,945,714	\$ 4,385,406
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 9)	\$ 18,511	\$ 10,886
Interest payable	-	22,139
Income taxes payable	-	240,600
Notes payable (Note 7)	-	111,477
	18,511	385,102
NON-CURRENT LIABILITIES		
Deferred income tax (Note 11)	491,364	231,950
TOTAL LIABILITIES	509,875	617,052
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	614,845	38,383
Reserves (Note 7)	-	8,141
Accumulated other comprehensive income	2,970,610	887,827
Retained earnings	1,850,384	2,834,003
TOTAL SHAREHOLDERS' EQUITY	5,435,839	3,768,354
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,945,714	\$ 4,385,406

Nature of Operations and Going Concern (Note 1)

Approved on behalf of the Board, May 31, 2018:

"Chester Shynkaryk"

Director

"Donald Gordon"

Director

The accompanying notes are an integral part of these financial statements

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

	For the year ended January 31, 2018	For the year ended January 31, 2017
EXPENSES		
Administrative	\$ 760	\$ 503
Audit fees	13,160	10,140
Investor relations	1,605	1,651
Professional fees (Note 9)	36,098	20,908
Transfer agent and regulatory	14,313	6,349
TOTAL EXPENSES	65,936	39,551
LOSS FROM OPERATIONS	(65,936)	(39,551)
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	200,938
Impairment of investment	(928,192)	-
Reinvested dividends	3,062	237
Finance costs (Note 7)	(17,871)	(18,200)
Accretion of notes payable (Note 7)	(18,523)	(12,804)
Foreign exchange loss	299	(2,790)
TOTAL OTHER ITEMS	(904,612)	3,229,708
INCOME (LOSS) BEFORE INCOME TAX	(970,548)	3,190,157
INCOME TAX EXPENSE (Note 11)		
Current income tax (expense) recovery	14,672	(240,600)
Deferred Income tax Expense	(27,743)	-
	(13,071)	(240,600)
NET INCOME (LOSS)	\$ (983,619)	\$ 2,949,557
Unrealized gain on investment	1,650,000	1,119,777
Deferred income tax expense (Note 11)	(231,671)	(231,950)
Transfer on impairment of investment to net loss	664,454	-
COMPREHENSIVE INCOME FOR THE YEAR	\$ 1,099,164	\$ 3,837,384
Earnings (Loss) per share - basic and diluted	\$ (0.19)	\$ 0.72
Weighted average number of common shares outstanding	5,169,264	4,123,768

The accompanying notes are an integral part of these financial statements

BioHEP Technologies Ltd.
Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Number of outstanding shares	Share capital \$	Obligation to issue shares \$	Reserves \$	Accumulated other comprehensive income \$	Retained earnings \$	Total shareholders' equity \$
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 gain on investment	-	-	-	-	1,119,777	-	1,119,777
Deferred income tax	-	-	-	-	(231,950)	-	(231,950)
Net income	-	-	-	-	-	2,949,557	2,949,557
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
Shares issued on conversion of debt	4,800,000	120,000	-	-	-	-	120,000
Transfer Reserve related to convertible debt on conversion	-	8,141	-	(8,141)	-	-	-
Unrealized gain on investment	-	-	-	-	1,650,000	-	1,650,000
Deferred income tax	-	-	-	-	(231,671)	-	(231,671)
Transfer on impairment of investment to net loss	-	-	-	-	664,454	-	664,454
Net loss	-	-	-	-	-	(983,619)	(983,619)
Balance, January 31, 2018	9,448,708	614,845	-	-	2,970,610	1,850,384	5,435,839

The accompanying notes are an integral part of these financial statements

BioHEP Technologies Ltd.
Statements of Cash Flows
(Expressed in Canadian dollars)

	For the year ended January 31, 2018	For the year ended January 31, 2017
Cash and cash equivalents provided by (used in):		
OPERATING ACTIVITIES		
Net income (loss) for the year	\$ (983,619)	\$ 2,949,557
Items not involving cash:		
Accretion expense	18,523	12,804
Fair value of shares received	-	(1,928,625)
Fair value of warrants received	-	(1,133,702)
Gain on sale of investments	(56,613)	(200,938)
Deferred tax expense	27,743	-
Interest expense	-	18,200
Change in fair value of warrants	928,193	-
	(65,773)	(282,704)
GST receivable	(819)	809
Accounts receivable	-	17,270
Income taxes payable	(255,240)	240,600
Accounts payable and accrued liabilities	7,625	(25,510)
Net cash used in operating activities	(314,207)	(49,535)
INVESTING ACTIVITIES:		
Acquisition of Bio-Technology asset	(1,679)	-
Proceeds on sale of investments	131,308	387,676
Net cash used in investing activities	129,629	387,676
FINANCING ACTIVITIES:		
Repayment of note payable and accrued interest	(32,139)	-
Net cash provided by financing activities	(32,139)	-
Change in cash and cash equivalents	(216,717)	338,141
Cash and cash equivalents, beginning of the year	388,949	50,838
Cash and cash equivalents, end of the year	\$ 172,232	\$ 388,949
OTHER SUPPLEMENT INFORMATION		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
Shares issued on acquisition of Bit-Technology asset	\$ 448,321	\$ -
Shares issued on settlement of convertible debt	\$ 120,000	\$ -
Cash and cash equivalents consist of:		
Cash	\$ 24,197	\$ 22,210
Money market funds	148,035	366,739
Total	\$ 172,232	\$ 388,949

The accompanying notes are an integral part of these 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 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.

2. BASIS OF PRESENTATION

[a] Statement of compliance

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

[b] Basis of measurement

These 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 financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

[c] Functional and foreign currency

These 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 year-end rate of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

[c] Reclassifications

For comparability, certain 2017 amounts have been reclassified to conform to classifications adopted in 2018. These reclassifications did not have an impact on shareholders' equity or net income (loss) on the comparative financial statements.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Cash and cash equivalents

Cash and cash equivalents comprise cash at banks, cash on hand and high yield 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 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 financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These 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 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 financial statements:

- i. Research costs are recognized as an expense when incurred but development costs may be capitalized as intangible assets if certain conditions are met as described in IAS 38, *Intangible Assets*. Management has determined that development costs do not meet the conditions for capitalization under IAS 38 and all research and development costs have or will be expensed when incurred.
- ii. 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.
- iii. 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.
- iv. 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.
- v. Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets.

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. Management uses the Black-Scholes Option Pricing Model for valuation of investment in warrants, which requires the input of subjective assumptions including expected price volatility, risk-free interest rates and forfeiture rates. Changes in the input assumptions can materially affect the fair value estimate and the Company's results of operations.
- iii. 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.
- iv. 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

The following is a summary of significant accounting policies:

[a] Financial instruments

Financial assets and financial liabilities are recognized on the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. Marketable securities transactions are accounted for on a settlement date basis.

Financial assets

The Company classifies its financial assets into one of the following categories, at initial recognition, 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 financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss. Cash and derivative instruments are included in this category of financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[a] Financial instruments (continued)

Financial assets continued

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 amortized 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. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Accounts receivable is included in this category of financial asset.

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 rate 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 profit or 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 other comprehensive income. 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 equity and recognized in profit or loss. Non-current investments are included in this category.

Transactions costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered, to determine where impairment has arisen.

Financial liabilities

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

Fair value through profit or loss - This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost using the effective interest rate method. Any difference between the amounts original received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date. Accounts payable and accrued liabilities and notes payable are included in this category of the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[b] Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. Where the effect of the time value of money is material, provisions will be measured at the present value of the expenditures expected to be required to settle the obligation. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. The increase in any provision due to the passage of time is recognized as accretion expense. Each provision will be reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

[c] Share capital

Common shares and obligation to issue shares are classified as equity. Transaction costs directly attributable to the issue of common shares and common share warrants are recognized as a deduction from equity. Common shares issued for non-monetary consideration are measured based on their market value at the date the common shares are issued.

The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to capital stock based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve. Consideration received for the exercise of warrants is recorded in capital stock, and any related amount recorded in warrants reserve is transferred to capital stock.

[d] Revenue recognition

Licensing revenues comprise initial fees and milestone payments derived from licensing arrangements. Non-refundable milestone payments received are recognized upon the achievement of specified milestones when the milestone payment is substantive in nature, the achievement of the milestone was not reasonably assured at the inception of the agreement and the Company has no further significant involvement or obligation to perform under the arrangement. Initial fees and milestone payments received which require the ongoing involvement of the Company, are deferred and amortized into income on a straight-line basis over the period of the ongoing involvement of the Company. Revenues associated with multiple element arrangements are attributed to the various elements based on their relative fair values. The Company has not recognized any revenues to date.

[e] Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Basic and diluted loss per share is the same for the periods presented.

[f] Income taxes

Income tax on profit or loss for the period presented comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized as equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[f] Income taxes (continued)

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to prior years.

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

4. RECENT ACCOUNTING PRONOUNCEMENTS

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 includes requirements for recognition, measurement, and derecognition of financial instruments and hedge accounting. The IASB is adding to the standard as it completes the various phases of its comprehensive project on financial instruments, and so it will eventually form a complete replacement for IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 was originally issued in November 2009, reissued in October 2010, and then amended in November 2013. The current version of IFRS 9 is applicable to annual periods beginning on or after January 1, 2018.
- **IFRS 16 - *Leases*** – This standard 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 *Leases*. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019.

5. LONG-TERM INVESTMENTS

On April 11, 2014 Carrus Capital Corporation ("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.

5. LONG-TERM INVESTMENTS (CONTINUED)

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 fiscal year 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 (500,000 pre-reverse stock split) of Spring Bank and 125,000 share purchase warrants with an exercise price of USD\$16 per share, expiring on August 1, 2018.

During the year ended January 31, 2017 an income tax expense was estimated based on the shares received in conjunction with the restated license being treated as a capital gain. The capital gain was applied at tax rate of 26% to the fair value of the shares received of \$1,928,625. 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 Spring Bank became publicly traded on the NASDAQ stock exchange. Refer to note 11 for income tax reconciliation.

Deferred income tax expense of \$231,671 (2017 - \$231,950) has been estimated during the year ended January 31, 2018 using the 2018 tax rate of 27% applied to the unrealized gain on shares classified as available for sale.

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.

During the year end January 31, 2108, the Company sold 15,000 (2017 - 37,500) Spring Bank shares for net proceeds of 131,309 (2017 - \$387,676) with an adjusted cost base of \$74,696 (2017 - \$186,738). A gain of 56,613 (2017 - \$200,938) was recognized in income for the year ended January 31, 2018.

Warrants were valued using using the Black-Scholes valuation method at inception and as at January 31, 2018. The following assumptions were used in determining the fair value of the warrants as of:

		January 31, 2018		January 31, 2017
Share price	USD	12.39	USD	7.74
Exercise price	USD	16.00	USD	16.00
Expected life (years)		0.50		1.50
Interest rate		1.77%		0.72%
Volatility		70%		120%
Dividend yield		N/A		N/A
Estimated forfeitures		N/A		N/A

5. LONG-TERM INVESTMENTS (CONTINUED)

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

	January 31, 2018			January 31, 2017		
	Number	Cost	Fair Value	Number	Cost	Fair Value
Trading equities (restricted)						
Spring Bank common shares	335,000	\$ 1,668,191	\$ 5,102,423	350,000	\$ 1,742,887	\$ 3,527,118
Other securities						
Spring Bank – warrants	125,000	-	205,509	125,000	-	469,248
		\$ 1,668,191	\$ 5,307,932		\$ 1,742,887	\$ 3,996,366

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 year ended January 31, 2018, interest expense of \$18,200 (January 31, 2017 - \$4,838) has been recognized in the statement of earnings (loss). 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 of 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.

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

	Notes Payable
Balance, January 31, 2016	\$ 98,673
Add: Accretion of notes payable	12,804
Balance, January 31, 2017	111,477
Add: Accretion of notes payable	18,523
Balance at maturity	130,000
Conversion of debt into shares	(120,000)
Paid in cash	(10,000)
Balance, January 31, 2018	\$ -

7. NOTES PAYABLE (CONTINUED)

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.

On Maturity, the Company converted \$120,000 of the loans into shares issuing as a result a total of 4,800,000 shares (note 7(b)). The remaining \$10,000 of loans and the accumulated interest were paid in cash.

8. SHARE CAPITAL

[a] Authorized common shares

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

[b] Issued

At January 31, 2018, the Company had 9,448,708 common shares issued and outstanding (January 31, 2017 – 4,200,387).

During the year ended January 31, 2018, the Company:

- issued 448,321 shares pursuant to the Biotechnology license acquired (note 6);
- Issued 4,800,000 shares on conversion of debt pursuant to the convertible debt agreement (note 7)

[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 year ended January 31, 2018, no options were granted, expired or cancelled. As at January 31, 2018, 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. As at January 31, 2018 and 2017, 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 year ended January 31, 2018, the Company incurred \$14,710 for professional fees (2017 – \$9,079) provided by an entity controlled by the Company's Corporate Secretary, of which \$1,677 (2017 - \$3,003) was included in accounts payable and accrued liabilities.

As at January 31, 2018, the Company issued 4,800,000 shares to settle \$120,000 in convertible notes payable to related parties. As at January 31, 2017 there were \$130,000 notes payable outstanding owed to related parties. As a result of this issuance an individual related to the Company, by way of a percentage ownership, has assumed control of the Company through directly and indirectly ownership of the Company's shares by controlling in effect over 50% of the Company's shares.

10. FINANCIAL INSTRUMENTS

The Company has designated its cash as fair value through profit or loss, accounts receivable, 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 January 31, 2018 and January 31, 2017, the carrying values of cash, accounts receivable, 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 January 31, 2018 and January 31, 2017, the Company designated its notes payables as Level 2. The investments in Spring Bank Pharmaceuticals Inc. were transferred from a level 3 designation to a Level 1 designation during the year ended January 31, 2017. The warrants are designated Level 3.

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 January 31, 2018, 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 not have adequate cash to meet short-term business requirements. At January 31, 2018, the Company had cash and cash equivalents of \$172,232 (2017 - \$388,949), accounts payable and accrued liabilities of \$18,511 (2017 - \$10,886), taxes receivable of \$14,640 (2017 - payable of \$240,600) and interest payable of nil (2017 - \$22,139). All accounts payable and accrued liabilities are due within 90 days with interest and taxes due within four months.

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.

10. FINANCIAL INSTRUMENTS (CONTINUED)

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. INCOME TAXES

A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision is provided as follows:

	2018	2017
Income (loss) before taxes	\$ (970,548)	\$ 3,190,158
Canadian statutory tax rate	26%	26%
Income tax recovery computed at statutory rates	(253,151)	829,441
Items not deductible (taxable) for tax purposes	(3,287)	3,334
Items valued differently for tax purposes	251,107	(848,478)
Taxable capital gains	7,383	276,843
Effect of change in tax rates	11,019	-
Used tax losses from previous years	-	(20,540)
Income tax expense	\$ 13,071	\$ 240,600
Current income tax expense (recovery)	\$ (14,672)	\$ 240,600
Deferred Income tax Expense	27,743	-
Income tax expense	\$ 13,071	\$ 240,600

11. INCOME TAXES (CONTINUED)

The components of the Company's deferred income tax (liability) asset are a result of the origination and reversal of temporary differences and are comprised of the following:

	2018	2017
Non-capital losses	\$ -	\$ -
Unrealized gain on marketable securities	(491,364)	(231,950)
Unrecognized deferred tax assets	-	-
Recognized deferred income tax liability	\$ (491,364)	\$ (231,950)

At January 31, 2018 the non-capital tax losses was \$nil (January 31, 2017 - \$nil) available for carry-forward to reduce future years' taxable income.

12. MANAGEMENT OF CAPITAL

The Company's objectives in managing capital are to ensure sufficient liquidity to finance its corporate administration and working capital. The Company manages its liquidity to minimize shareholder dilution whenever possible. The Company manages its capital through regular board meetings and ongoing review of financial information. The Company considers its capital as all components of shareholders' equity. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund its operations and business plan development. To secure the additional capital necessary to pursue these plans, the Company intends sell investments or raise additional funds through equity or debt financing. The Company is not subject to any externally imposed capital requirements.

13. SEGMENTED REPORTING

The Company has one operating segment, biotechnology research and development, and all assets of the Company are located in Canada.