

A copy of this preliminary prospectus has been filed with the securities regulatory authority in Ontario but has not yet become final. Information contained in this preliminary prospectus may not be complete and may have to be amended.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

The securities of the Company have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any state of the United States and may not be offered, sold or delivered, directly or indirectly, in the United States (as such term is defined in Regulation S under the U.S. Securities Act) (the "United States" or "U.S."), except pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws.

This prospectus does not constitute a public offering of securities.

PRELIMINARY PROSPECTUS

NON-OFFERING PROSPECTUS

DATED JANUARY 25, 2018

CAPHA PHARMACEUTICALS INC.

Suite 324 - 4205 Gellatly Road
West Kelowna, British Columbia V4T 2K2

This Prospectus is being filed with the Ontario Securities Commission for the purpose of allowing Capha Pharmaceuticals Inc. (the "**Company**") to become eligible for listing pursuant to Section 1.2(a) of Policy 2 of the Policies and Procedures of the Canadian Securities Exchange (the "**CSE**"). The Company is a reporting issuer in British Columbia, Alberta, Ontario and Quebec.

Since no securities are being offered pursuant to this Prospectus, no proceeds will be raised and all expenses incurred in connection with the preparation and filing of this Prospectus will be paid by the Company.

There is no market through which the securities of the Company may be sold and purchasers may not be able to resell securities. This may affect the pricing of the securities of the Company in the secondary market, the transparency and availability of trading prices, the liquidity of the securities of the Company, and the extent of issuer regulation. Investors should carefully consider the risk factors described under "*Risk Factors*".

As at the date of this Prospectus, the Company does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, a U.S. marketplace, or a marketplace outside Canada and the United States.

The Company has made an application for listing on the CSE. Listing is subject to the Company fulfilling all of the listing requirements of the CSE, including meeting all minimum listing requirements.

An investment in securities of the Company is speculative and involves a high degree of risk.

No underwriters or selling agents have been involved in the preparation of this Prospectus or performed any review or independent due diligence of the contents of this Prospectus.

TABLE OF CONTENTS

	Page
PROSPECTUS SUMMARY	4
FORWARD LOOKING INFORMATION	6
GLOSSARY OF TERMS	7
CURRENCY	10
CORPORATE STRUCTURE	10
<i>Name and Incorporation of Company</i>	10
<i>Name and Incorporation of Blockagram Subsidiary</i>	11
<i>Business Combination with Blockagram Subsidiary</i>	11
<i>Intercorporate Relationships</i>	11
<i>Financing</i>	11
GENERAL DEVELOPMENT OF THE BUSINESS	12
<i>Three Year History</i>	12
<i>Acquisitions and Dispositions</i>	12
DESCRIBE THE BUSINESS	13
<i>Description of Products</i>	13
<i>Distribution Methods</i>	15
<i>Revenue</i>	15
<i>Specialized Skill and Knowledge</i>	15
<i>Intangible Properties</i>	16
<i>Competitive Conditions</i>	16
<i>Cycles</i>	16
<i>Continuing Evolution of Blockchain Technology</i>	16
<i>Changes to Contracts</i>	16
<i>Employees</i>	17
<i>Anticipated Changes in the Current Financial Year</i>	17
USE OF AVAILABLE FUNDS	18
<i>Proceeds</i>	18
<i>Funds Available</i>	18
<i>Use of Available Funds</i>	19
<i>Business Objectives and Milestones</i>	19
<i>General and Administrative Expenses</i>	20
DIVIDEND POLICY	20
MANAGEMENT DISCUSSION AND ANALYSIS	20
DESCRIPTION OF THE SECURITIES DISTRIBUTED	21
CONSOLIDATED CAPITALIZATION	21
OPTIONS TO PURCHASE SECURITIES	22
PRIOR SALES	23
<i>Trading Price and Volume</i>	24
ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER	24
PRINCIPAL SHAREHOLDERS	26
DIRECTORS AND EXECUTIVE OFFICERS	26
<i>Name, Occupation and Securityholding</i>	26
<i>Aggregate Ownership of Securities</i>	27
<i>Cease Trade Orders, Bankruptcies, Penalties or Sanctions</i>	28

<i>Conflicts of Interest</i>	29
<i>Experience</i>	29
EXECUTIVE COMPENSATION.....	31
<i>Compensation Discussion and Analysis</i>	31
<i>Summary Compensation</i>	32
INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS	35
AUDIT COMMITTEE AND CORPORATE GOVERNANCE	35
RISK FACTORS.....	43
PROMOTERS	52
LEGAL PROCEEDINGS AND REGULATORY ACTIONS	52
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	52
AUDITORS, TRANSFER AGENTS AND REGISTRARS	53
MATERIAL CONTRACTS.....	53
INTEREST OF EXPERTS.....	53
OTHER MATERIAL FACTS.....	54
FINANCIAL STATEMENTS	54

Schedule "A" – Audited financial statements of the Company for the years ended December 31, 2016 and 2015

Schedule "B" – Unaudited interim financial statements of the Company for the nine months ended September 30, 2017

Schedule "C" – Management Discussion and Analysis for the Company for the years ended December 31, 2016 and 2015

Schedule "D" – Management Discussion and Analysis for the Company for the nine months ended September 30, 2017

Schedule "E" – Audited financial statements of Blockagram Inc. for the period from incorporation on November 28, 2017 to December 31, 2017

Schedule "F" – Management Discussion and Analysis for Blockagram Inc. for the period from incorporation on November 28, 2017 to December 31, 2017

Schedule "G" – Pro Forma financial statements for the Company giving effect to the acquisition of Blockagram Inc. as at December 31, 2017

Schedule "H" – Audit Committee Charter

Certificate Page of the Company

PROSPECTUS SUMMARY

The following is a summary of the Company and the principal features of the Transaction and should be read together with the more detailed information and financial data and statements contained elsewhere in this Prospectus. Capitalized terms are defined in the Glossary of Terms section of this prospectus.

<p>The Company</p>	<p>The Company was incorporated under the laws of the Province of British Columbia and was formed as a result of an amalgamation on September 1, 2004.</p> <p>On January [●], 2018, the Company entered into the Share Exchange Agreement with Blockagram Subsidiary and the Blockagram Subsidiary Shareholder.</p> <p>Effective January [●], 2018, the Transaction was completed and the Blockagram Subsidiary Shareholder exchanged its Blockagram Subsidiary Shares for a total of 7,000,000 Common Shares on the basis of one Common Share for every one Blockagram Subsidiary Share.</p> <p>As a result of the Transaction, Blockagram Subsidiary became the 100% wholly-owned subsidiary of the Company and the business of Blockagram Subsidiary is the business of the Company. The former Blockagram Subsidiary Shareholder has become owner of less than 10% of the issued and outstanding Common Shares.</p> <p>On January [●], 2018, the Company changed its name from "Capha Pharmaceuticals Inc." to "Blockagram Corp."</p>
<p>Business of the Company</p>	<p>Prior to the Transaction, the Company had no active business. The business discussion set forth in this Prospectus relates to the business of Blockagram Subsidiary. See "<i>Describe the Business</i>".</p>
<p>Principal Products</p>	<p>The Company's principal product (through Blockagram Subsidiary) is the Blockagram™ platform, a blockchain platform which allows marketers to pay consumers for their engagement. Based on a proprietary advertisement-for-service solution, Blockagram™ also permits users to send cryptocurrency within the platform free of charge. See "<i>Describe the Business</i>".</p>
<p>Listing</p>	<p>The Company is applying to have its Common Shares listed on the CSE. Listing is subject to the Company fulfilling all of the requirements of the CSE. See the cover page of this Prospectus.</p>
<p>Use of Available Funds</p>	<p>The pro forma working capital position of the Company as at the date the Company receives conditional approval from the CSE, giving effect to the Transaction as if it had been completed on that date, is \$617,500.</p> <p>For a more detailed discussion on the Company's available funds, see "<i>Use of Available Funds</i>" and "<i>Describe the Business</i>".</p> <p>The Company will require funding from other sources to continue operations beyond the next year. Such additional funds would likely be raised through a private placement of securities. There is no assurance that such funding will be available.</p>
<p>The Offering</p>	<p>No securities are being offered pursuant to this Prospectus. This Prospectus is being filed with the OSC for the purpose of allowing the Company to apply for listing on the CSE and to enable the Company to develop an organized market for its Common Shares. Since no securities are being offered pursuant to this Prospectus, no proceeds will be raised and all expenses incurred in connection with the preparation and filing of this Prospectus will be paid by the Company.</p>
<p>Directors and Executive Officers of the Company</p>	<p>Charles Abraham – CEO and Director Roland Nimmo – CFO, Corporate Secretary and Director Matt Warren – CTO Jeffrey Orridge – Director Daniel Kube – Director Ronnie Strasser – Director</p> <p>See "<i>Directors and Executive Officers</i>" for more information.</p>

<p>Risk Factors</p>	<p>The Company's business is subject to certain risks, including but not restricted to risks related to: limited operating history and expected continued operating losses, inherent risks of cryptocurrency and blockchain industry, regulatory risks, uninsurable risks, competitive risks, dependence on key management, additional funding requirements, conflicts of interest, dilution, volatility of publicly traded securities, discretion in the use of funds, influence of third party shareholders and no history of dividends. See "<i>Risk Factors</i>".</p>	
<p>Summary Financial Information of the Company and Blockagram Subsidiary:</p>	<p>The following selected financial information has been derived from the audited financial statements of the Company and Blockagram Subsidiary included in this Prospectus, and should be read in conjunction with such financial statements and the related notes thereto, along with the Management Discussion and Analysis included in this Prospectus. All financial statements of the Company and Blockagram Subsidiary are prepared in accordance with International Financial Reporting Standards.</p>	
	<p>Consolidated Statements of Loss and Comprehensive Loss</p> <p>Total Revenues</p> <p>Total Expenses</p> <p>Net Income (Loss)</p> <p>Net Income (Loss) per Share – basic and diluted</p> <p>Consolidated Statements of Financial Position</p> <p>Total Assets</p> <p>Total Liabilities</p> <p>Shareholder's Equity</p>	<p>Company – For the year ended December 31, 2016 (\$)</p> <p>(0.0)</p> <p>674,755</p> <p>(667,085)</p> <p>(0.01)</p> <p>Company – As at December 31, 2016 (\$)</p> <p>2,990</p> <p>190,294</p> <p>(14,576,912)</p>
	<p>Statement of Loss and Comprehensive Loss</p> <p>Total Revenues</p> <p>Total Expenses</p> <p>Net Income (Loss)</p> <p>Net Income (Loss) per Share – basic and diluted</p> <p>Statement of Financial Position</p> <p>Total Assets</p> <p>Total Liabilities</p> <p>Shareholder's Equity</p>	<p>Blockagram Subsidiary – For the period from incorporation on November 28, 2017 to December 31, 2017 (\$)</p> <p>(0.0)</p> <p>3,000</p> <p>(3,000)</p> <p>(0.00)</p> <p>Blockagram Subsidiary – As at December 31, 2017 (\$)</p> <p>35,000</p> <p>3,000</p> <p>32,000</p>

FORWARD LOOKING INFORMATION

Certain statements contained in this Prospectus constitute forward-looking statements. These statements relate to future events or to future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of the words "anticipate", "plan", "continue", "estimate", "expect", "will", "project", "should", "believe", "intend", "may", "predict", "targeting", "seek", "could", "potential" and similar words. Forward-looking statements are necessarily based on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as the factors we believe are appropriate. Forward-looking statements in this Prospectus include but are not limited to statements relating to: statements with respect to; volatility of stock price and market conditions; regulatory risks; unfavourable publicity or consumer perception; difficulty to forecast; the ability and maintain to hire key personnel; competition; investment capital and market share, changes in target market; market uncertainty; ability to access additional capital; management of growth; patent infringement; litigation; ability to build out the Platform and general viability of the proposed technology; and ability to attract sufficient blockchain application developers.

The Company believes the expectations reflected in the forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. The material factors and assumptions that were applied in making the forward-looking information in this Prospectus include: (a) execution of the Company's existing business plans and growth strategy which may change due to changes in the views of the Company, or if new information arises which makes it prudent to change such business plans and growth strategy; and (b) the accuracy of current interpretation of research results, since new information or new interpretation of existing information may result in changes in the Company's expectations. Forward looking information is based on a number of assumptions that may prove to be incorrect including but not limited to assumptions about: ability to obtain customer contracts and establish relationships; the impact of competition; the ability to obtain and maintain existing financing on acceptable terms; the ability to retain skilled management and staff; the ability to acquire a significant market position in the provision of products and services in its target markets; currency, exchange and interest rates; the availability of financing opportunities, risks associated with economic conditions, dependence on management and conflicts of interest; the progress and success of the Company's product marketing; market competition in the blockchain software development; the ability to successfully market, and sell, and to create a customer base; operating in a regulatory environment (i.e. regulatory environment, node compensation approaches).

In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including the risks outlined herein under the heading "*Risk Factors*". Should one or more of these risks or uncertainties, or a risk that is not currently known to us materialize, actual results may vary materially from those described herein. Investors are cautioned that forward-looking statements are not guarantees of future performance and are inherently uncertain. Accordingly, investors are cautioned not to put undue reliance on forward-looking statements.

These statements speak only as of the date of this Prospectus. The Company does not undertake any obligation to publicly update or revise any forward-looking statements unless required by applicable laws. **Any forward-looking information contained herein is expressly qualified by this cautionary statement.** The forward-looking statements in this Prospectus are provided for the limited purpose of enabling current and potential investors to evaluate an investment in the Company. Readers are cautioned that such statements may not be appropriate, and should not be used for other purposes.

Financial Information

The audited financial statements of the Company for the year ended December 31, 2016 and for the year ended December 31, 2015, together with the notes thereto and the auditor's report thereon, have been prepared in accordance with IFRS and are reported in Canadian dollars. The unaudited interim financial statements of the Company as at September 30, 2017 and for the three and nine months ended September 30, 2017, together with the notes thereto, have been prepared in accordance with IFRS and are reported in Canadian dollars.

GLOSSARY OF TERMS

As used in this Prospectus, the following terms have the respective meanings as specified below:

"Affiliate" means a company that is affiliated with another company as described below. A company is an Affiliate of another company if (a) one of them is the subsidiary of the other, or (b) each of them is controlled by the same person. A company is "controlled" by a person if (a) voting securities of the issuer are held, other than by way of security only, by or for the benefit of that person, and (b) the voting securities, if voted, entitle the person to elect a majority of the directors of the issuer. A person beneficially owns securities that are beneficially owned by (a) a company controlled by that person, or (b) an Affiliate of that person or an Affiliate of any company controlled by that person.

"AMF" means the Autorité des marchés financiers.

"ASC" means the Alberta Securities Commission.

"Associate" when used to indicate a relationship with a person or company, means (a) a partner, other than a limited partner, of that person, (b) a trust or estate in which that person has a substantial beneficial interest or for which that person serves as trustee or in a similar capacity, (c) an issuer in respect of which that person beneficially owns or controls, directly or indirectly, voting securities carrying more than 10% of the voting rights attached to all outstanding voting securities of the issuer, or (d) a relative, including the spouse, of that person or a relative of that person's spouse, if the relative has the same home as that person.

"BCBCA" means the *Business Corporations Act* (British Columbia).

"BCSC" means the British Columbia Securities Commission.

"Blockagram Subsidiary" means Blockagram Inc., incorporated under the laws of the Province of Ontario.

"Blockagram Subsidiary Shares" means common shares in the capital of Blockagram Subsidiary.

"Blockagram Subsidiary Shareholder" means the sole shareholder of Blockagram Subsidiary.

"blockchain" means a type of digital distributed ledger in which ledger changes are made and verified chronologically and publicly. Blockchains are comprised of un-modifiable, digitally recorded data in packages called "blocks". Each block is then "chained" to the next block, using a cryptographic signature, which allows blockchains to be used like a ledger that can be shared and accessed by anyone with the appropriate permissions.

"**Board**" means the board of directors of the Company.

"**CEO**" means chief executive officer.

"**CFO**" means chief financial officer.

"**CTO**" means chief technology officer.

"**Common Shares**" means common shares in the capital of the Company.

"**Company**" means Capha Pharmaceuticals Inc., a company incorporated under laws of the Province of British Columbia.

"**cryptocurrency**" means a form of digital currency based on mathematics where encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds. Cryptocurrencies operate independently of a central bank.

"**CSE**" means the Canadian Stock Exchange.

"**CSE Approval**" means the final approval of the CSE in respect of the listing of the Common Shares on the CSE, as evidenced by the issuance of the final approval bulletin of the CSE in respect thereof.

"**CSE Policies**" means the rules and policies of the CSE in effect as of the date hereof.

"**Escrow Agreement**" means the escrow agreement among the Company, the Escrow Agent, and the holders of the Escrow Securities.

"**Escrow Securities**" means the Common Shares held by the directors, officers and insiders on the Listing Date that will be deposited in escrow pursuant to the Escrow Agreement or a voluntary pooling agreement, as applicable.

"**Financing**" means the Company's non-brokered financing which raised total gross proceeds of \$617,500 through the issuance of 12,350,000 Subscription Receipts at a price of \$0.05 per Subscription Receipt.

"**Insider**" has the meaning ascribed to that term in the *Securities Act* (British Columbia), which includes the directors and senior officers of the Company or any subsidiaries of the Company and any person that has direct or indirect beneficial ownership of, or control or direction over, securities of the Company carrying more than 10% of the voting rights attached to the Company's outstanding voting securities.

"**Letter of Intent**" means the letter of intent dated December 11, 2017 entered into by Blockagram Subsidiary and the Company in respect of the Transaction, which was replaced by the Share Exchange Agreement.

"**Listing Date**" means the date on which the Common Shares are listed for trading on the CSE.

"**Prospectus**" means this non-offering long-form prospectus of the Company.

"**Named Executive Officers**" means the following individuals:

- (a) the Company's CEO;
- (b) the Company's CFO;
- (c) each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the Company's CEO and CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than \$150,000, as determined in accordance with subsection 1.3(5) of Form 51-102F6V – *Statement of Executive Compensation – Venture Issuers*, for that financial year; and
- (d) each individual who would be an Named Executive Officer under paragraph (c) but for the fact that the individual was not an executive officer of the Company, and not acting in a similar capacity, at the end of that financial year.

"**NP 46-201**" means National Policy 46-201 – *Escrow for Initial Public Offerings*.

"**NI 51-102**" means National Instrument 51-102 – *Continuous Disclosure Requirements*.

"**NI 52-110**" means National Instrument 52-110 – *Audit Committees*.

"**NI 58-101**" means National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

"**NI 58-201**" means National Policy 58-201 – *Corporate Governance Guidelines*.

"**Options**" means incentive stock options granted to the Company's directors, officers, employees and consultants in accordance with the Stock Option Plan and rules and the CSE Policies.

"**OSC**" means the Ontario Securities Commission.

"**Person**" means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual, or an individual.

"**Related Person**" has the meaning set forth in the CSE Policies.

"**RRIF**" means a registered retirement income fund.

"**RRSP**" means a registered retirement savings plan.

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval (www.sedar.com).

"**Share Exchange Agreement**" means the share exchange agreement dated January [•], 2018 entered into by Blockagram Subsidiary, the Blockagram Subsidiary Shareholder and the Company in respect of the Transaction, which replaced the Letter of Intent.

"**Shares-for-Debt Exchange**" means the shares-for-debt exchange effective January 17, 2018 pursuant to a shares for debt agreement whereby the Company issued 10,000,000 Common Shares to a former officer and director of the Company in satisfaction of \$500,000 of indebtedness at a deemed issue price of \$0.05.

"Stock Option Plan" means the Company's stock option plan providing for the grant of Options to the Company's directors, officers, employees and consultants in accordance with the provisions of the Stock Option Plan and the CSE Policies.

"Subscription Funds" means the total subscription funds of \$617,500 raised through the issuance of 12,350,000 Subscription Receipts in the Financing;

"Subscription Receipts" means the subscription receipts issued pursuant to the Financing at a price of \$0.05 per Subscription Receipt, which will be automatically exchanged, without payment of any additional consideration or further action on the part of the subscriber, for one Common Share and one Warrant upon satisfaction of the Release Conditions.

"Transaction" means the acquisition by the Company of 100% of the issued and outstanding Blockagram Subsidiary Shares in exchange for the issuance of 7,000,000 Common Shares to the Blockagram Subsidiary Shareholder pursuant to the Share Exchange Agreement.

"Transfer Agent" and **"Escrow Agent"** means Computershare Trust Company of Canada, at its Vancouver office located at 510 Burrard Street, 3rd Floor, Vancouver, BC V6C 3B9.

"Warrants" means the share purchase warrants of the Company entitling the holders to purchase up to 12,350,000 Common Shares at an exercise price of \$0.10 per Common Share for two years from the date of issuance of the Warrants, which were comprised in the Subscription Receipts.

CURRENCY

All sums of money to be paid or calculated pursuant to this Prospectus shall be paid or calculated in the currency of Canada unless otherwise expressly stated and the references to \$ are to Canadian dollars.

CORPORATE STRUCTURE

Name and Incorporation of Company

The Company is incorporated under the laws of the Province of British Columbia and was formed as a result of an amalgamation on September 1, 2004 under the name Mill City Gold Corp. On August 21, 2015, the Company changed its name from Mill City Gold Corp. to FPS Pharma Inc. On January 16, 2017, the Company changed its name from FPS Pharma Inc. to Capha Pharmaceuticals Inc. On January [●], 2018, the Company changed its name from Capha Pharmaceuticals Inc. to Blockagram Corp.

The Company's head office is located at 324 - 4205 Gellatly Road, West Kelowna, BC V4T 2K2, Canada. The Company's registered office is located at 10th Floor, 595 Howe Street, Vancouver, BC V6C 2T5.

On November 20, 2015, December 21, 2015 and December 17, 2015, the BCSC, the OSC and the AMF, respectively, issued cease trade orders against the Company for failure to file, within the required time, certain continuous disclosure documents including its financial statements for the period ended September 30, 2015. Subsequently, the Company filed the required filings and effective January 29, 2016, February 2, 2016 and February 4, 2016, the BCSC, the OSC and the AMF, respectively, issued orders revoking the cease trade order.

Name and Incorporation of Blockagram Subsidiary

Blockagram Subsidiary was incorporated under the name "Blockagram Inc." under the *Business Corporations Act* (Ontario) on November 28, 2017. Blockagram Subsidiary's registered office and head office is located at 77 King Street West, Suite 400, Toronto-Dominion Centre Toronto, ON M5K 0A1 Canada.

Business Combination with Blockagram Subsidiary

On December 11, 2017, the Company entered into the Letter of Intent with Blockagram Inc. ("**Blockagram Subsidiary**") to carry out a business combination transaction.

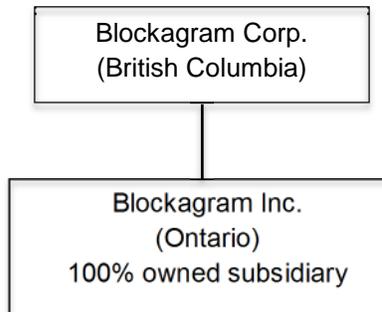
On January [●], 2018, the Company entered into the Share Exchange Agreement with Blockagram Subsidiary and the Blockagram Subsidiary Shareholder, which replaced the Letter of Intent.

Effective January [●], 2018, the Transaction was completed and the Blockagram Subsidiary Shareholder exchanged all of the 7,000,000 Blockagram Subsidiary Shares for a total of 7,000,000 Common Shares on the basis of one (1) Common Share for every one (1) Blockagram Subsidiary Share.

As a result of the Transaction, Blockagram Subsidiary became a 100% wholly-owned subsidiary of the Company and the business of Blockagram Subsidiary is now the business of the Company. The former Blockagram Subsidiary Shareholder has become owner of approximately 8.59% of the issued and outstanding Common Shares (assuming the completion of the Transaction, the Shares-for-Debt Exchange and the conversion of Subscription Receipts for Common Shares).

Intercorporate Relationships

Before completion of the Transaction, the Company did not have any inter-corporate relationships. The following diagram summarizes the structure of the entities upon completion of the Transaction.



Financing

As a condition of closing of the Transaction pursuant to the Share Exchange Agreement, on December 22, 2017, the Company completed the Financing, which raised total gross proceeds of \$617,500 by the issuance of 12,350,000 Subscription Receipts at a price of \$0.05 per Subscription Receipt. The Subscription Funds paid to the Company were deposited into escrow with an escrow agent pursuant to an escrow agreement dated December 22, 2017 between the Company and such escrow agent. The Subscription Funds will be held in escrow until, among other things, the Company has received all

required approvals including, without limitation, the conditional approval of the listing of the Common Shares on the CSE (the "**Release Conditions**"). If the Release Conditions have not been satisfied on or before February 28, 2018, the Subscription Funds will be returned to the subscribers. Upon satisfaction of the Release Conditions, each Subscription Receipt will be automatically exchanged, without payment of any additional consideration or further action on the part of the subscriber, for one Common Share and one Warrant and the Subscription Funds will be released to the Company.

The Common Shares to be issued in exchange for the Subscription Receipts will be subject to a statutory hold period of four months and one day from the date of closing of the Financing.

GENERAL DEVELOPMENT OF THE BUSINESS

Before the acquisition of Blockagram Subsidiary, the Company had no active business. Accordingly, the business discussion set forth below relates to the business of Blockagram Subsidiary which, upon closing of the Transaction, became the business of the Company. Unless the context shall require otherwise, all references to "Blockagram" or the "Company" include Blockagram Subsidiary.

Three Year History

Blockagram Subsidiary is a private company based in Ontario incorporated on November 28, 2017. Blockagram Subsidiary was formed to capitalize on the opportunities available at the intersection of advertising/consumer engagement and blockchain technology development. Since incorporation, Blockagram Subsidiary has begun development work on its first proprietary blockchain decentralized application, namely the Blockagram™ platform, a blockchain platform which allows marketers to pay consumers for their engagement. Based on a proprietary advertisement-for-service solution, Blockagram™ also permits users to send cryptocurrency within the platform free of charge.

Acquisitions and Dispositions

On December 11, 2017, the Company entered into the Letter of Intent with Blockagram Subsidiary to carry out a business combination transaction. On January [●], 2018, the Company entered into the Share Exchange Agreement with Blockagram Subsidiary and the Blockagram Subsidiary Shareholder, which replaced the Letter of Intent.

Effective January [●], 2018, the Transaction was completed and the Blockagram Subsidiary Shareholder exchanged all of the 7,000,000 Blockagram Subsidiary Shares for a total of 7,000,000 Common Shares on the basis of one (1) Common Share for every one (1) Blockagram Subsidiary Share.

As a result of the Transaction, Blockagram Subsidiary became a 100% wholly-owned subsidiary of the Company and the business of Blockagram Subsidiary is now the business of the Company. The former Blockagram Subsidiary Shareholder has become owner of approximately 8.59% of the issued and outstanding Common Shares.

Blockagram Subsidiary's primary asset is its intellectual property, which included certain domain names, a trademark, object code and source code.

The Transaction was not with a related party of the Company, as defined by applicable securities laws. The Company has not yet filed a Form 51-102F4 in respect of the Transaction.

DESCRIBE THE BUSINESS

Before the acquisition of Blockagram Subsidiary, the Company had no active business. Accordingly, the business discussion set forth below relates to the business of Blockagram Subsidiary which, upon closing of the Transaction, became the business of the Company. Unless the context shall require otherwise, all references to "Blockagram" or the "Company" include Blockagram Subsidiary.

Description of Products

Blockagram is a blockchain focused technology product company. Blockagram intends to establish itself as a leader in applied blockchain technology and innovation by developing products and services which leverage the best of what blockchain has to offer. Blockagram's business model and strategy is based on identifying and developing blockchain related applications and services. Its first blockchain related application that it has identified is Blockagram™.

Blockchain Decentralized Applications

Blockchain is a peer-to-peer distributed ledger (information recorded in a shared database) that enables open and trusted exchanges over the internet without central servers or an independent trusted authority. Using consensus, a shared record is distributed to all participants in a network to validate transactions and remove the need for a third-party intermediary. In short, blockchain allows for transparent, verifiable, and secure digital transactions with both proof of rights and ownership.

Blockagram has identified an opportunity for the implementation in blockchain technology in traditional marketing transactions, specifically with regards to email.

The Blockagram™ platform aims to disrupt traditional email marketing by using a proprietary blockchain token to incentivize and re-engage people with their email. This brings together one of the oldest decentralized applications (email) with the latest (blockchain) into something that could not have existed only a couple years ago. The Blockagram™ platform creates a qualitatively better email experience for both marketers and recipients.

We propose a token of value for email delivery. Marketers will pay in tokens to have their emails delivered, opened, and engaged with. Recipients will be paid tokens for opening and engaging with the emails they receive. The solution provides:

1. Marketers will gain a direct email channel that provides access to targeted users and a pay per engagement cost similar to the social media marketing platforms they are familiar with. The use of tokens to incentivize customers results in higher engagement with the marketing messages.
2. Recipients will be compensated directly with valuable tokens in return for the attention they give to the emails they receive.

One of the unique features of the Blockagram™ platform is the ability to create a cryptocurrency wallet for anyone with an email address without the user having a deep knowledge or understanding of the underlying technology. As the platform gains users this will open some intriguing product opportunities.

Blockagram has developed a white paper describing Blockagram™, its features, its protocol and implementation, which will be released publically once Blockagram™ has reached near-commercialization. Following the public release, feedback from the community will be collected for

consideration in the further development of Blockagram™. In order to ensure the public is aware and interested in Blockagram™, a significant and meaningful marketing program will be initiated. An on-going marketing strategy is a key factor influencing the ability of Blockagram to create value.

Aside from the on-going development of Blockagram™, Blockagram may also create blockchain applications for third parties. In that case, Blockagram would anticipate revenues to offset programming development costs and healthy margins to fund additional product development.

Funds raised through the Financing, traditional equity markets and consulting fees will be used to cover development and marketing costs incurred by Blockagram. The timing and the proposed content of the development programs of the Blockagram™ platform are described in "*General Development of the Business*". The Company is currently developing the Blockagram™ platform through a mixture of in-house employees and external contractors.

Principal Markets

The blockchain sector is moving into the implementation stage, creating significant opportunities for development and distribution of blockchain-enabled applications.

In the near term Blockagram will be focused on the Blockagram email marketing platform which we are targeting at sales and marketing teams. We intend to demonstrate the value of email marketing and develop new ways to extract value from the customers that companies already have. This product offers true utility regardless of the underlying blockchain technology, but would not have been possible without it.

We foresee building on the intellectual property created for Blockagram™ by creating related products within the space of consumer engagement, marketing, and affiliate sales. This will leverage our team's expertise, existing intellectual property, and established customer relationships.

We believe that the most viable blockchain applications will be the ones that take existing business models and apply the benefits of blockchain technology to create something uniquely better. This is analogous to the Amazon.com model of taking an existing business model (bookstore) adding new technology (internet) and creating something that is truly better (infinite selection). This is a guiding principal to use when evaluating potential product ideas and investment opportunities.

While many of the world's largest banks and retailers are investing hundreds of millions in researching the utilization of blockchains, it is still a wide-open frontier. There is currently a void of usable software applications that fully exploit the power and value inherent in this technology. Blockagram will create value for its shareholders by developing scalable blockchain applications. Blockagram will be focused on developing revenue generating blockchain applications through a lean development approach and launching blockchain applications in an efficient manner.

Numerous opportunities are emerging for blockchain-based applications world-wide, not only for the use in digital currencies, which are the early adopters of the space, but also in a wide variety of other non-financial, but data driven applications. Such industries include, but are not limited to:

- Gaming: from eSports to casinos;
- Electronic medical records;
- Enterprise resource planning;

- Augmented Reality and Virtual Reality
- Financial services;
- Identity verification
- Registered ownership tracking;
- Payment processing;
- Online shopping;
- Real estate transactions;
- Rewards programs;
- Sales and marketing programs; and
- Supply chain product validation.

The key to Blockagram's success will be its ability to combine useful blockchain-based applications with efficient time-to-market methods, engaged customer communication and quick iteration to discover product-market fit and develop substantial ongoing returns on investments.

Following the launch of the Blockagram™ marketing platform we will be both deepening and diversifying our product offerings. We believe that at this stage of the business cycle it would be prudent to improve the revenue quality by developing additional revenue streams and finding productive partnerships.

Distribution Methods

Blockagram's initial focus will be on developing Blockagram™. Blockagram™ will be launched and promoted through the traditional marketing campaigns, social media, on-line advertisements and direct sales.

Revenue

Blockagram Subsidiary has earned no revenue since incorporation.

Specialized Skill and Knowledge

Blockagram has a strong management team with significant blockchain experience. Blockchain developers are in tremendous demand around the world. Peer to peer relationships are instrumental in attracting programmers who are seeking out the next disruptive blockchain application. The Blockagram development team is well respected in the blockchain industry and is a tremendous asset for attracting talent to the Board, management and other development team members.

Accountability and oversight of the Company rests with the Board. The Board consists of the ideal mix of technology and capital market expertise so as to drive the value and performance of the Company from both a development standpoint and a shareholder value perspective.

An expanded management team will be put in place to oversee the business development activities of the Company and perform all core functions.

Intangible Properties

Blockagram owns the intellectual property relating to Blockagram™, which includes certain domain names, a trademark, object code and source code.

Competitive Conditions

There are a number of other companies applying blockchain technology to email systems. BitBounce.com and earn.com have a similar offering within this space.

The most significant competition for Blockagram are legacy systems or the traditional centralized transaction processing approaches. Established brands who already have a loyalty reward program may see Blockagram as competition for their in-house product. Affiliate marketing platforms have similar cost-per-action offerings, and existing email marketing platforms provide email campaign management capabilities. Blockchain has the potential to gain momentum towards disrupting and replacing many aspects of legacy systems in the coming years due to low-cost, high speed and improved trustworthiness.

Market Participants

Other blockchain companies focusing on email or messaging include, but are not limited to:

- Bitbounce.com with its Credo token is focused on blocking spam messages and allowing users to charge to receive emails from unknown senders.
- Earn.com has created a LinkedIn inMail style messaging platform which allows users to pay for message replies.
- RunCPA.com has an affiliate network platform that pays affiliates with Bitcoin.
- RefToken.io has decentralized affiliate platform which pays users for referrals.
- LoyalCoin.io is blockchain based universal loyalty reward program.

Cycles

Neither the products to be offered by Blockagram nor the markets in which it will operate are considered to be cyclical.

Continuing Evolution of Blockchain Technology

Blockagram will be dependent on a continued understanding and movement towards blockchain technology replacing older more costly and labour intensive registration systems. Blockchain is still a new technology not understood by many potential end-users. Blockchain technology has the potential to revolutionize many existing systems replacing many large centralized registries that are currently both highly profitable and large employers. Blockchain's considerable lower-cost, less-labour advantages will need to be accepted for the significant change it may represent, including the negative economic impact it may have on the industries/companies it replaces.

Changes to Contracts

Blockagram does not expect any changes to any of the material contracts it has for the current fiscal year. None of Blockagram's material contracts are up for re-negotiation in the next two fiscal years.

Employees

Blockagram currently has four contractors or employees on staff and will expand that number as required by the demands of its business.

The Company intends to build an expanded management team, which will include a strong development team that will oversee the business development activities of the Company and perform all core functions of the business.

The development team will be a single, in-house team that will handle all blockchain programming requirements. The initial operational load is expected to consist of: two (2) Python programmers who have at least 5 years' experience; one front-end JavaScript developer proficient in handling newer frameworks such as Redux, React.js, and Web Assembly; and one (1) graphic artist.

Anticipated Changes in the Current Financial Year

Following listing of the Common Shares on the CSE, the Company intends to develop Blockagram™ in the following three steps:

Step 1: Blockagram™ development (April 2018)

The first step includes completing and initial testing of the Blockagram email marketing platform and smart contract minimum viable product. Real-time input from the blockchain and end-user community will contain the necessary feedback on how Blockagram™ should be developed, managed, costed, revenue retained by Blockagram, as well as inputs on the potential demand, reach, frequency of use, competition and user types.

Front-end development will focus on:

- ease of signup
- ease of purchasing tokens with major credit cards
- the UX design for creating, managing and reporting on email marketing campaigns
- a dashboard for seeing account balances and activity
- account management and billing tools
- intuitive interface and ease of use

Back-end development will invest in:

- the email analytics engine for tracking email open rates, link clicks and JavaScript CPAs
- transaction system that will track all activity in a way that is both secure and auditable
- implementation of anything required to support the front-end user experience mentioned above
- encryption and security considerations for both storing private keys and hardening against vulnerability.
- high performance bulk email system

Smart contract development will invest in:

- testing and deployment of the smart contract and ERC20 compliant token on the Ethereum main network
- integrating the BLKG tokens into the transaction system

Step 2: *Digital Wallet (June 2018)*

The second step includes the development of the exchange functionality which enables withdrawal of funds into several options of exchanged currencies. This will enable the ability to accept various crypto currencies as payment for BLKG tokens in the system, and also the ability for users to withdraw tokens out in their preferred currency.

Step 3: *Blockagram™ launch and on-going upgrades (August 2018)*

The third step includes listening to our clients and users and prioritizing on improving the platform in the most where we can identify further user and shareholder value. Integration of analytics and split testing tools, as well as customer outreach and surveys will drive the product forward.

The medium term product roadmap includes:

- Innovative product ideas: time limited offers, physical CPAs
- Internationalization – translation of the app into multiple languages
- Android and iOS apps
- Community outreach and education resources
- Integration with partners
- Transactional email product
- Apply Blockagram™ to wider affiliate marketing capabilities
- Investing in blockchain innovations to decentralize and reduce fraud

USE OF AVAILABLE FUNDS

Proceeds

This is a non-offering prospectus. The Company is not raising any funds in conjunction with this Prospectus. Accordingly, there are no proceeds to the Company in connection with the filing of this Prospectus.

Funds Available

On December 22, 2017, the Company completed the Financing, which raised total gross proceeds of \$617,500 by the issuance of 12,350,000 Subscription Receipts at a price of \$0.05 per Subscription Receipt. The Subscription Funds paid to the Company were deposited into escrow with an escrow agent pursuant to an escrow agreement dated December 22, 2017 between the Company and such escrow agent. The Subscription Funds will be held in escrow until the satisfaction of the Release Conditions. If the Release Conditions have not been satisfied on or before February 28, 2018, the Subscription Funds will be returned to the subscribers. Upon satisfaction of the Release Conditions, each Subscription

Receipt will be automatically exchanged, without payment of any additional consideration or further action on the part of the subscriber, for one Common Share and one Warrant and the Subscription Funds will be released to the Company.

The consolidated pro forma balance sheet of the Company, which gives effect to the Transaction, the Shares-for-Debt Exchange and the conversion of the Subscription Receipts as if it had been completed as of the date the Company receives conditional approval from the CSE, is attached as Schedule "G". The pro forma working capital position of the Company as at the date the Company receives conditional approval from the CSE, giving effect to the Transaction as if it had been completed on that date, is \$617,500. Assuming the satisfaction of the Release Condition, the Company has available funds equal to \$617,500 (the "**Available Funds**"). As at December 31, 2016, the Company had a working capital deficit of \$187,304.

Use of Available Funds

Management anticipates applying the Available Funds in the following manner over the next 12 months:

Use of Funds	Funds to be Expended (\$)
Development costs ⁽¹⁾	221,500
CSE listing costs and other public company expenses ⁽²⁾	83,000
Common Share conversion costs	18,000
General and administrative ⁽³⁾	95,000
Unallocated working capital	200,000
Total	617,500

Notes:

- (1) See "*Use of Available Funds – Business Objectives and Milestones below*".
- (2) Includes legal fees of \$30,000, audit and tax of \$30,000 and annual listing fees of \$7,800.
- (3) See "*Use of Available Funds – General and Administrative Expenses below*".

The Company intends to spend the Available Funds as stated in this Prospectus. However, there may be situations where, due to change of circumstance, outlook, research results and or business judgment, a reallocation of funds may be necessary in order for the Company to achieve its overall business objectives. There can be no assurance that additional funding required by the Company will be available if required. However, it is anticipated that the Available Funds will be sufficient to satisfy the Company's objectives over the next 12 months.

Business Objectives and Milestones

The principal milestones that must occur during the 12-month period following listing of the Common Shares on the CSE in order for the business objectives described above to be accomplished are as follows:

Business Objective	Milestones that must occur for Business Objective to be Accomplished	Anticipated Timing to achieve Business Objectives	Estimated Cost (\$)
Blockagram™ development	The email platform passes QA tests and beta testing	April 2018	60,000
Digital wallet	Ability to exchange top 3 currencies (BTC, LTC, ETH) on the platform	June 2018	60,000
Blockagram™ launch and on-going upgrades	Full public launch of Blockagram™	August 2018	40,000
Ongoing development costs	N/A	N/A	61,500
		Subtotal	221,500⁽¹⁾

Note:

(1) See "Use of Available Funds" above. Including developer and contractor expenses of \$128,000 and consulting fees in respect of the CEO and CTO expected to equal \$84,000.

General and Administrative Expenses

The Company's working capital available to fund ongoing operations will be sufficient to fund its business milestones and objectives and administrative costs for the next twelve months. Estimated general and administrative expenditures during this period are comprised of the following:

General and Administrative Expenses	\$
Marketing, advertising and investor relations	80,000
General and administrative	15,000
Total:	95,000

DIVIDEND POLICY

Neither the Company nor Blockagram Subsidiary has declared any dividends or made any distributions since their respective incorporation. The Board may declare dividends at its discretion but does not anticipate paying dividends in the near future. The Board expects to retain earnings to finance future growth of the Company and, when appropriate, retire debt.

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis for the Company for the years ended December 31, 2016 and 2015 are included as Schedule "C".

Management Discussion and Analysis for the Company for the nine months ended September 30, 2017 are included as Schedule "D".

Management Discussion and Analysis of Blockagram Subsidiary for the period from incorporation on November 28, 2017 to December 31, 2017 is included as Schedule "F".

DESCRIPTION OF THE SECURITIES DISTRIBUTED

Authorized and Issued Share Capital

The Company's authorized share capital consists of an unlimited number of Common Shares without par value, an unlimited number of preferred shares, of which 83,781,030 Common Shares, no preferred shares are issued and outstanding at the date of this Prospectus. See "*Consolidated Capitalization*".

Common Shares

All of the Common Shares rank equally as to voting rights, participation in a distribution of the assets of the Company on the liquidation, dissolution or winding-up of the Company and the entitlement to dividends. The holders of the Common Shares are entitled to receive notice of all meetings of shareholders and to attend and vote such Common Shares at the meetings. Each Common Share carries with it the right to one vote. The Common Shares do not have pre-emptive rights and are not subject to redemption. Holders of the Common Shares are entitled to receive such dividends as may be declared by the Board out of funds legally available therefore. In the event of dissolution or winding up of the affairs of the Company, holders of the Common Shares are entitled to share rateably in all assets of the Company remaining after payment of all amounts due to creditors.

Subscription Receipts

See "*Corporate Structure – Financing*" for information about the Subscription Receipts and the Financing.

Warrants

The Warrants entitle the holders to purchase up to 12,350,000 Common Shares at an exercise price of \$0.10 per Common Share for two years from the date of issuance of the Warrants. Such Warrants were comprised in the Subscription Receipts.

CONSOLIDATED CAPITALIZATION

The following table sets forth the share and loan capital of the Company as at the dates below. The table should be read in conjunction with and is qualified in its entirety by the Company's audited financial statements for the year ended December 31, 2016.

Description	Amount Authorized or to be Authorized	Authorized at the date of this Prospectus	Outstanding as at December 31, 2016	Outstanding as at the date of this Prospectus
Common Shares	Unlimited	Unlimited	54,431,030	64,431,030 ⁽¹⁾
Preferred Shares	Unlimited	Unlimited	Nil	Nil
Subscription Receipts	Unlimited	Unlimited	Nil	12,350,000 ⁽²⁾
Warrants	Unlimited	Unlimited	705,884 ⁽³⁾	Nil ⁽⁵⁾
Options	10,795,406	10,795,406	2,947,058 ⁽⁴⁾	1,500,000 ⁽⁶⁾

Notes:

- (1) This figure does not include: (i) 7,000,000 Common Shares to be issued on completion of the Transaction; and (ii) 12,350,000 Common Shares to be issued upon conversion of the Subscription Receipts. This figure does include 10,000,000 Common Shares issued pursuant to the Shares-for-Debt Exchange.
- (2) Pursuant to the Financing, the Company issued 12,350,000 Subscription Receipts at a price of \$0.05 per Subscription Receipt. The foregoing table does not take in account the conversion of the Subscription Receipts into Common Shares on a one-for-one basis. See "*Corporate Structure – Financing*" for more information about the Subscription Receipts.
- (3) Such warrants expired on March 30, 2017.
- (4) Of this total, 1,000,000 Options expired April 10, 2017 and 447,058 Options expired October 1, 2017. 800,000 Options are due to expire November 13, 2018 and 700,000 Options are due to expire May 12, 2020.
- (5) The foregoing table does not take into account the issuance of the Warrants pursuant to the conversion of the Subscription Receipts. The Warrants entitle the holders to purchase up to 12,350,000 Common Shares at an exercise price of \$0.10 per Common Share for two years from the date of issuance of the Warrants.
- (6) The foregoing table does not take into account the issuance of 2,050,000 Options that are expected to be issued to certain of the directors, officers and consultants of the Company following the closing of the Transaction.

OPTIONS TO PURCHASE SECURITIES

As at the date of this Prospectus, the Company has not granted any Options to directors, executive officers, employees or consultants of the Company.

Stock Option Plan

On December 14, 2015, shareholders of the Company approved the adoption of the Company's current stock option plan (the "**Stock Option Plan**"). A summary of certain provisions of the Stock Option Plan is set out below.

Purpose

The purpose of the Stock Option Plan is to give the directors, officers, employees and consultants of the Company and its subsidiaries an opportunity to participate in the success of the Company. The granting of Options is intended to align the interests of such persons with that of shareholders.

Administration and Amendment

The Stock Option Plan is administered by the Board. The Board has the power and authority to determine the individuals to whom awards will be granted, and the term, amount, exercise price, vesting provisions and other relevant terms of such awards, and to construe and interpret the terms of the Stock Option Plan and outstanding awards.

The Board may from time to time, subject to applicable law and to the prior approval, if required, of either the shareholders, any regulatory body having authority over the Company or the Stock Option Plan, suspend, terminate or discontinue the Stock Option Plan at any time, or amend or revise the terms of the Stock Option Plan or of any Option granted under the Stock Option Plan and the Option agreement relating thereto, provided that no such amendment, revision, suspension, termination or discontinuance will in any manner adversely affect any Option previously granted to a grantee under the Stock Option Plan without the consent of that grantee.

Eligibility

Directors, officers, employees and consultants of the Company and its subsidiaries are eligible to receive award grants under the Stock Option Plan.

Limits on Shares Issuable on Exercise of Options

Under the Stock Option Plan, the maximum aggregate number of Common Shares reserved and available for issuance under the plan remains at 10,795,406.

The number of shares which may be issuable under the Stock Option Plan and all of the Company's other previously established or proposed share compensation arrangements within a one (1) year period: (a) to any one optionee will not exceed 5% of the total number of issued and outstanding shares on the date of grant on a non-diluted basis, unless the Company has obtained disinterested shareholder approval; (b) to any one consultant will not exceed 2% of the total number of issued and outstanding shares on the date of grant on a non-diluted basis; and (c) to all eligible persons who undertake investor relations activities will not exceed 2% in the aggregate of the total number of issued and outstanding shares on the date of grant on a non-diluted basis.

Outstanding Options

As of the date of the Prospectus, there were an aggregate of 1,500,000 Options outstanding, which were exercisable to purchase an aggregate of 1,500,000 Common Shares (2.33% of the Common Shares outstanding). The Company expects to issue approximately 2,050,000 Options to certain of the directors, officers and consultants of the Company following the closing of the Transaction.

In addition, as of the date of the Prospectus, there were no options outstanding under any arrangements other than the Stock Option Plan.

Stock Options

Options under the Stock Option Plan may be exercisable over periods of up to 5 years as determined by the Board to buy shares of the Company. Options are non-transferable and non-assignable.

The Board, subject to the policies of the any stock exchange on which the Company's shares are listed, may determine and impose terms upon which Options will become vested. Unless otherwise specified by the Board at the time of granting an Option, and subject to the other limits on Option grants set out above, all Options granted under the Stock Option Plan will vest and become exercisable in full upon grant, except Options granted to consultants performing investor relations activities, which Options must vest in stages over twelve months with no more than one-quarter of the Options vesting in any three (3) month period. Notwithstanding the foregoing, in the event that vesting requirements have been imposed on Options previously granted by the Company pursuant to any stock option plan in place prior to the effective date of the current Stock Option Plan, such vesting requirements must be satisfied before any such Options will become vested.

PRIOR SALES

The following table summarizes the issuance of securities of the Company or the sale of securities by a Related Person over the past twelve months:

Date	Price per Security (\$)	Number and Type of Security	Reason for Issuance
December 22, 2017	\$0.05	12,350,000 Subscription Receipts	Private Placement ⁽¹⁾
January 17, 2018	\$0.05	10,000,000 Common Shares	Shares-for-Debt Exchange ⁽²⁾
January [●], 2018	\$0.0001	46,000,000 Common Shares	Private sale by a Related Person
January [●], 2018	\$0.005	7,000,000 Common Shares	Acquisition of Blockagram Subsidiary
January [●], 2018	N/A	12,350,000 Common Shares	Conversion of Subscription Receipts ⁽¹⁾

Notes:

- (1) Each Subscription Receipt will be exchanged for one Common Share and one Warrant upon satisfaction of the Release Conditions. See "*Corporate Structure – Financing*". Upon conversion of the Subscription Receipts for Common Shares and Warrants (after giving effect to the Transaction and the Shares-for-Debt Exchange, there will be 83,781,030 Common Shares issued and outstanding and 12,350,000 Warrants to purchase up to 12,350,000 Common Shares at an exercise price of \$0.10 per Common Share for two years from the date of issuance of the Warrants).
- (2) 10,000,000 Common Shares issued pursuant the Shares-for-Debt Exchange.

Trading Price and Volume

The Common Shares are not currently listed for trading on any stock exchange.

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

Escrow under CSE Policies

In accordance with the CSE Policies, NP 46-201 all Common Shares held by a Related Person as of the Listing Date are subject to escrow restrictions. Under the CSE Policies, the Related Persons of the Company are its directors and officers and any person that beneficially owns, either directly or indirectly, or exercises voting control or direction over at least 10% of the total Common Shares.

The CSE Policies require that the Escrow Securities be governed by the form of escrow agreement under NP 46-201. Pursuant to the Escrow Agreement, among the Company, the Escrow Agent, and the directors, officers and insiders of the Company, the Escrow Securities will be released in accordance with the following release schedule under NP 46-201, as on listing, the Company anticipates being an "Emerging Issuer" (as defined in NP 46-201):

On the Listing Date	1/10 of the Escrow Securities
6 months after the Listing Date	1/6 of the remaining Escrow Securities
12 months after the Listing Date	1/5 of the remaining Escrow Securities
18 months after the Listing Date	1/4 of the remaining Escrow Securities
24 months after the Listing Date	1/3 of the remaining Escrow Securities

30 months after the Listing Date	1/2 of the remaining Escrow Securities
36 months after the Listing Date	the remaining Escrow Securities

Assuming there are no changes to the Escrow Securities initially deposited and no additional Escrow Securities are deposited, this will result in a 10% release on the Listing Date, with the remaining Escrow Securities being released in 15% tranches every 6 months thereafter.

All the Escrow Securities are subject to the direction and determination of the CSE. Specifically, the Escrow Securities may not be sold, assigned, hypothecated, transferred within escrow or otherwise dealt with in any manner without the consent of the CSE.

The following sets forth particulars of the Escrow Securities that will be subject to Emerging Issuer escrow under the Escrow Agreement on the Listing Date.

Name and Municipality of Residence	Number of Common Shares held in Escrow	Percentage of Outstanding Common Shares held in Escrow ⁽¹⁾
Matt Warren Ottawa, Ontario	7,200,000	8.59%
Charles Abraham Oakville, Ontario	200,000	0.24%
Roland Nimmo Aurora, Ontario	600,000	0.72%
Jeffrey Orridge Toronto, Ontario	250,000	0.30%
TOTAL	8,250,000	9.85%

Note:

(1) On the basis of 83,781,030 issued and outstanding Common Shares following the Transaction, the Shares-for-Debt Exchange and the conversion of Subscription Receipts for Common Shares.

If, within 18 months of the Listing Date, the Company meets the "Established Issuer" criteria, as set out in NP 46-201, the Escrow Securities will be eligible for accelerated release according to the criteria for established issuers. In such a scenario that number of Escrow Securities that would have been eligible for release from escrow if the Company had been an "established issuer" on the Listing Date will be immediately released from escrow. The remaining Escrow Securities would be released in accordance with the time release provisions for established issuers, with all Escrow Securities being released 18 months from the Listing Date.

Under the terms of the Escrow Agreement, Escrow Securities cannot be transferred by the holder unless permitted under the Escrow Agreement. Notwithstanding this restriction on transfer, a holder of Escrow Securities may: (a) pledge, mortgage or charge the Escrow Securities to a financial institution as collateral for a loan provided that no Escrow Securities will be delivered by the escrow agent to the financial institution; (b) exercise any voting rights attached to the Escrow Securities; (c) receive dividends

or other distributions on the Escrow Securities; and (d) exercise any rights to exchange or convert the Escrow Securities in accordance with the Escrow Agreement.

The Escrow Securities may be transferred within escrow to: (a) subject to approval of the Board, an individual who is an existing or newly appointed director or senior officer of the Company or of a material operating subsidiary of the Company; (b) subject to the approval of the Board, a person that before the proposed transfer holds more than 20% of the voting rights attached to the Company's outstanding securities; (c) subject to the approval of the Board, a person that after the proposed transfer will hold more than 10% of the voting rights attached to the Company's outstanding securities and that has the right to elect or appoint one or more directors or senior officers of the Company or any of its material operating subsidiaries; (d) upon the bankruptcy of a holder of Escrow Securities, the holder's Escrow Securities may be transferred within escrow to the trustee in bankruptcy or other person legally entitled to such securities; (e) upon the death of a holder of Escrow Securities, all Escrow Securities of the deceased holder will be released from escrow to the deceased holder's legal representative; (f) a financial institution that the holder pledged, mortgaged or charges to a financial institution as collateral for a loan on realization of such loan; and (g) a RRSP, RRIF or similar registered plan or fund with a trustee, where the annuitant of the RRSP or RRIF, or the beneficiaries of another plan or fund are limited to the holders spouse, children or parents, or if the holder is the trustee of such registered plan or fund, to the annuitant of the RRSP or RRIF, or a beneficiary of the other registered plan or fund or his or her spouse, children or parents.

In addition, tenders of Escrow Securities pursuant to a share exchange, which includes a take-over bid, issuer bid, statutory arrangement, amalgamation, merger or other reorganization similar to an amalgamation or merger, are permitted. Escrow Securities subject to a share exchange will continue to be escrowed if the successor entity is not an "exempt issuer", the holder is a Related Person of the successor entity; and the holder holds more than 1% of the voting rights of the successor entities' outstanding securities.

PRINCIPAL SHAREHOLDERS

To the knowledge of the Company's directors and executive officers, there are no persons who beneficially own or exercise, directly or indirectly, control or direction over, Common Shares carrying more than 10% of the votes attached to the Common Shares.

DIRECTORS AND EXECUTIVE OFFICERS

Name, Occupation and Securityholding

The following table sets out information regarding each of directors, executive officers and promoters of the Company as at January [●], 2018 (following the completion of the Transaction) including the names, municipality of residence, the position and office held and the period of time served in this position, their principal occupation for the preceding five years, and the number and percentage of voting securities beneficially owned, directly or indirectly, or over which control or direction is exercised:

Name, Position with Company and Province and Country of Residence	Date of Appointment to Office	Principal Occupation for Past Five Years	Number of Common Shares Owned ⁽³⁾	Percentage of Common Shares Outstanding ⁽⁴⁾
Charles Abraham Oakville, Ontario <i>CEO and Director</i>	January [●], 2018	See <i>Experience</i> below	200,000	0.24%
Roland Nimmo ⁽¹⁾⁽²⁾ Aurora, Ontario <i>CFO, Corporate Secretary and Director</i>	January [●], 2018	See <i>Experience</i> below	600,000	0.72%
Matt Warren Ottawa, Ontario <i>CTO</i>	January [●], 2018	See <i>Experience</i> below	7,200,000	8.59%
Jeffrey Orridge Toronto, Ontario <i>Director</i>	January [●], 2018	See <i>Experience</i> below	250,000	0.30%
Daniel Kube ⁽¹⁾⁽²⁾ Toronto, Ontario <i>Director</i>	January [●], 2018	See <i>Experience</i> below	Nil	Nil
Ronnie Strasser ⁽¹⁾⁽²⁾ Toronto, Ontario <i>Director</i>	January [●], 2018	See <i>Experience</i> below	Nil	Nil
		TOTAL	8,250,000	9.85%

Notes:

- (1) Audit Committee Member. Mr. Strasser is the chairman of the Audit Committee.
- (2) Risk and Disclosure Committee Member.
- (3) These Common Shares are subject to escrow. Assuming the closing of the Transaction, the Shares-for-Debt Exchange and conversion of Subscription Receipts for Common Shares.
- (4) On the basis of 83,781,030 issued and outstanding Common Shares following the Transaction, the Shares-for-Debt Exchange and conversion of Subscription Receipts for Common Shares.

The term of office of the directors expires annually at the time of the Company's annual general meeting. The term of the office of the officers expires at the discretion of the Company's directors.

Aggregate Ownership of Securities

As of January [●], 2018 (following the completion of the Transaction and assuming the Shares-for-Debt Exchange and conversion of Subscription Receipts for Common Shares), the directors and executive officers of the Company, as a group, will beneficially own, directly or indirectly, 8,250,000 Common Shares representing approximately 9.85% of the issued and outstanding Common Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Cease Trade Orders

To the best of the Company's knowledge, none of the directors or executive officers of the Company is, or within the 10 years before the date of this Prospectus has been, a director or executive officer of any company that:

- (a) was subject to a cease trade order or similar order or an order that denied the corporation access to any statutory exemptions for a period of more than 30 consecutive days (an "**Order**"), which was issued while the proposed director or executive officer was acting in the capacity as director, CEO or CFO; or
- (b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, CEO or CFO.

Bankruptcies

To the best of the Company's knowledge, no director or executive officer of the Company, or a shareholder holding a sufficient number of Common Shares to affect materially the control of the Company:

- (a) is, as at the date of this Prospectus, or has been within the 10 years before the date of this Prospectus, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the 10 years before the date of this Prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Penalties or Sanctions

To the best of the Company's knowledge, no director or executive officer of the Company, or a shareholder holding a sufficient number of Common Shares to affect materially the control of the Company, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests, which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board, any director in a conflict will disclose his interest and abstain from voting on such matter. Conflicts, if any, will be subject to the procedures and remedies as provided under the BCBCA.

To the best of the Company's knowledge, there are no known existing or potential conflicts of interest between the Company and its directors and officers except that certain of the directors and officers may serve as directors and/or officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director or officer of such other companies.

Experience

A description of the principal occupation for the past five years and summary of the experience of the directors and officers of the Company is as follows:

Charles Abraham, CEO and Director (Age: 52)

Charles Abraham is a Chartered Professional Accountant with over 17 years' experience in the payments applications space. In 2012 Mr. Abraham founded and is the current President of Oak Merchant Solutions, providing merchants in North America with acquiring solutions as well as secure processing platforms that delivers end-to-end acceptance and settlement services for all major credit card brands.

Mr. Abraham is past President and board member of Caledon Card Services having served this SAAS transaction gateway company from 2005 until 2012. Prior to joining Caledon, Mr. Abraham was COO, CFO and board member of InternetSecure Inc., one of the earliest internet based acquiring solutions in Canada.

Upon completion of his BBA at St. Francis Xavier University, Mr. Abraham obtained his CPA, CA designation in 1990 while articling with PWC. He was involved in various M&A and restructuring activities in PWC's Toronto based Financial Advisory Services group. He is also the past Controller of the Business Networks group of Canadian Satellite Communications and VP Finance of the digital imaging and workflow solutions provider, MetaConcepts.

Mr. Abraham intends to devote approximately 50% of his time to the Company. Mr. Abraham is a consultant to the Company and not subject to an employment agreement. Mr. Abraham is subject to a non-competition and non-disclosure agreement with the Company.

Roland Nimmo, CFO, Corporate Secretary and Director (Age: 61)

Mr. Nimmo has been a trusted advisor to decision makers in some of Canada's largest and most successful organizations. Currently, Mr. Nimmo acts as Chief Financial Officer of Crown Life Canada Ltd. TerrAscend Corp. and Identita Inc. Prior thereto, Mr. Nimmo was partner at Deloitte LLP and Vice President Internal Audit at Magna International Inc. Mr. Nimmo holds a B.A. in economics (honours) from Queen's University. Roland also holds CA and CPA designations.

Mr. Nimmo intends to devote approximately 30% of his time to the Company. Mr. Nimmo is a consultant to the Company and not subject to an employment agreement. Mr. Nimmo is subject to a non-competition and non-disclosure agreement with the Company.

Matt Warren, CTO (Age: 35)

Mr. Warren is the founder of Blockagram Subsidiary and is an experienced developer in the digital currency and blockchain community. Mr. Warren has over 15 years' experience in developing web applications, with particular expertise in finance platforms. Mr. Warren holds a B.Sc in computer science from the University of Waterloo.

Mr. Warren intends to devote approximately 90% of his time to the Company. Mr. Warren is a consultant to the Company and not subject to an employment agreement. Mr. Warren is subject to a non-competition and non-disclosure agreement with the Company.

Jeffrey Orridge, Director

Mr. Orridge was the commissioner of the Canadian Football League between March 2015 and April 2017. Prior thereto, Mr. Orridge served in senior roles at USA Basketball, Reebok International, Warner Bros. and Mattel Inc. Mr. Orridge obtained a law degree from Harvard Law School and an undergraduate degree from Amherst College.

Mr. Orridge intends to devote approximately 10% of his time to the Company.

Daniel Kube, Director

Mr. Kube has two decades of success and experience in building successful technology companies for several leading organizations including, IGLOO Software, PricewaterhouseCoopers, PerformanceSoft and IONA Technologies. Mr. Kube holds an Executive M.B.A. from Northwestern University (Kellogg School of Management) and a B.A. in sociology from the University of British Columbia. Daniel also holds an ICD.D designation from the Institute of Corporate Directors.

Mr. Kube intends to devote approximately 10% of his time to the Company.

Ronnie Strasser, Director

Mr. Strasser is a director of Phantom Developments, one of the premier condominium builders in Toronto. Mr. Strasser is also the President and Chief Executive Officer of Strasser Asset Management. Prior thereto, Mr. Strasser was the President of Phantom Industries Inc., a leading Canadian apparel manufacturer.

Mr. Strasser intends to devote approximately 10% of his time to the Company.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation, Philosophy and Objectives

The Company does not have a formal compensation program. The Board meets to discuss and determine management compensation, without reference to formal objectives, criteria or analysis. The general objectives of the Company's compensation strategy are to: (a) compensate management in a manner that encourages and rewards a high level of performance and outstanding results with a view to increasing long-term shareholder value; (b) align management's interests with the long-term interests of shareholders; (c) provide a compensation package that is commensurate with other blockchain technology companies to enable the Company to attract and retain talent; and (d) ensure that the total compensation package is designed in a manner that takes into account the constraints that the Company is under by virtue of the fact that it is a technology development company without a history of earnings.

The Board, as a whole, ensures that total compensation paid to all Named Executive Officers ("**NEOs**"), as hereinafter defined, is fair and reasonable. A "Named Executive Officer" ("**NEO**") includes: (i) the CEO; (ii) the CFO; (iii) each of the three most highly compensated executive officers, other than the CEO and the CFO, who were serving as executive officers as at the end of the most recently completed financial year of December 31, 2017, and whose total compensation was more than \$150,000; and (iv) any additional individuals for whom disclosure would have been required except that the individual was not serving as an officer of the Company at the end of the most recently completed financial year. The Board relies on the experience of its members as officers and directors with other blockchain technology companies in assessing compensation levels.

Analysis of Elements

Base salary is used to provide the NEOs a set amount of money during the year with the expectation that each NEO will perform his responsibilities to the best of his ability and in the best interests of the Company.

The Company considers the granting of Options to be a significant component of executive compensation as it allows the Company to reward each NEOs efforts to increase value for shareholders without requiring the Company to use cash from its treasury. Options are generally awarded to executive officers at the commencement of employment and periodically thereafter. The terms and conditions of the Option grants, including vesting provisions and exercise prices, are governed by the terms of the Stock Option Plan.

Long Term Compensation and Option-Based Awards

The Company has no long-term incentive plans other than its Stock Option Plan. The Company's directors, officers, employees and certain consultants are entitled to participate in the Stock Option Plan. The Stock Option Plan is designed to encourage share ownership and entrepreneurship on the part of the senior management and other employees. The Board believes that the Stock Option Plan aligns the interests of the NEO and the Board with shareholders by linking a component of executive compensation to the longer term performance of the Common Shares.

Options are granted by the Board. In monitoring or adjusting the Option allotments, the Board takes into account its own observations on individual performance (where possible) and its assessment of individual

contribution to shareholder value, previous Option grants and the objectives set for the NEOs and the Board. The scale of Options is generally commensurate to the appropriate level of base compensation for each level of responsibility.

In addition to determining the number of Options to be granted pursuant to the methodology outlined above, the Board also makes the following determinations: (i) parties who are entitled to participate in the Stock Option Plan; (ii) the exercise price for each Option granted, subject to the provision that the exercise price cannot be lower than the prescribed discount permitted by the CSE from the market price on the date of grant; (iii) the date on which each Option is granted; (iv) the vesting period, if any, for each Option; (v) the other material terms and conditions of each Option grant; and (v) any re-pricing or amendment to an Option grant.

The Board makes these determinations subject to and in accordance with the provisions of the Stock Option Plan. The Board reviews and approves grants of Options on an annual basis and periodically during a financial year.

Summary Compensation

The following information is presented in accordance with Form 51-102F6V – *Statement of Executive Compensation – Venture Issuers*, for the Company's financial years ended December 31, 2016 and 2015.

General

"**company**" includes other types of business organizations such as partnerships, trusts and other unincorporated business entities;

"**compensation securities**" includes stock options, convertible securities, exchangeable securities and similar instruments including stock appreciation rights, deferred share units and restricted stock units granted or issued by the company or one of its subsidiaries for services provided or to be provided, directly or indirectly, to the company or any of its subsidiaries;

"**external management company**" includes a subsidiary, affiliate or associate of the external management company;

"**named executive officer**" or "**NEO**" means each of the following individuals: (a) each individual who, in respect of the Company, during any part of the financial year ended December 31, 2016, served as CEO, including an individual performing functions similar to a CEO of the Company; (b) each individual who, in respect of the Company, during any part of the financial year ended December 31, 2016, served as CFO, including an individual performing functions similar to a CFO of the Company; (c) in respect of the Company and its subsidiaries, the most highly compensated executive officer other than the individuals identified in paragraphs (a) and (b) at the end of the financial year ended December 31, 2016 whose total compensation was more than \$150,000; and (d) each individual who would be an NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the Company, nor acting in a similar capacity, as at December 31, 2016.

"**plan**" includes any plan, contract, authorization, or arrangement, whether or not set out in any formal document, where cash, compensation securities or any other property may be received, whether for one or more persons;

"underlying securities" means any securities issuable on conversion, exchange or exercise of compensation securities.

Based on the foregoing definition, during the last completed fiscal year of the Company, the Company had two (2) NEOs, namely, James R. Brown, President and CEO (until January [●], 2018) and Janice Brown, CFO and Corporate Secretary (until January [●], 2018).

Director and Named Executive Officer Compensation

The following table sets forth all direct and indirect compensation paid, payable, awarded, granted, given or otherwise provided, directly or indirectly, by the Company thereof to each NEO and each director of the Company, in any capacity, including, for greater certainty, all plan and non-plan compensation, direct and indirect pay, remuneration, economic or financial award, reward, benefit, gift or perquisite paid, payable, awarded granted, given or otherwise provided to the NEO or director for services provided and for services to be provided, directly or indirectly, to the Company, for each of the Company's 2 most recent completed financial years:

Table of compensation excluding compensation securities							
Name and position	Year	Salary, consulting fee, retainer or commission (\$)	Bonuses (\$)	Committee or meeting fees (\$)	Value of perquisites (\$)	Value of all other compensation (\$)	Total compensation (\$)
James R. Brown <i>Former President and CEO</i> ⁽¹⁾	2016	Nil	Nil	Nil	Nil	20,000	20,000
	2015	Nil	Nil	Nil	Nil	180,000	180,000
Janice Brown <i>Former CFO and Corporate Secretary and director</i> ⁽²⁾	2016	Nil	Nil	Nil	Nil	10,000	10,000
	2015	Nil	Nil	Nil	Nil	90,000	90,000
Herbert J. Leary <i>Former Director</i>	2016	Nil	Nil	Nil	Nil	Nil	Nil
	2015	Nil	Nil	Nil	Nil	Nil	Nil
Gordon S. McKinnon <i>Former Director</i>	2016	Nil	Nil	Nil	Nil	Nil	Nil
	2015	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

- (1) Mr. Brown served as President and CEO from January 2004 to January [●], 2018.
- (2) Mrs. Brown served as Corporate Secretary and CFO from April 2005 to January [●], 2018.

External Management Companies

No external management contracts are currently in place.

Stock Options and Other Compensation Securities

No Options or other compensation securities were granted or issued to any NEO or director by the Company in the most recent financial year ended December 31, 2016. The Company does not have any

share-based award plans for its NEOs or directors. See "*Options to Purchase Securities*" for a summary of the Stock Option Plan.

Termination and Change of Control Benefits

The Company does not have any contract, agreement, plan or arrangement that provides for payments to a NEO at, following, or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of the Company or a change in a NEO's responsibilities.

Oversight and Description of Director and NEO Compensation

The Company's fundamental goal is to create value for shareholders.

The Board is responsible for determining, by way of discussions at board meetings, the compensation to be paid to the executive officers of the Company. The Company at this time does not have a formal compensation program with specific performance goals; however, the performance of each executive is considered along with the Company's ability to pay compensation and its results of operation for the period.

Compensation is designed to achieve the following key objectives:

- to support our overall business strategy and objectives;
- to provide market competitive compensation that is substantially performance-based;
- to provide incentives that encourage superior corporate performance and retention of highly skilled and talented employees; and
- to align executive compensation with corporate performance and therefore shareholders' interests.

The Company's compensation package is comprised of a base salary and option-based awards.

The Company does not have a formal compensation program with set benchmarks; however, the Company does have a compensation program which seeks to reward an executive officer's current and future expected performance. Individual performance in connection with the achievement of corporate milestones and objectives is also reviewed for all executive officers.

The Board has not directly considered the implications of the risks associated with the Company's compensation policies and practices.

The Company does not have a set policy preventing an NEO or director from purchasing financing instruments such as prepaid variable forward contracts, equity swaps, collars or units of exchange funds designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by such person.

Pension Disclosure

The Company does not have any form of pension plan that provides for payments or benefits to the NEO at, following, or in connection with retirement. The Company does not have any form of deferred compensation plan.

Intended Changes to Compensation

The Company intends to review its compensation practices and may enter into consulting arrangements with executive officers of the Company.

As a company expected to undergo quick and significant growth, compensation for the executives of the Company will be reviewed initially every six months. At each review period, a compensation committee comprised of directors of the Company will be struck to review executive compensation to ensure compensation packages remains reflective of the current roles and responsibilities, and competitive enough to ensure leading candidates of the executive team can be attracted and retained.

Material Changes to Compensation

Following the Listing Date, each NEO described above will no longer receive compensation from the Company. The Company is currently in negotiations with its CEO and CTO in respect of their respective executive compensation. Such compensation is not expected to collectively exceed \$84,000 on an annual basis.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

At no time during the Company's last completed financial year or as at the date of this Prospectus, was any director, executive officer or employee of the Company nor any Associate of any director, executive officer or employee of the Company, or any former director, executive officer or employee of the Company indebted to the Company or indebted to another entity where such indebtedness was the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company.

At no time since the date of incorporation of Blockagram Subsidiary or as at the date of this Prospectus, was any director, executive officer or employee of Blockagram Subsidiary nor any Associate of any director, executive officer or employee of Blockagram Subsidiary, or any former director, executive officer or employee of Blockagram Subsidiary indebted to Blockagram Subsidiary or indebted to another entity where such indebtedness was the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Blockagram Subsidiary.

AUDIT COMMITTEE AND CORPORATE GOVERNANCE

Audit Committee

The Audit Committee's Charter

The Audit Committee has a charter. A copy of the Audit Committee charter is attached hereto as Schedule "H".

Composition of the Audit Committee

The members of the Audit Committee are Roland Nimmo, Daniel Kube and Ronnie Strasser. Mr. Nimmo is an executive officer of the Company and is not considered to be independent. Ronnie Strasser and Daniel Kube are not executive officers of the Company and, therefore, are independent members of the Audit Committee. All members are considered to be financially literate.

A member of the Audit Committee is independent if the member has no direct or indirect material relationship with the Company. A material relationship means a relationship which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment.

A member of the Audit Committee is considered financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company.

Relevant Education and Experience

Roland Nimmo

Mr. Nimmo has been a trusted advisor to decision makers in some of Canada's largest and most successful organizations. Currently, Mr. Nimmo acts as Chief Financial Officer of Crown Life Canada Ltd. TerrAscend Corp. and Identita Inc. Prior thereto, Mr. Nimmo was partner at Deloitte LLP and Vice President Internal Audit at Magna International Inc. Mr. Nimmo holds a B.A. in economics (honours) from Queen's University. Roland also holds CA and CPA designations.

Ronnie Strasser

Mr. Strasser is a director of Phantom Developments, one of the premier condominium builders in Toronto. Mr. Strasser is also the President and Chief Executive Officer of Strasser Asset Management. Prior thereto, Mr. Strasser was the President of Phantom Industries Inc., a leading Canadian apparel manufacturer.

Daniel Kube

Mr. Kube has two decades of success and experience in building successful technology companies for several leading organizations including, IGLOO Software, PricewaterhouseCoopers, PerformanceSoft and IONA Technologies. Mr. Kube holds an Executive M.B.A. from Northwestern University (Kellogg School of Management) and a B.A. in sociology from the University of British Columbia. Daniel also holds an ICD.D designation from the Institute of Corporate Directors.

Each member of the Audit Committee has adequate education and experience that would provide the member with:

- (a) an understanding of the accounting principles used by the Company to prepare its financial statements, and the ability to assess the general application of those principles in connection with estimates, accruals and reserves;
- (b) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to

the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising individuals engaged in such activities; and

- (c) an understanding of internal controls and procedures for financial reporting.

Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year has the Audit Committee made any recommendations to the Board to nominate or compensate its auditor which were not adopted by the Board.

Reliance on Certain Exemptions

At no time since the commencement of the Company's most recently completed financial year has the Company relied on the exemption in Section 2.4 of NI 52-110 (De Minimis Non-audit Services) or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110. Part 8 permits an issuer to apply to a securities regulatory authority for an exemption from the requirements of NI 52-110, in whole or in part.

Pre-Approval of Policies and Procedures

All services to be performed by the independent auditor of the Company must be approved in advance by the Audit Committee. The Audit Committee has considered whether the provisions of services other than audit services is compatible with maintaining the auditor's independence and has adopted a policy governing the provision of these services. This policy requires that pre-approval by the Audit Committee of all audit and non-audit services provide by any external auditor, other than any de minimus non-audit services allowed by applicable law or regulation.

External Auditor Service Fees

The Audit Committee has reviewed the nature and amount of the non-audited services provided by the Company's auditor for the financial year ended December 31, 2016 to ensure auditor independence. Fees billed for audit and non-audit services in the last fiscal years for audit fees are outlined in the following table:

Nature of Services	Fees Billed by Auditor in respect of the financial year ended December 31, 2016	Fees Billed by Auditor in respect of the financial year ended December 31, 2015
Audit Fees ⁽¹⁾	\$12,078	\$16,410
Audit-Related Fees ⁽²⁾	Nil	\$11,425
Tax Fees ⁽³⁾	\$2,500	\$3,035
All Other Fees ⁽⁴⁾	Nil	Nil
Total	\$14,578	\$30,870

Notes:

- (1) "Audit Fees" include fees necessary to perform the annual audit and quarterly reviews of the Company's financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.
- (2) "Audit-Related Fees" include services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.
- (3) "Tax Fees" include fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.
- (4) "All Other Fees" include all other non-audit services.

Exemption

The Company is relying upon the exemption in section 6.1 of NI 52-110 in respect of the composition of its Audit Committee and in respect of its reporting obligations under NI 52-110 for the financial year ended December 31, 2016. This exemption exempts a "venture issuer" from the requirements of Part 3 (*Composition of the Audit Committee*) and Part 5 (*Reporting Obligations*) of that instrument, as would otherwise be required by NI 52-110.

Risk and Disclosure Committee

The Board has approved and adopted a Risk and Disclosure Committee and Charter. The Committee shall consist of a minimum of three members with the majority being independent as appointed from time to time by the Board. The members of the Committee are Roland Nimmo, CFO, corporate secretary and director of the Company, Daniel Kube, director of the Company and Ronnie Strasser, a director of the Company. Mr. Nimmo is an executive officer of the Company and is not considered to be independent. Daniel Kube and Ronnie Strasser are not executive officers of the Company and, therefore, are independent members of the Risk and Disclosure Committee.

The purpose of the Risk and Disclosure Committee is to properly assess the risks and disclosures associated with the regulatory compliance related to all business initiatives such as, but not limited to, the development of new applications using blockchain technology, the use of such new applications, the economics of such new applications, and all new work projects as they relate to crypto currencies, if any.

The primary responsibility of the Committee is to oversee and approve the company-wide risk management practices to assist the Board in:

- Overseeing that the executive team has identified, assessed and disclosed all the risks that the Company faces and has mitigated any potential risks to an acceptable level as determined by the Committee;
- Overseeing, in conjunction with the Board, risks such as strategic, financial, credit, market, liquidity, security, property, IT, legal, regulatory, reputational, and other risks; and
- In conjunction with the Board, approving the Company's overall business initiatives, business plans and disclosures as it relates to the development of new blockchain related applications.

The Committee has the authority to conduct investigations into any matters within its scope of responsibility and obtain advice and assistance from outside legal, accounting, or other advisors, as necessary, to perform its duties and responsibilities.

In carrying out its duties and responsibilities, the Committee also has the authority to meet with and seek any information it requires from employees, officers, directors, or external parties.

To fulfil its responsibilities and duties, the Committee will:

- Provide input to management regarding the risk appetite and tolerance and, ultimately, approve all new development projects and applications for the Company as a whole;
- Monitor the Company's risk profile - its on-going and potential exposure to risks of various types including but not limited to the development of applications, blockchain technology developments, regulatory changes, crypto currency uses and the legality and disclosure of the Company's operations;
- Enforce the tone and culture regarding risk and risk management as it relates to the Company's goals and compensation structure by creating a corporate culture such that individuals at all levels manage risks rather than automatically avoiding or thoughtlessly taking them;
- Continually obtain reasonable assurance from management that all known and emerging risks have been identified and mitigated or managed, disclosed as required and in compliance with regulations;
- Communicate formally and informally with the executive team and external legal counsel regarding the risks associated with the Company's operations and development plan;
- Read and provide input to the Board and Audit Committee regarding risk disclosures in financial statements and other public statements regarding risk and the operations of the Company; and
- Keep risk on both the Board's and management's agenda on a regular basis.

The Committee will perform a review and evaluation, at least annually, of the performance of the Committee and its members, including the compliance of the Committee with this Charter. In addition, the Committee will review and reassess, at least annually, the adequacy of this Charter and recommend to the Board any improvements to this Charter that the Committee considers necessary or valuable. The Committee will conduct such evaluations and reviews in such manner as it deems appropriate. The Committee will also have such other responsibilities as the Board may assign to it from time to time.

Corporate Governance

Corporate governance relates to the activities of the Board, the members of which are elected by and are accountable to the shareholders, and takes into account the role of the individual members of management who are appointed by the Board and who are charged with the day-to-day management of the Company. Corporate governance encourages establishing a reasonable degree of independence of the Board from executive management and the adoption of policies to ensure the Board recognizes the

principles of good management. The Board is committed to sound corporate governance practices, which are in the interest of its shareholders and contribute to effective and efficient decision making.

NI 58-201 establishes corporate governance guidelines which apply to all public companies. The Company has reviewed its own corporate governance practices in light of these guidelines. In certain cases, the Company's practices comply with the guidelines, however, the Board considers that some of the guidelines are not suitable for the Company at its current stage of development and therefore these guidelines have not been adopted. The Company will continue to review and implement corporate governance guidelines as the business of the Company progresses and becomes more active in operations. NI 58-101 mandates disclosure of corporate governance practices in Form 58-101F2, which disclosure is set out below.

Board of Directors

The mandate of the Board is to supervise the management of the Company and to act in the best interests of the Company. The Board acts in accordance with:

- (d) the BCBCA;
- (e) the Company's articles of incorporation; and
- (f) other applicable laws and policies.

The Board approves all significant decisions that affect the Company before they are implemented. The Board supervises their implementation and reviews the results.

The Board is actively involved in the Company's strategic planning process. The Board discusses and reviews all materials relating to the strategic plan with management. The Board is responsible for reviewing and approving the strategic plan. At least one Board meeting each year is devoted to discussing and considering the strategic plan, which takes into account the risks and opportunities of the business. Management must seek the Board's approval for any transaction that would have a significant impact on the strategic plan.

The Board periodically reviews the Company's business and implementation of appropriate systems to manage any associated risks, communications with investors and the financial community and the integrity of the Company's internal control and management information systems. The Board also monitors the Company's compliance with its timely disclosure obligations and reviews material disclosure documents prior to distribution. The Board periodically discusses the systems of internal control with the Company's external auditor.

The Board is responsible for choosing the CEO, CFO, CTO and appointing senior management and for monitoring their performance and developing descriptions of the positions for the Board, including the limits on management's responsibilities and the corporate objectives to be met by the management.

The Board approves all the Company's major communications, including annual and quarterly reports, financing documents and press releases. The Board approves the Company's communication policy that covers the accurate and timely communication of all important information. It is reviewed annually. This policy includes procedures for communicating with analysts by conference calls.

The Board, through its Audit Committee, examines the effectiveness of the Company's internal control processes and management information systems. The Board consults with the internal auditor and management of the Company to ensure the integrity of these systems. The internal auditor submits a report to the Audit Committee each year on the quality of the Company's internal control processes and management information systems.

The Board is responsible for determining whether or not each director is an independent director. Directors who also act as officers of the Company are not considered independent. Directors who do not also act as officers of the Company, do not work in the day-to-day operations of the Company, are not party to any material contracts with the Company, or receive any fees from the Company except as disclosed in this Prospectus.

The Board consists of five directors, three of whom are independent based upon the tests for independence set forth in NI 52-110. Jeffrey Orridge, Daniel Kube and Ronnie Strasser are independent directors. Charles Abraham and Roland Nimmo are not independent. Directors are considered to be independent if they have no direct or indirect material relationship with the Company. A "material relationship" is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's independent judgment.

Directorships

No member of the Board currently serves on the board of another reporting issuer in Canada.

Orientation and Continuing Education

When new directors are appointed, they receive an orientation, commensurate with their previous experience, on the Company's properties, business, technology and industry and on the responsibilities of directors.

The Board briefs all new directors with respect to the Board's policies and other relevant corporate and business information. New Board members are also provided with access to all of the Company's publicly filed documents, the Company's records, and the Company's management and professional advisors, including the Company's auditor and legal counsel.

The Board also ensures that each director is up-to-date with current information regarding the Company's business, the role the director is expected to fulfill, and basic procedures and operations of the Board. Board members are encouraged to communicate with management and the Company's auditor.

Ethical Business Conduct

The Board has found that the fiduciary duties placed on individual directors by the Company's governing corporate legislation and the common law and the restrictions placed by applicable corporate legislation on an individual director's participation in decisions of the Board in which the director has an interest have been sufficient to ensure that the Board operates independently of management and in the best interests of the Company.

Under the applicable corporate legislation, a director is required to act honestly and in good faith with a view to the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances, and to disclose to the Board the nature and extent of any interest of the director in any material contract or material transaction, whether made or

proposed, if the director is a party to the contract or transaction, is a director or officer (or an individual acting in a similar capacity) of a party to the contract or transaction or has a material interest in a party to the contract or transaction. The director must then abstain from voting on the contract or transaction unless the contract or transaction: (i) relates primarily to their remuneration as a director, officer, employee or agent of the Company or an Affiliate of the Company; (ii) is for indemnity or insurance for the benefit of the director in connection with the Company; or (iii) is with an Affiliate of the Company. If the director abstains from voting after disclosure of their interest, the directors approve the contract or transaction and the contract or transaction was reasonable and fair to the Company at the time it was entered into, the contract or transaction is not invalid and the director is not accountable to the Company for any profit realized from the contract or transaction. Otherwise, the director must have acted honestly and in good faith, the contract or transaction must have been reasonable and fair to the Company and the contract or transaction be approved by the shareholders by a special resolution after receiving full disclosure of its terms in order for the director to avoid such liability or the contract or transaction being invalid.

Nomination of Directors

The Board is responsible for identifying individuals qualified to become new Board members and recommending to the Board new director nominees for the next annual meeting of shareholders.

New nominees must have a track record in general business management, special expertise in an area of strategic interest to the Company, the ability to devote the time required, shown support for the Company's mission and strategic objectives, and a willingness to serve.

The Board considers its size each year when it considers the number of directors to recommend to the shareholders for election at the annual meeting of shareholders, taking into account the number required to carry out the Board's duties effectively and to maintain a diversity of views and experience.

Compensation

The Board conducts reviews with regard to directors' compensation twice a year. To make its recommendation on directors' compensation, the Board takes into account the types of compensation and the amounts paid to directors of comparable publicly traded Canadian companies and aligns the interests of directors with the return to shareholders. Compensation packages, including benefits, for executives and key managers will be developed based on performance and the Company's cash flow.

No compensation will be paid to directors acting in this capacity for the first twelve months of operations at which time this decision will be reviewed.

The Board decides the compensation of the Company's officers, based on industry standards and the Company's financial situation.

Other Board Committees

The Board has no committees other than the Audit Committee and its Risk and Disclosure Committee.

Assessments

The Board monitors the adequacy of information given to directors, communication between the Board and management and the strategic direction and processes of the Board and committees.

RISK FACTORS

An investment in our stock involves a high degree of risk. You should carefully consider the following information, together with the other information in this Prospectus, before buying shares of our stock. If any of the following risks or uncertainties occur, our business, financial condition, and results of operations could be materially and adversely affected and the trading price of our stock could decline.

The Common Shares should be considered highly speculative due to the nature of the Company's business and the present stage of its corporate and technological development. In evaluating the Company and its business, investors should carefully consider, in addition to the other information contained in this Prospectus, the following risk factors. These risk factors are not a definitive list of all risk factors associated with an investment in the Company or in connection with the Company's operations. There may be other risks and uncertainties that are not known to the Company or that the Company currently believes are not material but which also may have a material adverse effect on its business, financial condition, operating results or prospects. In particular, blockchain technology has evolved rapidly and there can be no guarantees that additional risks, as a result of significant technological advances, may not present themselves in the near future. In that case, the trading price of the Common Shares could decline substantially, and investors may lose all or part of the value of the Common Shares held by them. An investment in securities of the Company should only be made by persons who can afford a significant or total loss of their investment. There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this Prospectus.

Risk Factors Related to the Common Shares

There is currently no public trading market for the Common Shares

Currently there is no public market for the Common Shares of the Company, and there can be no assurance that an active market for the Common Shares will develop or be sustained.

Volatility of Stock Price and Market Conditions

The market price of the Common Shares may be subject to wide fluctuations in response to factors such as actual or anticipated variations in its results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may adversely affect the market price of the Common Shares, even if the Company is successful in maintaining revenues, cash flows or earnings. The purchase of the Common Shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Securities of the Company should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company should not constitute a major portion of an investor's portfolio.

Risk Factors Associated with Blockagram Subsidiary's Business

Key Personnel

The future success of the Company will depend, in large part, upon its ability to retain its key management personnel and to attract and retain additional qualified marketing, sales and operational

personnel to form part of its technical and customer services support center. The Company may not be able to enlist, train, retain, motivate and manage the required personnel. Competition for these types of personnel is intense. Failure to attract and retain personnel, particularly marketing, sales and operational personnel as well as consultants, could make it difficult for the Company to manage its business and meet its objectives.

Failure to manage growth successfully may adversely impact the Company's operating results. The growth of the Company's operations places a strain on managerial, financial and human resources. The Company's ability to manage future growth will depend in large part upon a number of factors, including the ability to rapidly:

- (a) build and train development, sales and marketing staff to create an expanding presence in the evolving marketplace for the Company's products;
- (b) attract and retain qualified technical personnel in order to administer technical support required for customers located in Canada, the United States and other countries around the world;
- (c) develop customer support capacity as sales increase, so that customer support can be provided without diverting resources from product sales efforts; and
- (d) expand internal management and financial controls significantly, so that control can be maintained over operations as the number of personnel and size of the Company increases.

Inability to achieve any of these objectives could harm the business and operating results of the Company.

Limited Operating History

Blockagram Subsidiary has limited operating history. The Company and its business prospects must be viewed against the background of the risks, expenses and problems frequently encountered by companies in the early stages of their development, particularly companies in new and rapidly evolving markets such as the cryptocurrency and blockchain market. There is no certainty that the Company will operate profitably.

No Profits to Date

Blockagram Subsidiary has not made profits since its incorporation and it is expected that it will not be profitable for next foreseeable future. Its future profitability will, in particular, depend upon its success in developing and managing a significant number of cryptocurrency internet platforms and to the extent to which any of these platforms themselves are able to generate significant revenues. Because of the limited operating history, the changes in the business and the uncertainties regarding the development of the cryptocurrency market and blockchain technology, management does not believe that the operating results to date should be regarded as indicators for Blockagram Subsidiary's future performance.

Additional Requirements for Capital

Substantial additional financing may be required if the Company is to be successfully develop its blockchain business. No assurances can be given that the Company will be able to raise the additional

capital that it may require for its anticipated future development. Any additional equity financing may be dilutive to investors and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company, if at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

Negative Operating Cash Flow

Blockagram Subsidiary does not generate operating revenue and has negative cash flow from operating activities. It is anticipated that the Company will continue to have negative cash flow in the foreseeable future. Continued losses may have the following consequences:

- (a) increasing the Company's vulnerability to general adverse economic and industry conditions;
- (b) limiting the Company's ability to obtain additional financing to fund future working capital, capital expenditures, operating costs and other general corporate requirements; and
- (c) limiting the Company's flexibility in planning for, or reacting to, changes in its business and industry.

Expenses May Not Align With Revenues

Unexpected events may materially harm Blockagram Subsidiary's ability to align incurred expenses with recognized revenues. Blockagram Subsidiary incurs operating expenses based upon anticipated revenue trends. Since a high percentage of these expenses may be relatively fixed, a delay in recognizing revenues from transactions related to these expenses (such a delay may be due to the factors described elsewhere in this risk factor section or it may be due to other factors) could cause significant variations in operating results from quarter to quarter, and such a delay could materially reduce operating income. If these expenses are not subsequently matched by revenues, Blockagram Subsidiary's business, financial condition, or results of operations could be materially and adversely affected.

Development of Cryptocurrencies

Cryptocurrency and blockchain technology is a young and rapidly evolving business area. Although it is widely predicted that cryptocurrency will become a leading means of digital payment, it cannot be assured that this will in fact occur. Currently, blockchain software is dependent on the widespread acceptance of cryptocurrency as a means of payment within the digital economy. For a number of reasons, including, for example, the lack of recognized security technologies, inefficient processing of payment transactions, problems in the handling of warranty claims, limited user-friendliness, inconsistent quality, lack of availability of cost-efficient high-speed services and lack of clear universally applicable regulation as well as uncertainties regarding proprietary rights and other legal issues, it can't be ruled out that such cryptocurrency activities may prove in the long run to be an unprofitable means for businesses.

In particular, the factors affecting the further development of the cryptocurrency industry include:

- (a) Worldwide adoption and usage of cryptocurrencies;

- (b) Regulations by governments and/or by organizations directing governmental regulations (such as the European Union) regarding the use and operation of and access to cryptocurrencies;
- (c) Changes in consumer demographics and public behavior, tastes and preferences;
- (d) Redirection and liberalization of using fiat currencies as well as the development of other forms of publicly acceptable means of buying and selling goods and services; and
- (e) General economic conditions and the regulatory environment relating to cryptocurrencies.

Market Acceptance

If Blockagram™ or Blockagram Subsidiary's other proposed technologies do not gain market acceptance, its operating results may be negatively affected. If the markets for Blockagram Subsidiary's software products and services fail to develop, develop more slowly than expected or become subject to increased competition, its business may suffer. As a result, Blockagram Subsidiary may be unable to: (i) successfully market Blockagram™; (ii) develop new blockchain technologies; or (ii) complete software products and services currently under development. If Blockagram™ or Blockagram Subsidiary's other proposed technologies are not accepted by its customers or by other businesses in the marketplace, Blockagram Subsidiary's business, operating results and financial condition will be materially affected.

Global Financial Developments

Stress in the global financial system may adversely affect Blockagram Subsidiary's finances and operations in ways that may be hard to predict or to defend against. Financial developments seemingly unrelated to Blockagram Subsidiary or to its industry may adversely affect Blockagram Subsidiary over the course of time. For example, material increases in any applicable interest rate benchmarks may increase the debt payment costs for Blockagram Subsidiary's credit facilities. Credit contraction in financial markets may hurt its ability to access credit in the event that Blockagram Subsidiary identifies an acquisition opportunity or require significant access to credit for other reasons. A reduction in credit, combined with reduced economic activity, may adversely affect business. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on Blockagram Subsidiary's business, operating results, and financial condition.

Regulatory Risks

Changes in or more aggressive enforcement of laws and regulations could adversely impact the Company's business. Failure or delays in obtaining necessary approvals could have a materially adverse effect on the Company's financial condition and results of operations. Furthermore, changes in government, regulations and policies and practices could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Regulatory agencies could shut down or restrict the use of platforms or exchanges using virtual currencies or blockchain based technologies. This could lead to a loss of any investment made in the Company and may trigger regulatory action by the OSC or other securities regulators.

The legal status of cryptocurrency varies substantially from country to country and is still undefined and changing in many of them. While some countries have explicitly allowed its use and trade, others have

banned or restricted it. Likewise, various government agencies, departments, and courts have classified cryptocurrencies differently.

Dependence on Internet Infrastructure; Risk of System Failures, Security Risks and Rapid Technological Change

The success as a developer of cryptocurrency-based, blockchain platforms will depend by and large upon the continued development of a stable public infrastructure, with the necessary speed, data capacity and security, and the timely development of complementary products such as high-speed modems for providing reliable internet access and services. Cryptocurrency has experienced, and is expected to continue to experience significant growth in the number of users, amount of content and bandwidth availability. It cannot be assured that the cryptocurrency infrastructure will continue to be able to support the demands placed upon it by this continued growth or that the performance or reliability of the technology will not be adversely affected by this continued growth. It is further not assured that the infrastructure or complementary products or services necessary to make cryptocurrency a viable medium for digital payments will be developed in a timely manner, or that such development will not result in the requirement of incurring substantial costs in order to adapt the Company's services to changing technologies.

Risk of Security Weaknesses in the Blockagram Subsidiary Network Core Infrastructure Software

The Blockagram Subsidiary network software consists of open source software that is itself based on open source software. There is a risk that the developers of Blockagram Subsidiary, or other third parties may intentionally or unintentionally introduce weaknesses or bugs into the core infrastructural elements of the Blockagram Subsidiary network software interfering with the use of or causing the loss of tokens or other data.

Risk of Weaknesses or Exploitable Breakthroughs in the Field of Cryptography

Advances in cryptography, or technical advances such as the development of quantum computers, could present risks to cryptographic tokens and the Blockagram Subsidiary platform software, which could result in the theft or loss of tokens or other data.

Risks associated with governing by the DAC

The tokens and the Blockagram Subsidiary networks may be adversely affected if the Decentralized Autonomous Cooperative (DAC) that governs the Blockagram Subsidiary software ecosystem maliciously or carelessly or members of the DAC disagree or are in conflict with one another. Further, the DAC may decide not to support funding proposals that are beneficial to the long-term development of Blockagram Subsidiary software. In this event Blockagram Subsidiary may not be able to grow and the network and the blockchain may be adversely affected.

Risk of Theft and Hacking

Hackers or other groups or organizations may attempt to interfere with the Blockagram Subsidiary network software or the availability of it any number of ways, including without limitation denial of service attacks, Sybil attacks, spoofing, smurfing, malware attacks, or consensus-based attacks.

Intellectual Property Rights

The only significant intellectual property rights owned by Blockagram Subsidiary are certain domain names, a trademark, object code and source code. The Company does not believe that it is dependent on any of these intellectual property rights; however, the loss of several of them at any one time could harm its business, results of operations and its financial condition. Although the Company is not aware of violating commercial and other proprietary rights of third parties, there can be no assurance that its products do not violate proprietary rights of third parties or that third parties will not assert or claim that such violation has occurred. Although no legal disputes in this respect or perceptible detrimental effects on Blockagram Subsidiary's business have arisen to date, any such claims and disputes arising may result in liability for substantial damages which in turn could harm the Company's business, results of operations and financial condition.

Volatilities in Cryptocurrency Prices

The markets for cryptocurrencies have experienced much larger fluctuations than other security markets. There can be no assurances that cryptocurrency price might show erratic swings in the future, which could be related not only to improper payment activities involving cryptocurrency but also regulations by law makers in various countries. Furthermore, cryptocurrencies have not been widely adopted as a means of payments for goods and services by the majority of retail and commercial outlets. On the other hand, a significant portion of the demands for cryptocurrency is generated by investors and speculators focussing on generating profits by buying and holding cryptocurrency which might create limitations on the availability of cryptocurrencies to pay for goods and services resulting in increased volatility of cryptocurrency which could adversely impact an investment in the Company.

Several factors may affect the price and the volatility of cryptocurrency, including, but not limited to:

- (a) Global cryptocurrency demand depending on the acceptance of cryptocurrency by retail merchants and commercial businesses, the perception that the use and holding of cryptocurrency is safe and secure as well as the lack of regulatory restrictions;
- (b) Investor's expectations with respect to the rate of inflation;
- (c) Interest rates;
- (d) Currency exchange rates, including exchange rates between cryptocurrency and fiat currency;
- (e) Fiat currency withdrawal and deposit policies on cryptocurrency exchanges and liquidity on such cryptocurrency exchanges
- (f) Interruption of services or failures of major cryptocurrency exchanges;
- (g) Large investment and trading activities in cryptocurrency
- (h) Monetary policies of governments, trade restrictions, currency de- and revaluations;
- (i) Regulatory measures restricting the use of cryptocurrency as a form of payment or the purchase of cryptocurrency;

- (j) Global or regional political, economic or financial events and situations, including increased threat of terrorist activities; and/or
- (k) Self-fulfilling expectations of changes in the cryptocurrency market.

Stability of Cryptocurrency Exchanges

The price of cryptocurrency is established by public exchanges that have, by nature of their business, a limited operating history. So far, even the largest cryptocurrency exchanges have been subject to operational interruptions or even collapse (Mt. Gox). The interruption and the collapse of cryptocurrency exchanges may limit the liquidity of cryptocurrencies resulting in volatile prices and a reduction in confidence in the cryptocurrency network and the cryptocurrency exchange market. The deposit or withdrawal of fiat currency into or from the cryptocurrency exchanges may also affect the price of cryptocurrency. Operational limits regarding the settlement with fiat currencies may also reduce the demand to use cryptocurrency exchanges which would adversely affect an investment in the Company. Cryptocurrency exchanges are relatively new and largely unregulated, and may, therefore, be more exposed to fraud and failure than other, more established currency and commodity exchanges. While smaller cryptocurrency exchanges are lacking infrastructure and capitalization the larger cryptocurrency exchanges are more likely to become targets of hackers and malware. Also, arbitraging activities between cryptocurrency exchanges may destabilize some of the smaller cryptocurrency exchanges. A lack of stability in the cryptocurrency exchange market may reduce the confidence in the cryptocurrency network affecting adversely an investment in the Company.

Changes in the Cryptocurrency Network Protocol

The cryptocurrency network is based on a protocol governing the peer-to-peer interactions between computers that are connected to each other within the cryptocurrency network. The governing code regulating such math-based protocol is informally managed by a development team. This development team, though, might propose and implement amendments to the cryptocurrency network's source code through software upgrades altering the original protocol, including fundamental ideas such as the irreversibility of transactions and limitations on the validation of blockchain software distributed ledgers. Such changes of the original protocol and software may adversely affect an investment in the Company.

Acceptance of Virtual Currencies

Although the Company believes that the usage of cryptocurrencies will be focussed on the technology to transmit and clear fiat currencies their usage as virtual currency will be an important factor as well. Hence, in the event that companies or individuals will be increasingly reluctant to accept virtual currencies, such limited usage of cryptocurrencies could adversely affect an investment in the Company.

Misuse of Cryptocurrencies

Ever since the existence of cryptocurrencies there has been attempts to use them for speculation purposes and manipulations by hackers to use cryptocurrencies for malicious purposes. Although law makers increasingly regulate the use and applications of cryptocurrencies and software is being developed to curtail hacker activities as well as misuses by speculators no assurances can be given that those measures will be sufficiently deter those illegal activities in the future.

In particular, misuses could occur if a malicious actor or botnet (i.e. a series of computer controlled by a networked software coordinating the actions of the computers) obtains a majority of the processing power

controlling the cryptocurrency validating activities and altering the blockchain which cryptocurrency transactions rely upon.

Moreover, if the award for solving transaction blocks declines and transaction fees are not sufficiently high, the incentive to continue validating blockchain transactions would decrease and could lead to a stoppage of validation activities. The collective processing power of the blockchain network would be reduced, which would adversely affect the confirmation process for transactions by decreasing the speed of the adaption and adjustment in the difficulty for transaction block solutions. Such slower adjustments would make the blockchain network more vulnerable to malicious actors or botnets obtaining control of the blockchain network processing power.

Recording of Transactions

It is feasible that blockchain validators will cease to record transactions in solved transaction blocks. In particular, transactions that do not include the payment of transaction fees will not be recorded on the blockchain until a transaction block is solved by validators who are not required to pay such transaction fees. Any widespread delays in the recording of transactions could result in a loss of confidence in the blockchain network which could adversely affect an investment in the Company.

Competition

The market for blockchain technology may become highly competitive on both a local and a national level. The Company believes that the primary competitive factors in this market are:

- product features, functionality and ease of use;
- ongoing product enhancements;
- price;
- quality service and support; and
- reputation and stability of the vendor.

The blockchain programming industry is at a very early stage. There is currently more demand for blockchain products than there are providers to create all of the blockchain products in demand. However, there are no assurances that established competitors, which may have greater financial, technical, and marketing resources than Blockagram Subsidiary does, may choose to directly compete with Blockagram Subsidiary. The Company's competitors may also have a larger installed base of users, longer operating histories or greater name recognition than the Company will.

There can be no assurance that the Company will successfully differentiate its products from the products of its competitors, or that the marketplace will consider the Company's products to be superior to competing products.

Dependence on Third Party Relationships

The Company is highly dependent on a number of third party relationships to conduct its business and implement expansion plans. It cannot be assured that all of these partnerships will turn out to be as advantageous as currently anticipated or that other partnerships would not have proven to be more advantageous. In addition, it is impossible to assure that all associated partners will perform their obligations as agreed or that any strategy agreement will be specifically enforceable by the Company.

Management of Growth

The Company may be subject to growth-related risks including pressure on its internal systems and controls. The Company's ability to manage its growth effectively will require it to continue to implement and improve its operational and financial systems. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects. While management believes that it will have made the necessary investments in infrastructure to process anticipated volume increases in the short term, the Company may experience growth in the number of its employees and the scope of its operating and financial systems, resulting in increased responsibilities for the Company's personnel, the hiring of additional personnel and, in general, higher levels of operating expenses. In order to manage its current operations and any future growth effectively, the Company will also need to continue to implement and improve its operational, financial and management information systems and to hire, train, motivate and manage its employees. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth.

Litigation

Blockagram Subsidiary may become involved in litigation that may materially adversely affect it. From time to time in the ordinary course of Blockagram Subsidiary's business, it may become involved in various legal proceedings. Such matters can be time-consuming, divert management's attention and resources and cause Blockagram Subsidiary to incur significant expenses. Furthermore, because litigation is inherently unpredictable, the results of any such actions may have a material adverse effect on Blockagram Subsidiary's business, operating results or financial condition.

Conflicts of interest

The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests, which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. Conflicts, if any, will be subject to the procedures and remedies as provided under the BCBCA.

To the best of the Company's knowledge, and other than disclosed herein, there are no known existing or potential conflicts of interest between the Company and its directors and officers except that certain of the directors and officers may serve as directors and/or officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director or officer of such other companies.

Currency Risk

To the extent that the Company expands its business into the United States and Europe, the Company will be exposed to foreign currency fluctuations to the extent that certain operations are located in the United States and Europe and therefore certain expenditures and obligations are denominated in US dollars and Euros, yet the Company is headquartered in Canada, has applied to list its Common Shares on a Canadian stock exchange and typically raises funds in Canadian dollars. As such, the Company's results of operations are subject to foreign currency fluctuation risks and such fluctuations may adversely affect the financial position and operating results of the Company.

PROMOTERS

No person or company has acted as a promoter of the Company within the two years immediately preceding the date of the Prospectus.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

There are no pending legal proceedings to which the Company is or was a party to, or that any of its property is or was the subject of, since the beginning of the most recently completed financial year for which financial statements of the Company are included in this Prospectus.

Regulatory Actions

No penalties or sanctions were imposed against the Company by a court relating to provincial and territorial securities legislation or by a securities regulatory authority within the three years immediately preceding the date of this Prospectus. No other penalties or sanctions have been imposed by a court or regulatory body against the Company necessary for this Prospectus to contain full, true and plain disclosure of all material facts. The Company has not entered into any settlement agreements before a court relating to provincial and territorial securities legislation or with a securities regulatory authority within the three years immediately preceding the date of this Prospectus.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Certain directors and officers of the Company hold Common Shares and may be granted Options to purchase Common Shares in the future. See "*Directors and Executive Officers*" and "*Options to Purchase Securities*". Other than as described below, neither the directors, officers and principal shareholders of the Company, nor any Associate or Affiliate of the foregoing, have had no material interest, direct or indirect, in any transactions in which the Company has participated prior to the date of this Prospectus, or will have any material interest in any proposed transaction, which has materially affected or will material affect the Company.

Matt Warren was the sole shareholder of the Blockagram Subsidiary and received Common Shares pursuant to the Transaction as follows.

Name	Type of Ownership	Number of Common Shares presently owned	Percentage of Common Shares outstanding
Matt Warren	Direct	7,200,000	8.59% ⁽¹⁾

Note:

(1) Matt Warren also subscribed for 200,000 Subscription Receipts pursuant to the Financing.

AUDITORS, TRANSFER AGENTS AND REGISTRARS

Auditor

Prior to completion of the Transaction, Blockagram Subsidiary's auditor was Millard Foster Thibeault Youell Professional Corporation, of 15449 Yonge St #101, Aurora, ON L4G 1P3. Millard Foster Thibeault Youell Professional Corporation was appointed auditor of Blockagram Subsidiary on January 3, 2018. As a result of the Transaction, the Company's auditor, D & H Group LLP of 10th Floor, 1333 W Broadway, Vancouver, BC V6H 4C1, became the auditor of Blockagram Subsidiary.

D & H Group LLP of 10th Floor, 1333 W Broadway, Vancouver, BC V6H 4C1 is the Company's auditor and was first appointed on May 10, 2004.

Registrar and Transfer Agent

The Company's registrar and transfer agent is Computershare Trust Company of Canada, its Vancouver office located 510 Burrard Street, 3rd Floor, Vancouver, BC V6C 3B9.

MATERIAL CONTRACTS

Except for contracts made in the ordinary course of business, the following are the only material contracts entered into by the Company and Blockagram Subsidiary within two years prior to the date hereof which are currently in effect and considered to be currently material:

1. Share Exchange Agreement dated January [●], 2018 among the Company, Blockagram Subsidiary and the Blockagram Subsidiary Shareholder. See "*Corporate Structure - Business Combination with Blockagram Subsidiary*".
2. Subscription receipt agreement dated December 22, 2017 between the Company and the subscription receipt agent regarding the deposit in escrow and release conditions of the Subscription Funds paid by subscribers of Subscription Receipts. See "*Corporate Structure – Financing*".
3. Escrow Agreement dated February [●], 2018 among the Company, the Escrow Agent, and the holders of the Escrow Securities. See "*Escrowed Securities*".

Copies of all material contracts and reports referred to in this Prospectus may be inspected at the registered office of the Company located at 10th Floor, 595 Howe Street, Vancouver, BC during normal business hours, as well as under the Company's SEDAR profile at www.sedar.com.

INTEREST OF EXPERTS

No person or company whose profession or business gives authority to a report, valuation, statement or opinion and who is named as having prepared or certified a part of this Prospectus or as having prepared or certified a report or valuation described or included in this Prospectus holds or is to hold any beneficial or registered interest, direct or indirect, in any securities or property of the Company or any Associate or Affiliate of the Company.

Millard Foster Thibault Youell Professional Corporation was the auditor of the Blockagram Subsidiary until completion of the Transaction and is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

D & H Group is now the auditor of both the Blockagram Subsidiary and the Company and is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario and British Columbia.

OTHER MATERIAL FACTS

Other than as set out elsewhere in this Prospectus, there are no other material facts about the Company and its securities which are necessary in order for this Prospectus to contain full, true and plain disclosure of all material facts relating to the Company and its securities.

FINANCIAL STATEMENTS

Attached to and forming a part of this Prospectus are the following financial statements:

- Audited financial statements of the Company for the years ended December 31, 2016 and 2015
- Audited financial statements of the Blockagram Subsidiary for the period from incorporation on November 28, 2017 to December 31, 2017
- Pro forma statement of financial position for the Company giving effect to the Transaction as at December 31, 2017.

SCHEDULE "A"

FINANCIAL STATEMENTS OF THE COMPANY

Audited financial statements of the Company for the years ended December 31, 2016 and 2015

(see attached)

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
Consolidated Financial Statements
For the years ended December 31, 2016 and 2015
(Expressed in United States Dollars)



Independent Auditor's Report

To the Shareholders of Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

We have audited the accompanying consolidated financial statements of Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.), which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2016 and December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.) as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.



D&H Group LLP
Chartered Professional Accountants
10th Floor, 1333 West Broadway
Vancouver, BC V6H 4C1

dhgroup.ca
t 604.731.5881
f 604.731.9923

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Capha Pharmaceuticals Inc.'s (formerly FPS Pharma Inc.) ability to continue as a going concern.

Vancouver, B.C.
April 28, 2017

"D&H GROUP LLP"

Chartered Professional Accountants

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Consolidated Statements of Financial Position

(Expressed in United States Dollars)

	December 31, 2016 \$	December 31, 2015 \$
<hr/>		
Assets		
Current assets		
Cash	2,990	463,473
Amounts receivable (Note 6)	-	26,145
Prepaid expenses	<u>-</u>	<u>55,202</u>
	2,990	544,820
Equipment (Note 7)	<u>1,402</u>	<u>14,095</u>
	4,392	558,915
<hr/>		
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	75,141	38,990
Loan payable (Note 12)	114,805	-
Warrant liability (Note 10)	<u>348</u>	<u>38,742</u>
	<u>190,294</u>	<u>77,732</u>
Shareholders' equity		
Share capital (Note 9)	10,883,164	10,883,164
Share-based payment reserve	3,465,384	3,465,384
Currency translation reserve	42,462	42,462
Deficit	<u>(14,576,912)</u>	<u>(13,909,827)</u>
	<u>(185,902)</u>	<u>481,183</u>
	4,392	558,915
<hr/>		

Nature of operations and going concern (Note 1)

Contingent liability (Note 15)

Events after the reporting period (Note 16)

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

These consolidated financial statements were approved for issue by the Board of Directors on April 28, 2017 and are signed on its behalf by:

/s/ James R. Brown, Director
James R. Brown

/s/ Janice Brown, Director
Janice Brown

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

	2016	2015
	\$	\$
Expenses		
Consulting	128,435	127,000
Depreciation of equipment	2,767	2,040
Investor relations	25,338	24,000
Management fees	180,000	222,000
Office and miscellaneous	89,697	72,287
Office services	10,000	144,700
Professional fees	79,134	112,437
Share-based compensation	-	196,272
Transfer agent fees and regulatory fees	14,631	33,284
Travel and meals	<u>144,753</u>	<u>86,068</u>
Loss before other items	<u>(674,755)</u>	<u>(1,020,088)</u>
Other items		
Impairment of exploration and evaluation assets (Note 8)	-	(355,960)
Change in fair value of warrant liability	38,395	(38,743)
Gain on forgiveness of loan (Note 1)	-	1,527,750
Write-off of assets (Note 1)	(42,572)	-
Other income	14,087	-
Foreign exchange loss	<u>(2,240)</u>	<u>(4,075)</u>
	<u>7,670</u>	<u>1,128,972</u>
Net income (loss) for the year	(667,085)	108,884
Other comprehensive income for the year		
Foreign currency translation	-	12,802
Comprehensive income (loss) for the year	<u>(667,085)</u>	<u>121,686</u>
Loss per common share	<u>(0.01)</u>	<u>-</u>
Weighted average number of common shares outstanding	54,431,030	55,225,001

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

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

	Common shares		Share-based payment reserve \$	Currency translation reserve \$	Deficit \$	Total equity \$
	Number of shares	Amount \$				
Balance at December 31, 2014	53,977,030	10,861,349	3,279,857	29,660	(14,018,711)	152,155
Common shares issued for:						
Options exercised	454,000	21,815	(10,745)	-	-	11,070
Share-based compensation	-	-	196,272	-	-	196,272
Net income (loss) for the year	-	-	-	-	108,884	108,884
Other comprehensive income	-	-	-	12,802	-	12,802
Balance at December 31, 2015	54,431,030	10,883,164	3,465,384	42,462	(13,909,827)	481,183
Net income (loss) for the year	-	-	-	-	(667,085)	(667,085)
Balance at December 31, 2016	54,431,030	10,883,164	3,465,384	42,462	(14,576,912)	(185,902)

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

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

	2016	2015
	\$	\$
Cash flows from (used in) operating activities		
Net income (loss) for the year	(667,085)	108,884
Items not affecting cash		
Depreciation of equipment	2,767	2,040
Share-based compensation	-	196,272
Impairment of exploration and evaluation assets	-	355,960
Change in warrant liability	(38,395)	38,743
Gain on forgiveness of debt	-	(1,527,750)
Disposal of equipment	9,927	-
Changes in non-cash working capital		
Decrease (increase) in		
Amounts receivable	26,145	(14,308)
Prepaid expenses	55,202	(55,202)
Increase (decrease) in		
Accounts payable and accrued liabilities	<u>36,151</u>	<u>(118,884)</u>
	<u>(575,288)</u>	<u>(1,014,245)</u>
Cash flows from (used in) investing activities		
Purchase of equipment	-	(13,713)
Expenditures on exploration and evaluation assets	<u>-</u>	<u>(10,201)</u>
	<u>-</u>	<u>(23,914)</u>
Cash flows from financing activities		
Issuance of common shares	-	11,070
Loan from shareholder	114,805	(53,005)
Loan proceeds	<u>-</u>	<u>1,527,750</u>
	<u>114,805</u>	<u>1,485,815</u>
Increase (decrease) in cash during the year	(460,483)	447,656
Effect of exchange rate	-	12,802
Cash, beginning of year	<u>463,473</u>	<u>3,015</u>
Cash, end of year	2,990	463,473

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

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

1. Nature of operations and going concern

Capha Pharmaceuticals Inc. (hereafter referred to as the "Company" or "Capha") is incorporated under the laws of the Province of British Columbia and was formed as a result of an amalgamation on September 1, 2004. On January 16, 2017, the Company changed its name from FPS Pharma Inc. to Capha Pharmaceuticals Inc.

The Company's corporate office is located at:

Suite 324 - 4205 Gellatly Road
West Kelowna, BC V4T 2K2
Canada

During 2015, the Company determined to cease carrying on a mineral exploration business. The Company's existing mineral exploration agreement was terminated and all related carrying costs were written off. The Company began exploring opportunities in the pharmaceutical distribution business.

During 2015, the Company attempted to acquire a 100% equity interest in Florida Pharmacy Solutions, Inc. ("FPSI"). FPSI was based in Florida, United States of America, and carried on a pharmacy compounding business. The Company was ultimately not successful in completing the acquisition. As part of the attempted acquisition, the Company received net loans of \$ 1,527,750, which were forgiven as partial consideration for the Company ceasing to pursue the acquisition. The Company also received reimbursement of certain legal and other expenses it had incurred.

During 2015, the Company incorporated a subsidiary in Hong Kong, called FPS Pharma Asia Limited and set up offices in Asia. All offices in Asia were closed in December 2016 and the Company recognized a write-off of \$ 42,572 relating to prepaid expenses and equipment.

As at December 31, 2016, the Company had a working capital deficit of \$ 187,304 and an accumulated deficit of \$ 14,576,912. These financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business. These financial statements do not include any adjustment for the recoverability and classification of assets and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

2. Basis of presentation

Statement of compliance

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

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

2. Basis of presentation - continued

Details of the group

In addition to the Company, the consolidated financial statements include a subsidiary. Subsidiaries are corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases

As at December 31, 2016, the Company's subsidiary is as follows:

§ FPS Pharma Asia Limited, Hong Kong - 100% owned

Foreign currency translation

Functional and presentation currency

Historically, the Company's functional currency and its financial statements have been presented in Canadian dollars. In August 2015, its functional currency changed to United States dollars and its financial statements are now presented in United States dollars for the following reasons:

- i) Functional currency is defined in International Accounting Standard 21 *The Effects of Changes in Foreign Exchange Rates* ("IAS 21") as the "currency of the primary economic environment in which the entity operates." In determining functional currency, the more United States dollar-related exposure an entity has, the more likely the United States dollar is the entity's functional currency;
- ii) A major factor that venture companies use to access their functional currency under IAS 21, where they don't have the factors referred to in paragraph 9 of IAS 21, is their sources of financing as noted in paragraph 10a of IAS 21. Where there aren't "operations" in the sense of revenue and expenses, other factors such as financing are considered. The Company's most recent financing was comprised mainly of the United States dollar;
- iii) Other factors in determining the Company's functional currency include the fact that:
 - a. the vast majority of the Company's expenses are denominated in United States dollars (e.g. management fees, office services and rent). The Company's only expenses denominated in Canadian dollars are its legal, accounting, transfer agent and regulatory fees; and
 - b. the Company's common shares have been listed for trading on the CSE in United States dollars, and future share issuances would likely be United States dollar-denominated as a consequence; and
 - c. The Company notes that the proceeds received from the United States dollar denominated loan continue to be held in United States dollars and have not been converted to Canadian dollars other than as necessary to pay for Canadian dollar denominated expenses noted in subparagraph (a) above. The Company is of the view that the United States dollar will continue to be the appropriate functional currency given management's current plans and intentions.

The Company's financial statements have accordingly been converted to United States dollars on a retrospective basis using historical exchange rates. Foreign exchange gains and losses resulting from the conversion are recognized in comprehensive loss.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

2. Basis of presentation - continued

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates published by the Bank of Canada and prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at year end exchange rates, of monetary assets and liabilities dominated in foreign currencies are recognized in comprehensive loss.

3. Summary of significant accounting policies

Basis of measurement

The Company's financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value.

Critical judgments and sources of estimation uncertainty

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.

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) 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.
- ii) The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimates of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.
- iii) Management is required to assess the functional currency of each entity of the Company. (See Note 2).

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

3. Summary of significant accounting policies - 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 next financial year:

- 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 taxing 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) Depreciation expense is allocated based on assumed asset lives. Should the asset life differ from the initial estimate, an adjustment would be made in the consolidated statements of comprehensive loss.
- iii) Warrants issued with exercise prices denominated in currency other than the Company's functional currency meet the definition of derivatives and are therefore classified as derivative liabilities measured at fair value with adjustments to fair value recognized through net income (loss). The fair value of the warrants is estimated using the Black-Scholes option pricing model at the end of each reporting period. Such estimates are subject to change each period and the differences will affect the warrant liability provision in the period in which the estimate is made.

Cash

Cash includes cash in bank and demand deposits.

Amounts receivable

Receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Accounts payable and accrued liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Payables are classified as other financial liabilities and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

Equipment

Equipment is recorded at historical cost less depreciation and, where necessary, write-downs for impairment. Depreciation is calculated using the declining-balance method at the following annual rates:

Office equipment	-	20%
Computer equipment	-	30%

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

3. Summary of significant accounting policies - continued

Impairment of long-lived assets

Impairment tests for long-lived assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the long-lived assets recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less direct costs to sell and the asset's value in use. If the carrying value of a long-lived asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit and loss so as to reduce the carrying amount of the long-lived asset to its recoverable amount.

Revenue recognition

Interest income is recognized as earned, provided that collection is assessed as being reasonably assured.

Financial instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss.

Financial assets classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Cash is classified as fair value through profit and loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than temporary. At December 31, 2016, the Company has not classified any financial assets as available for sale.

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

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities and loan payable are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Warrant liability is classified as fair value through profit or loss.

Share capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

3. Summary of significant accounting policies - continued

Private placements

The Company engages in equity financing transactions to obtain the funds necessary to continue operations. These equity financing transactions may involve issuance of common shares or units. Units are typically comprised of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted a residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in the private placements is determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

Share-based payments

The fair value, at the grant date, of equity-settled share-based awards is charged to comprehensive loss over the period for which the benefits of employees and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in the share-based payment reserve. The fair value of awards is calculated using an option pricing model which considers the following factors:

- Exercise price
- Expected volatility
- Risk-free interest rate
- Expected life of the award
- Current market price of the underlying shares
- Expected forfeitures

For employees the fair value is measured at the grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

Income taxes

Income tax expense is comprised of current and deferred income taxes. Current and deferred income taxes are recognized in comprehensive loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income (loss).

Current income taxes, if any, is the expected amount payable or receivable on the taxable income or loss for the year, calculated in accordance with applicable taxation laws and regulations, using income tax rates enacted or substantively enacted at the end of the reporting year, and any adjustments to amounts payable or receivable relating to previous years.

Deferred income taxes are provided using the liability method based on temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income taxes are determined using income tax rates and income tax laws that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Cappha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

3. Summary of significant accounting policies - continued

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Loss per share

Basic and diluted loss per share is determined by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is not separately presented, as the effect of securities exercisable into common shares would reduce the amount presented as loss per share.

New standards and interpretations not yet adopted

The following is an overview of accounting standard changes 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 financial statements.

IFRS 9 - Financial Instruments. This standard partially replaces IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for annual periods beginning on or after January 1, 2018. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities. The Company may, but is not required to, apply the standard retroactively. In and after the year of adoption, certain disclosures relating to financial assets will change to conform to the new categories.

IFRS 15 - Revenue from Contracts with Customers. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 - *Revenue*, IAS 11 - *Construction Contracts*, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers; the main exceptions are leases, financial instruments and insurance contracts.

IFRS 16 - Leases. This standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 specifies how and when to 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. The standard supersedes IAS 17 - *Leases*.

4. Capital risk management

The Company manages, as capital, the components of shareholders' equity. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern.

The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions and the risk of characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue common shares, borrow and acquire or dispose of assets.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's policy is to invest its excess cash, if any, in highly liquid, short-term, interest-bearing investments with maturities of one year or less from the date of acquisition.

Cappha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

5. Financial instruments

Fair value

IFRS 7 establishes a fair value hierarchy, for financial instruments measured at fair value that reflects the significance of inputs in making fair value measurement as follows:

- Level 1 - 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 assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
- Level 3 - inputs for the asset or liability that are not based upon observable market data

The recorded amounts for amounts receivable, accounts payable and accrued liabilities and loan payable approximate their fair value due to their short-term natures. The fair value of cash and warrant liability under the fair value hierarchy is determined using Level 1 and Level 2 inputs respectively.

Financial risk management objectives and policies

The Company's financial instruments include cash, amounts receivable, accounts payable and accrued liabilities, warrant liability and loan payable. The risk associated with these financial instruments and the policies regarding their management are discussed below. Management monitors these risk exposures to ensure appropriate measures are implemented in a timely and effective manner.

Interest rate risk

The Company is not exposed to significant interest rate risk.

Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash and amounts receivable is remote.

6. Amounts receivable	December 31, 2016 \$	December 31, 2015 \$
Canadian Goods & Services Tax	-	8,957
Other	<u>-</u>	<u>17,188</u>
	-	26,145

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

7. Equipment	2016 \$		
	Computer Equipment	Office Equipment	Total
Cost:			
Balance, December 31, 2015	24,977	16,678	41,655
Sale of equipment	(2,400)	(4,000)	(6,400)
Write-off	-	(7,314)	(7,314)
Balance, December 31, 2016	22,577	5,364	27,941
Depreciation and cumulative impairment loss:			
Balance, December 31, 2015	21,971	5,589	27,560
Sale of equipment	(819)	(940)	(1,759)
Write-off	-	(2,029)	(2,029)
Depreciation	749	2,018	2,767
Balance at December 31, 2016	21,901	4,638	26,539
Carrying value at December 31, 2016	676	726	1,402
			2015 \$
	Computer Equipment	Office Equipment	Total
Cost:			
Balance, December 31, 2014	22,577	5,364	27,941
Additions	2,400	11,314	13,714
Balance, December 31, 2015	24,977	16,678	41,655
Depreciation and cumulative impairment loss:			
Balance, December 31, 2014	21,197	4,230	25,427
Depreciation	774	1,359	2,133
Balance at December 31, 2015	21,971	5,589	27,560
Carrying value at December 31, 2015	3,006	11,089	14,095

8. Exploration and evaluation assets

The Company's only exploration and evaluation asset was the Croxall Property located in Northern Ontario under an option and joint venture agreement with Temex Resources Corp. ("Temex"). During 2015, the Company's agreement with Temex was terminated and all related costs were written-off.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

9. Share capital

At December 31, 2016, the Company's authorized share capital consisted of an unlimited number of voting common shares without par value, an unlimited number of first preferred shares, and an unlimited number of second preferred shares. No first preferred shares or second preferred shares have been issued. All issued common shares are fully paid.

During the year ended December 31, 2015, 454,000 stock options were exercised at a price of CDN\$ 0.03 per share for proceeds of CDN\$ 13,620 (USD\$ 10,831).

Details of share purchase warrant transactions during the year ended December 31, 2016 and 2015 are as follows:

	2016	2015
Outstanding, beginning and end of year	705,884	705,884

As at December 31, 2016, the Company had outstanding share purchase warrants as follows:

Number	Exercise price CDN \$	Expiry date	Weighted average remaining life
705,884	0.85	March 30, 2017	0.25 years

10. Warrant liability

Equity offerings were completed in previous years whereby warrants were issued with exercise prices denominated in Canadian dollars. Effective August 2015, the Company's functional currency is the United States dollar. As a result of having exercise prices denominated in other than the Company's functional currency, these warrants meet the definition of derivatives and are therefore classified as derivative liabilities measured at fair value with adjustments to fair value recognized through net income. The liability has been recognized prospectively in accordance with IAS 21.

The fair value of warrants outstanding at December 31, 2016 and 2015 was determined using the Black-Scholes option pricing model, using the following assumptions:

	2016	2015
Risk-free interest rate	0.52%	0.488%
Expected volatility	175%	156%
Expected life (years)	0.25	1.25

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has used historical volatility to estimate the volatility of the share price.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

11. Share-based compensation

The Company has an incentive share option plan (the "plan"). Under the plan, the Company may issue options to directors, officers, employees and consultants for up to 20% of the Company's issued common shares to purchase common shares at a price determined by the Board of Directors on the date of award for a period of not more than five years. The Board of Directors may determine and impose terms upon which each option shall become vested.

The weighted average exercise price, as at December 31, 2016, of share options outstanding is CDN\$ 0.24 and the weighted average remaining contractual life is 2.59 years.

During fiscal 2015 the Company granted options to purchase 1,700,000 common shares and recorded a compensation expense of \$ 196,272. No options were granted in fiscal 2016.

The fair value of share options awarded to directors and consultants in the year ended December 31, 2015 was estimated on the dates of award using the Black-Scholes option pricing model with the following assumptions:

	2016	2015
Risk-free interest rates	-	0.96% - 1.08%
Expected volatility	-	211% - 238%
Expected lives	-	5 years
Expected forfeiture rate	-	0 years

A summary of the Company's share options as at December 31, 2016 and 2015 and the changes to those dates are as follows:

	Number of options outstanding	Weighted average exercise price CDN \$
Outstanding, December 31, 2014	2,577,530	0.57
Awarded	1,700,000	0.145
Exercised	(454,000)	0.03
Expired	<u>(394,118)</u>	1.25
Outstanding, December 31, 2015	3,429,412	0.37
Expired	<u>(482,354)</u>	1.16
Outstanding, December 31, 2016	<u>2,947,058</u>	0.24

Cappha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

11. Share-based compensation - continued

The following summarizes information about share options outstanding at December 31, 2016:

Exercise price CDN \$	Number outstanding	Number exercisable	Expiry date	Weighted average remaining life
0.85	447,058	447,058	October 2017	0.75 years
*0.10	800,000	800,000	November 2018	1.90 years
0.145	1,200,000	1,200,000	May 2020	3.36 years
0.16	<u>500,000</u>	<u>500,000</u>	May 2020	3.41 years
	2,947,058	2,947,058		2.59 years

* On September 10, 2015, 800,000 stock options were re-priced from CDN\$ 0.03 to CDN\$ 0.10

12. Related party disclosures

Transactions with key management personnel

- a) Management fees of \$ 20,000 (2015 - \$ 180,000), office services of \$ 10,000 (2015 - \$ 90,000), and rent of \$ 2,500 (2015 - \$ 22,500) were paid to the Chief Executive Officer and the Chief Financial Officer during the year ended December 31, 2016.

Included in accounts payable and accrued liabilities at December 31, 2016 is \$ 46,519 (2015 - \$ Nil) due to directors.

During the year ended December 31, 2016, management fees of \$ 160,000 (2015 - \$ 42,000) and consulting fees of \$ Nil (2015 - \$127,000) were paid to the Chief Executive Officer of the Company's wholly owned subsidiary FPS Pharma Asia Limited.

- b) Transactions with other related parties

Included in share-based compensation expense is \$ Nil (2015 - \$ 196,272) relating to directors.

- c) As at December 31, 2016, a loan payable of \$ 114,805 (2015 - \$ Nil) was due to a director. The loan does not bear interest.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

13. Income taxes

The provision for income taxes differs from the amount that would have been obtained by applying the statutory income tax rate of 26.00% (2015 - 26%) to the Company's net loss. The difference results from the following items:

	2016	2015
	\$	\$
Expected income tax expense (recovery)	(173,000)	28,000
Share-based compensation	-	51,000
Impairment of exploration and evaluation assets	11,000	93,000
Other	(6,000)	21,000
Non-deductible foreign expenses	125,000	44,000
Unrecognized benefit (use) of loss carryforwards	<u>43,000</u>	<u>(237,000)</u>
Provision for income taxes (recovery)	-	-

The income tax effects of temporary differences that give rise to significant components of deferred income tax assets and liabilities are as follows:

	2016	2015
	\$	\$
Deferred income tax assets and liabilities are as follows:		
<i>Deferred income tax assets</i>		
Non-capital loss carry-forwards	569,000	562,000
Exploration and evaluation assets	848,000	890,000
Transaction costs	19,000	20,000
Equipment	7,000	5,000
Share issue costs	<u>-</u>	<u>1,000</u>
	1,443,000	1,478,000
Valuation allowance	<u>(1,443,000)</u>	<u>(1,478,000)</u>
	-	-

The Company has non-capital losses for income tax purposes of approximately \$ 2,187,000 available to reduce future years' taxable income. The benefit of these non-capital losses has not been recognized in the Company's accounts as it is not probable such benefit will be realized. The non-capital losses expire between the 2017 and 2036 fiscal years.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in United States Dollars)

14. Segmented information

The Company operated in two geographic segments from September 2015 to December 2016.

Geographic distribution of operating results in the two geographic segments is as follows:

	North America	Asia	2016 \$
Total assets	4,392	-	4,392
Net income (loss)	(145,082)	(522,003)	(667,085)
Depreciation of equipment	471	2,296	2,767
Sale of equipment	-	6,400	6,400

	North America	Asia	2015 \$
Total assets	496,490	62,425	558,915
Net income (loss)	277,323	(168,439)	108,884
Depreciation of equipment	549	1,491	2,040

15. Contingent liability

In fiscal 2016, the Company was named as a defendant in an action initiated by a staffing company in Alabama. The staffing company is seeking damages in the amount of \$ 30,000 plus additional costs. As at December 31, 2016, the Company believes the likelihood of loss is not determinable and the amount is not reasonably estimable. No amount has been provided for this claim in the financial statements.

16. Events after the reporting period

Subsequent to December 31, 2016, 705,884 share purchase warrants expired unexercised.

SCHEDULE "B"

FINANCIAL STATEMENTS OF THE COMPANY

Unaudited financial statements of the Company for the nine months ended September 30, 2017

(see attached)

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
Interim Consolidated Financial Statements
For the 9 months ended September 30, 2017
(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements of Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.) for the nine months ended September 30, 2017 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	September 30, 2017	December 31, 2016
	\$	\$
Assets		
Current assets		
Cash	1,691	4,013
Amounts receivable (Note 6)	<u>768</u>	<u>-</u>
	2,459	4,013
Equipment (Note 7)	<u>4,726</u>	<u>1,541</u>
	7,185	5,554
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	141,608	100,742
Loan payable (Note 11)	306,119	154,149
Warrant liability (Note 9)	<u>-</u>	<u>467</u>
	447,727	255,358
Shareholders' equity		
Share capital (Note 8)	10,954,455	10,954,455
Share-based payment reserve	3,564,621	3,564,621
Currency translation reserve	133,062	133,062
Deficit	<u>(15,092,680)</u>	<u>(14,901,942)</u>
	<u>(440,542)</u>	<u>(249,804)</u>
	7,185	5,554

Nature of operations and going concern (Note 1)

Litigation (Note 13)

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

These consolidated financial statements were approved for issue by the Board of Directors on November 29, 2017 and are signed on its behalf by:

/s/ James R. Brown, Director
James R. Brown

/s/ Janice Brown, Director
Janice Brown

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Consolidated Statements of Comprehensive Loss

For the nine months ended September 30

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	9 months 2017 \$	9 months 2016 \$	3 months 2017 \$	3 months 2016 \$
Expenses				
Depreciation of equipment	720	3,091	533	1,016
Investor relations	-	66,980	-	6,667
Management fees	84,000	212,197	-	54,798
Office and miscellaneous	33,436	109,541	4,071	32,511
Office Services	-	176,120	-	34,575
Professional fees	12,381	70,247	4,031	16,751
Transfer agent fees and regulatory fees	14,946	14,570	2,919	3,630
Travel and meals	59,165	115,655	11,644	43,622
Loss before other items	(204,648)	(768,400)	(23,198)	(193,569)
Other items				
Change in fair value of warrant liability	467	48,182	-	5,720
Gain on the sale of assets	-	1,251	-	1,251
Foreign exchange gain/(loss)	13,443	(8,935)	7,068	220
Net loss for the period	(190,738)	(727,902)	(16,130)	(186,377)
Other comprehensive income/(loss) for the period				
Foreign currency translation	-	68,000	-	471
Net loss and comprehensive loss for the period	(190,738)	(659,902)	(16,130)	(186,848)
Loss per common shares	(\$0.00)	(\$0.01)	(\$0.00)	(\$0.00)
Weighted average number of common Shares outstanding	54,431,030	54,431,030	54,431,030	54,431,030

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

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Consolidated Statements of Changes in Equity

For the nine months ended September 30

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	Common shares		Share-based payment reserve \$	Currency translation reserve \$	Deficit \$	Total equity \$
	Number of shares	Amount \$				
Balance at December 31, 2015	54,431,030	10,954,455	3,564,621	70,051	(14,011,848)	577,279
Net income (loss) for the period	-	-	-	-	(727,902)	(727,902)
Other comprehensive income	-	-	-	<u>68,000</u>	-	<u>68,000</u>
Balance at September 30, 2016	54,431,030	10,954,455	3,564,621	138,051	(14,739,750)	(132,623)
Balance at December 31, 2016	54,431,030	10,954,455	3,564,621	133,062	(14,901,942)	(249,804)
Net income (loss) for the period	-	-	-	-	<u>(190,738)</u>	<u>(190,738)</u>
Balance at September 30, 2017	54,431,030	10,954,455	3,564,621	133,062	(15,092,680)	(440,542)

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

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Consolidated Statements of Cash Flows

For the nine months ended September 30

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	2017	2016
	\$	\$
Cash flows from (used in) operating activities		
Net income (loss) for the period	(190,738)	(541,524)
Items not affecting cash		
Depreciation of equipment	720	2,075
Change in warrant liability	(467)	(42,462)
Changes in non-cash working capital		
Decrease (increase) in		
Amounts receivable	(768)	32,554
Prepaid expenses	-	(18,931)
Increase (decrease) in		
Accounts payable and accrued liabilities	<u>40,866</u>	<u>53,323</u>
	<u>(150,387)</u>	<u>(514,965)</u>
Cash flows used in investing activities		
Purchase of equipment	<u>(3,905)</u>	<u>-</u>
	<u>(3,905)</u>	<u>-</u>
Cash flows from (used in) financing activities		
Loan from shareholder	<u>151,970</u>	<u>28,577</u>
	<u>151,970</u>	<u>28,577</u>
Increase (decrease) in cash during the period	(2,322)	(486,388)
Effect of exchange rate	-	(94,902)
Cash, beginning of year	<u>4,013</u>	<u>641,447</u>
Cash, end of period	<u>1,691</u>	<u>60,157</u>

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

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2017

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

1. Nature of operations and going concern

Capha Pharmaceuticals Inc. (hereafter referred to as the “Company” or “Capha”) is incorporated under the laws of the Province of British Columbia and was formed as a result of an amalgamation on September 1, 2004. On January 16, 2017, the Company changed its name from FPS Pharma Inc. to Capha Pharmaceuticals Inc.

The Company’s corporate office is located at:

Suite 324 - 4205 Gellatly Road
West Kelowna, BC V4T 2K2
Canada

During 2015, the Company incorporated a subsidiary in Hong Kong, called FPS Pharma Asia Limited, and set up offices in Asia. All offices in Asia were closed in December 2016 and the Company recognized a write-off of \$ 56,792 relating to prepaid expenses and equipment.

In June 2017, the Company signed a Letter of Intent to purchase all of the shares of AgriForest Bio-Technologies Ltd. After a period of due diligence, the Company decided not to proceed with the transaction.

As at September 30, 2017, the Company had a working capital deficiency of \$ 445,268 and an accumulated deficit of \$ 15,092,680. The Company’s ability to pursue opportunities in the cannabis sector is dependent upon its ability to obtain additional financing, in the immediate term. There is material uncertainty about whether the Company will be able to obtain the required financing. This material uncertainty casts significant doubt about the Company’s ability to continue as a going concern. Should the Company be unable to obtain additional financing, it may have no alternative but to significantly curtail, or cease to carry on, business operations. These financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business. These interim financial statements do not include any adjustment for the recoverability and classification of assets and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

2. Basis of presentation

Statement of compliance

These unaudited consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee.

Details of the group

In addition to the Company, the consolidated interim financial statements include a subsidiary which was closed as at December 31, 2016. Subsidiaries are corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. From January 1, 2017, the consolidated interim financial statements are de-consolidated as the Company ceased to control the subsidiary.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2017

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

2. Basis of presentation - continued

Foreign currency translation

Functional and presentation currency

Historically, the Company's functional currency and its financial statements had been presented in Canadian dollars. In August 2015, its functional currency changed to United States dollars and its financial statements were presented in United States dollars. In December 2016, the company closed all operations that were based on United States dollars and its financial statements are now presented in Canadian dollars for the following reasons:

- i) Functional currency is defined in International Accounting Standard 21 *The Effects of Changes in Foreign Exchange Rates* ("IAS 21") as the "currency of the primary economic environment in which the entity operates." In determining functional currency, the more Canadian dollar-related exposure an entity has, the more likely the Canadian dollar is the entity's functional currency;
- ii) A major factor that venture companies use to access their functional currency under IAS 21, where they don't have the factors referred to in paragraph 9 of IAS 21, is their sources of financing as noted in paragraph 10a of IAS 21. Where there aren't "operations" in the sense of revenue and expenses, other factors such as financing are considered. At the end of the period ended September 30, 2017, the Company's financing was comprised solely of the Canadian dollar denominated loans from a shareholder;
- iii) Other factors in determining the Company's functional currency include the fact that:
 - a. the vast majority of the Company's expenses are denominated in Canadian dollars. The Company's only expenses denominated in United States dollars are its management fees; and
 - b. The Company notes that the proceeds from shareholder loans continue to be held in Canadian dollars and have not been converted to United States dollars other than as necessary to pay for United States dollar denominated expenses noted in subparagraph (a) above. The Company is of the view that the Canadian dollar will continue to be the appropriate functional currency given management's current plans and intentions.

The Company's financial statements have accordingly been converted to Canadian dollars on a retrospective basis using historical exchange rates. Foreign exchange gains and losses resulting from the conversion are recognized in comprehensive loss.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates published by the Bank of Canada and prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at year end exchange rates, of monetary assets and liabilities dominated in foreign currencies are recognized in comprehensive loss.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2017

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

3. Summary of significant accounting policies

Basis of Measurement

The Company's financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value.

Critical judgments and sources of estimation uncertainty

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.

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) 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.
- ii) The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimates of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.
- iii) Management is required to assess the functional currency of each entity of the Company. (See Note 2).

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 next financial year:

- 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 taxing 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) Depreciation expense is allocated based on assumed asset lives. Should the asset life differ from the initial estimate, an adjustment would be made in the consolidated statements of comprehensive loss.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2017

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

3. Summary of significant accounting policies - continued

- iii) Warrants issued with exercise prices denominated in currency other than the Company's functional currency meet the definition of derivatives and are therefore classified as derivative liabilities measured at fair value with adjustments to fair value recognized through net income (loss). The fair value of the warrants is estimated using the Black-Scholes option pricing model at the end of each reporting period. Such estimates are subject to change each period and the differences will affect the warrant liability provision in the period in which the estimate is made.

Cash

Cash includes cash in bank and demand deposits.

Amounts receivable

Receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Accounts payable and accrued liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Payables are classified as other financial liabilities and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

Equipment

Equipment is recorded at historical cost less depreciation and, where necessary, write-downs for impairment. Depreciation is calculated using the declining-balance method at the following annual rates:

Office equipment	-	20%
Computer equipment	-	30%

Impairment of long-lived assets

Impairment tests for long-lived assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the long-lived assets recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less direct costs to sell and the asset's value in use. If the carrying value of a long-lived assets exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit and loss so as to reduce the carrying amount of the long-lived asset to its recoverable amount.

Revenue recognition

Interest income is recognized as earned, provided that collection is assessed as being reasonably assured.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2017

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

3. Summary of significant accounting policies - continued

Financial instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss.

Financial assets classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Cash is classified as fair value through profit and loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than temporary. At September 30, 2017, the Company has not classified any financial assets as available for sale.

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

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities and loan payable are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Warrant liability is classified as fair value through profit or loss.

Share capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

Private placements

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Units are typically comprised of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted a residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in the private placements is determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2017

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

3. Summary of significant accounting policies - continued

Share-based payments

The fair value, at the grant date, of equity-settled share-based awards is charged to comprehensive loss over the period for which the benefits of employee and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in the share-based payment reserve. The fair value of awards is calculated using an option pricing model which considers the following factors:

- Exercise price
- Expected volatility
- Risk-free interest rate
- Expected life of the award
- Current market price of the underlying shares
- Expected forfeitures

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

Income taxes

Income tax expense is comprised of current and deferred income taxes. Current and deferred income taxes are recognized in comprehensive loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current income taxes, if any, is the expected amount payable or receivable on the taxable income or loss for the year, calculated in accordance with applicable taxation laws and regulations, using income tax rates enacted or substantively enacted at the end of the reporting year, and any adjustments to amounts payable or receivable relating to previous years.

Deferred income taxes are provided using the liability method based on temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income taxes are determined using income tax rates and income tax laws that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Loss per share

Basic and diluted loss per share is determined by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is not separately presented, as the effect of securities exercisable into common shares would reduce the amount presented as loss per share.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2017

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

3. Summary of significant accounting policies - continued

New standards and interpretations not yet adopted

The following is an overview of accounting standard changes 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 financial statements.

IFRS 9 - Financial Instruments. This standard partially replaces IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for annual periods beginning on or after January 1, 2018. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities. The Company may, but is not required to, apply the standard retroactively. In and after the year of adoption, certain disclosures relating to financial assets will change to conform to the new categories.

IFRS 15 - Revenue from Contracts with Customers. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 - *Revenue*, IAS 11 - *Construction Contracts*, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers; the main exceptions are leases, financial instruments and insurance contracts.

IFRS 16 - Leases. This standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 specifies how and when to 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. The standard supersedes IAS 17 - *Leases*.

4. Capital risk management

The Company manages, as capital, the components of shareholders' equity. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern in order to continue developing its medical marijuana business.

The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions and the risk of characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue common shares, borrow and acquire or dispose of assets.

In order to maximize its ongoing medical marijuana business, the Company does not pay out dividends. The Company's policy is to invest its excess cash, if any, in highly liquid, short-term, interest-bearing investments with maturities of one year or less from the date of acquisition.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2017

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

5. Financial instruments

Fair value

IFRS 7 establishes a fair value hierarchy, for financial instruments measured at fair value that reflects the significance of inputs in making fair value measurement as follows:

- Level 1 - 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 assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
- Level 3 - inputs for the asset or liability that are not based upon observable market data

The recorded amounts for amounts receivable and accounts payable and accrued liabilities and loan payable approximate their fair value due to their short-term natures. The fair value of cash and warrant liability under the fair value hierarchy is determined using Level 1 and Level 2 inputs respectively.

Financial risk management objectives and policies

The Company's financial instruments include cash, amounts receivable, accounts payable and accrued liabilities, warrant liability and loan payable. The risk associated with these financial instruments and the policies regarding their management are discussed below. Management monitors these risk exposures to ensure appropriate measures are implemented in a timely and effective manner.

Interest rate risk

The Company is not exposed to significant interest rate risk.

Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash and amounts receivable is remote.

6. Amounts receivable	September 30, 2017	December 31, 2016
	\$	\$
Canadian Goods & Services Tax	<u>768</u>	<u>-</u>
	<u>768</u>	<u>-</u>

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2017

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

7. Equipment

	September 30, 2017		
	\$		
	Computer Equipment	Office Equipment	Total
Cost:			
Balance, December 31, 2016 and Sept. 30, 2017	25,793	6,128	31,921
Purchase of equipment	3,905	-	3,905
Balance at September 30, 2017	29,698	6,128	35,826
Depreciation and cumulative impairment loss:			
Balance, December 31, 2016	25,128	5,252	30,380
Depreciation	589	131	720
Balance at September 30, 2017	25,717	5,383	31,100
Carrying value at September 30, 2017	3,981	745	4,726

	December 31, 2016		
	\$		
	Computer Equipment	Office Equipment	Total
Cost:			
Balance, December 31, 2015	29,015	21,189	50,204
Sale of equipment	(3,222)	(5,371)	(8,593)
Write-off	-	(9,690)	(9,690)
Balance, December 31, 2016	25,793	6,128	31,921
Depreciation and cumulative impairment loss:			
Balance, December 31, 2015	25,222	6,493	31,715
Sale of equipment	(1,100)	(1,262)	(2,362)
Write-off	-	(2,688)	(2,688)
Depreciation	1,006	2,709	3,715
Balance at December 31, 2016	25,128	5,252	30,380
Carrying value at December 31, 2016	665	876	1,541

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2017

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

8. Share capital

At September 30, 2017, the Company's authorized share capital consisted of an unlimited number of voting common shares without par value, an unlimited number of first preferred shares, and an unlimited number of second preferred shares. No first preferred shares or second preferred shares have been issued. All issued common shares are fully paid. No common shares were issued during the year ended December 31, 2016 or the nine months ended September 30, 2017.

Details of share purchase warrant transactions during the nine months ended September 30, 2017 and the year ended December 31, 2016 are as follows:

	September 30, 2017	2016
Outstanding, beginning of year	705,884	705,884
Expired	<u>(705,884)</u>	<u>-</u>
Balance, end of period	-	705,884

9. Warrant liability

Equity offerings were completed in previous years whereby warrants were issued with exercise prices denominated in Canadian dollars. Effective August 2015, the Company's functional currency was the U.S. dollar. As a result of having exercise prices denominated in other than the Company's functional currency, these warrants meet the definition of derivatives and are therefore classified as derivative liabilities measured at fair value with adjustments to fair value recognized through net income. The liability has been recognized prospectively in accordance with IAS 21. All of the outstanding warrants expired in March 2017.

The fair value of warrants outstanding at September 30, 2017 and December 31, 2016 was determined using the Black-Scholes option pricing model, using the following assumptions:

	2017	2016
Risk-free interest rate	-	0.52%
Expected volatility	-	175%
Expected life (years)	-	0.25

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has used historical volatility to estimate the volatility of the share price.

10. Share-based compensation

The Company has an incentive share option plan (the "plan"). Under the plan, the Company may issue options to directors, officers, employees and consultants for up to 20% of the Company's issued common shares to purchase common shares at a price determined by the Board of Directors on the date of award for a period of not more than five years. The Board of Directors may determine and impose terms upon which each option shall become vested.

The weighted average exercise price, as at September 30, 2017, of share options outstanding is CDN\$ 0.29 and the weighted average remaining contractual life is 1.43 years.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2017

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

10. Share-based compensation - continued

No options were issued in the year ended December 31, 2016 nor the nine months ended September 30, 2017.

A summary of the Company's share options as at December 31, 2016 and September 30, 2017 and the changes to those dates are as follows:

	Number of options outstanding	Weighted average exercise price CDN \$
Outstanding, December 31, 2015	3,429,412	0.37
Expired	<u>(482,354)</u>	1.16
Outstanding, December 31, 2016	2,947,058	0.24
Expired	<u>(1,000,000)</u>	0.15
Outstanding, September 30, 2017	1,947,058	0.29

The following summarizes information about share options outstanding at September 30, 2017:

Exercise price CDN \$	Number outstanding	Number exercisable	Expiry date	Weighted average remaining life
0.85	447,058	447,058	October 2017	0.00 years
*0.10	800,000	800,000	November 2018	1.15 years
0.145	<u>700,000</u>	<u>700,000</u>	May 2020	2.62 years
	1,947,058	1,947,058		1.43 years

11. Related party disclosures

Transactions with key management personnel

- a) In January 2017, the Company added a new President and Chief Operating Officer. Management fees of \$ 84,000 (2016 - \$ 41,246) and rent of \$ Nil (2016 - \$ 3,437) were paid to the Chairman and Chief Executive Officer, the President and Chief Operating Officer, and the Chief Financial Officer during the nine months ended September 30, 2017.

Included in accounts payable and accrued liabilities at September 30, 2017 is \$ 133,292 (2016 - \$ 105,337) due to directors.

During the nine months ended September 30, 2017, management fees of Nil (2016 - \$ 166,660) were paid to the Chief Executive Officer of the Company's former wholly owned subsidiary FPS Pharma Asia Limited.

- b) As at September 30, 2017, loans payable of \$ 306,119 (2016 - \$ 94,709) were due to a director. The loans do not bear interest.

Capha Pharmaceuticals Inc. (formerly FPS Pharma Inc.)

Notes to the Interim Consolidated Financial Statements

Nine months ended September 30, 2017

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

12. Segmented information

The Company operated in two geographic segments from September 2015 to December 2016. From January 1, 2017 to September 30, 2017, the Company has operated in one geographic segment.

Geographic distribution of operating results in the two geographic segments is as follows:

	Nine months ended September 30, 2016 \$		
	North America	Asia	Total
Total assets	7,637	61,835	69,472
Net income (loss)	(241,974)	(549,404)	(791,378)
Depreciation of equipment	466	2,625	3,091
Sale of equipment	-	8,593	8,593

13. Litigation

In fiscal 2016 the Company was named as a defendant in an action initiated by a staffing company in Alabama. The staffing company was seeking damages in the amount of US \$ 30,000 plus additional costs. In May 2017, the action was settled and the Company paid US \$ 7,500.

SCHEDULE "C"

MANAGEMENT DISCUSSION AND ANALYSIS OF THE COMPANY

Financial years ended December 31, 2016 and 2015

(see attached)

Capha Pharmaceuticals Inc.

(formerly FPS Pharma Inc.)

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2016

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Background

This discussion and analysis of financial position and results of operations is prepared as at April 28, 2017. The Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2016 and related notes thereof which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). Except as otherwise disclosed, all dollar figures included therein and the following MD&A are presented in United States dollars. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com.

Company Overview

During 2015, the Company determined to cease carrying on a mineral exploration business. The Company's existing mineral exploration agreement was terminated and all related carrying costs were written off. The Company began exploring opportunities in the pharmaceutical distribution business.

During 2015, the Company attempted to acquire a 100% equity interest in Florida Pharmacy Solutions, Inc. ("FPSI"). FPSI was based in Florida, United States of America, and carried on a pharmaceutical compounding business. The Company was ultimately not successful in completing the acquisition. As part of the attempted acquisition, the Company received net loans of \$1,527,750 which were forgiven as partial consideration of the Company ceasing to pursue the acquisition. The Company also received reimbursement of certain legal and other expenses it had incurred.

During 2015, the Company incorporated a subsidiary in Hong Kong, called FPS Pharma Asia Limited and set up offices in Asia. All offices in Asia were closed in December 2016 and the Company recognized a write-off of \$ 42,572 relating to prepaid expenses and equipment. In January 2017, the Company changed its name to Capha Pharmaceuticals Inc.

On September 9, 2015, the Company's common shares were de-listed from the TSX Venture Exchange ("TSXV") and commenced trading on the Canadian Securities Exchange ("CSE") on September 10, 2015 in United States dollars. On January 21, 2016, the Company's shares were suspended from trading by the CSE. On April 4, 2016, the CSE granted the Company's request to withdraw from listing all of the Company's securities on the CSE. The common shares of the Company are not currently trading. The Company intends to re-list its shares on the TSXV. The Company's outstanding stock options and share purchase warrants are not listed.

Forward Looking Statements

All statements made in this MD&A, other than statements of historical fact, are forward looking statements. The Company's actual results may differ significantly from those anticipated in the forward looking statements and readers are cautioned not to place undue reliance on these forward looking statements. Except as required by securities regulations, the Company undertakes no obligation to publicly release the results of any revisions to forward looking statements that may be made to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events.

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Forward looking statements include, but are not limited to, statements with respect to the timing of the development of new ventures, currency fluctuations, requirements for additional capital, government regulations, environmental risks, limitations on insurance coverage and the timing and possible outcome of pending litigation and the settlement of same. In certain cases, forward looking statements can be identified by the use of words such as “plans”, “expects”, or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” “does not anticipate”, “believes”, or variations of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. Forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward looking statements. Such factors include, among others, risks related to the integration of acquisitions; risks related to international operations; actual results of current activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the pharmaceutical industry; delays in obtaining governmental approvals or financing or in the completion of development activities; risks relating to the timing of obtaining the final approval order for the settlement agreement. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward looking statements, there may be other factors that cause actions, events or results to not be as anticipated, estimated or intended. There can be no assurance that forward looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward looking statements.

Evaluation and Exploration Projects

The Company’s only exploration and evaluation asset was the Croxall Property located in Northern Ontario under an option and joint venture agreement with Temex Resources Corp. (“Temex”). As the Company terminated its existing mineral exploration agreement with Temex and undertook a change of business, its investment in the Croxall Property was written off in 2015.

Financial Condition / Capital Resources

Historically, the Company’s activities have been funded through equity financings and short term shareholder loans. The financial condition and resources of the Company remain uncertain and it is expected that the Company will be funded through equity financings until it develops cash flows from operations, subject to stock market and general economic conditions. There is no assurance, however, that the Company will be successful in its efforts.

As at December 31, 2016, the Company had a working capital deficit of \$187,304. To support operations over the next year the Company requires financing from equity or debt. If such funds are not available or other sources of finance cannot be obtained, then the Company will be forced to curtail all its activities until funding is available and can be obtained.

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Selected Financial Data

The following selected financial information, expressed in United States dollars, is derived from the audited annual consolidated financial statements of the Company prepared in accordance with IFRS.

Historically, the Company's functional currency and its' financial statements have been presented in Canadian dollars. Following the attempted acquisition of FPSI, its functional currency and its financial statements are now presented in United States dollars. The Company's financial statements have accordingly been converted to a U.S. dollar functional currency on a retrospective basis on the date of change. The resulting translated amounts for non-monetary items are treated as their historical cost.

The Company's change to a new presentation currency from the Canadian dollar to the U.S. dollar is treated as a change in accounting policy. For comparative purposes, the consolidated financial statements of financial position as at December 31, 2014 and January 1, 2014 include adjustments to reflect the change in accounting policy resulting from the change in presentation currency.

	Years Ended December 31,		
	2016	2015	2014
Revenues	\$ -	\$ -	\$ -
Net income/(loss)	(667,085)	108,884	(548,743)
Basic and diluted loss per share	(0.01)	0.00	(0.02)
Working capital	(187,304)	467,088	(196,026)
Total assets	4,392	558,915	363,033
Total long-term liabilities	-	-	-

The table below presents selected financial information, expressed in U.S. dollars, for the Company's most recently completed quarters.

	2016				2015			
	Dec. 31	Sept 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
	\$	\$	\$	\$	\$	\$	\$	\$
Net Income (Loss):	(68,780)	(142,850)	(172,392)	(283,063)	1,262,483	(623,528)	(386,282)	(143,790)
Basic and diluted income per share	(0.00)	(0.00)	(0.00)	(0.01)	0.02	(0.01)	(0.01)	(0.00)
Working capital	(187,304)	(124,237)	23,192	184,814	385,741	(747,607)	(518,468)	(338,827)
Total assets	4,392	52,963	135,722	304,539	558,915	1,269,369	360,718	359,125
Total long-term liabilities	-	-	-	-	-	-	-	-

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Analysis of the year ended December 31/16 versus the year ended December 31/15

For most of 2015, the Company was seeking an investment in a different business sector and, from August 21, 2015, it was operating in the pharmaceutical compounding business. During 2016, the majority of its operations were conducted through a wholly owned subsidiary, FPS Pharma Asia Limited; in December 2016, the Company ceased operations in Asia and wrote off all assets in Asia at the end of 2016.

Expenses in the year ended December 31, 2016 were \$674,755, a decrease of \$345,333 from the previous year. Significant changes were a) decreases of \$33,303 in professional fees due to large legal bills in 2015 associated with the attempted acquisition of Florida Pharmacy Solutions Inc., \$42,000 in management fees as the CEO of the Asian subsidiary invoiced for all of 2016 offset by a reduction of \$160,00 in fees for the President and CEO of the parent company, \$196,272 in share-based compensation as options were granted in 2015 and none in 2016, and \$127,000 in consulting fees which were all incurred in 2015 in the search for an investment in a different business sector; and b) increases of \$17,410 in office expenses and \$58,685 in travel costs, both associated with operating in Asia for all of 2016.

During 2016, the Company received a refund of \$13,128 for reclamation costs on one of its mining properties and realized a gain of \$959 on a sale of assets in exchange for services. The Company also recorded a gain of \$38,395 on the fair value liability for warrants outstanding, wrote off assets of \$42,572 of its Asian subsidiary and incurred exchange losses of \$2,240. The net loss for the year was \$667,085 or \$0.01 per share.

During 2015, the Company wrote off its exploration and evaluation assets for \$355,960, recorded the fair value liability of \$38,743 for warrants outstanding, and realized a gain of \$1,527,750 on the forgiveness of a loan from FPSI; the company also had incurred exchange losses of \$4,075. Net income in the year ended December 31, 2015 was \$108,884 or \$0.00 per share.

Analysis of the three months ended December 31, 2016 versus the three months ended December 31, 2015

The Company incurred net expenses of \$46,394 in the three months ended December 31, 2016 compared with expenses of \$248,389 in the same period of 2015. The major decreases were due to the cancellation of fees for management, office services, and rent, totalling \$67,500; the other major decrease was \$61,824 in professional fees, primarily due to fewer legal matters..

In the fourth quarter of 2016, the Company received a refund of \$13,128 for reclamation costs on one of its mining properties and realized a gain of \$959 on a sale of assets in exchange for services. The Company also recorded a gain of \$2,818 on the fair value liability for warrants outstanding, wrote off assets of \$42,572 of its Asian subsidiary and realized exchange gains of \$4,240. In the fourth quarter of 2015, the Company realized a gain of \$1,527,750 on the forgiveness of a loan from FPSI, had other income of \$7,501 and incurred exchange losses of \$40.

The net loss in the three months ended December 31, 2016 was \$68,780 or \$0.00 per share, compared to net income of \$1,247,468 or \$0.02 per share in the prior year.

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Related party disclosures

Transactions with key management personnel

a) Management fees of \$ 20,000 (2015 - \$ 180,000), office services of \$ 10,000 (2015 - \$ 90,000), and rent of \$ 2,500 (2015 - \$ 22,500) were paid to the Chief Executive Officer and the Chief Financial Officer during the year ended December 31, 2016.

Included in accounts payable and accrued liabilities at December 31, 2016 is \$ 46,519 (2015 - \$ Nil) due to directors.

During the year ended December 31, 2016, management fees of \$ 160,000 (2015 - \$ 42,000) and consulting fees of \$ Nil (2015 - \$127,000) were paid to the Chief Executive Officer of the Company's wholly owned subsidiary FPS Pharma Asia Limited.

b) Transactions with other related parties

Included in share-based compensation expense is \$ Nil (2015 - \$ 196,272) relating to directors.

c) As at December 31, 2016, a loan payable of \$ 114,805 (2015 - \$ Nil) was due to a director. The loan does not bear interest.

Outstanding Share Data

On June 10, 2013 the Company's shares were consolidated on a basis of 17:1, and on August 29, 2014, the Company's shares were split on a basis of 1:2; all references to share transactions are on a post-consolidated and post-split basis.

The Company's authorized share capital is an unlimited number of common voting shares of no par value. As at December 31, 2016, there were 54,431,030 common shares issued and outstanding. There were 705,884 warrants outstanding, exercisable at Cdn. \$0.85 until March 30, 2017 and there were 2,947,058 share options outstanding, exercisable at prices ranging from Cdn. \$0.10 to Cdn. \$0.85 and expiry dates ranging from October 2017 to May 2020.

Business Development

The Company closed its wholly-owned subsidiary, FPS Pharma Asia Limited, at the end of 2016. On January 16, 2017 the Company changed its name to Capha Pharmaceuticals Inc. On January 17, 2017, Kyle J. Remenda was appointed President and Chief Operating Officer of the Company. Under Kyle's leadership, the Company intends to focus on the medical marijuana industry.

Risks Inherent in the Pharmaceutical Business

The Company's ability to continue its operations is dependent on its ability to generate revenue and/or obtain additional financing. Should the Company be unable to generate sufficient revenues and/or obtain additional financing, it may have no alternative but to significantly curtail, or cease to carry on, business operations.

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Legal proceedings

The nature of the Company's business may subject it to numerous regulatory investigations, claims, lawsuits, and other proceedings. The result of these legal proceedings cannot be predicted with certainty. There can be no assurances that these matters will not have a material adverse effect on the Company.

Credit risk

Credit risk arises due to the potential for one party to a financial instrument to fail to discharge its obligations and cause the other party to suffer a loss. Financial instruments that potentially subject the Company to credit risk consist of cash and amounts receivable. The maximum credit risk represented by the Company's financial assets is represented by their carrying amounts. The Company holds its cash with financial institutions that are believed to be creditworthy. The Company does not believe it is exposed to significant credit risk.

Liquidity risk

Liquidity risk arises when adequate funds cannot be raised to settle liabilities and commitments when they become payable. The Company manages its liquidity by maintaining adequate cash to meet anticipated cash needs. As at December 31, 2016, the Company had a working capital deficit of \$187,304 and the Company requires financing from equity or debt to meet its obligations.

Foreign currency risk

The Company is not subject to foreign exchange rate risk as the majority of the Company's transactions are in the Company's functional currency, which is the United States dollar.

Investor Relations Activities

The Company provides information packages to investors; the package consists of materials filed with regulatory authorities.

SCHEDULE "D"

MANAGEMENT DISCUSSION AND ANALYSIS OF THE COMPANY

Nine months ended September 30, 2017

(see attached)

Capha Pharmaceuticals Inc.

(formerly FPS Pharma Inc.)

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

Background

This discussion and analysis of financial position and results of operations is prepared as at November 29, 2017. The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2016 and the unaudited consolidated financial statements for the nine months ended September 30, 2017 and the related notes thereof which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Except as otherwise disclosed, all dollar figures included therein and the following MD&A are presented in Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com.

Company Overview

During 2015, the Company determined to cease carrying on a mineral exploration business. The Company's existing mineral exploration agreement was terminated and all related carrying costs were written off. The Company began exploring opportunities in the pharmaceutical distribution business.

During 2015, the Company attempted to acquire a 100% equity interest in Florida Pharmacy Solutions, Inc., a company based in Florida, United States of America but was not successful. As part of the attempted acquisition, the Company received net loans of US \$1,527,750 which were forgiven as partial consideration of the Company ceasing to pursue the acquisition.

During 2015, the Company incorporated a subsidiary in Hong Kong, called FPS Pharma Asia Limited and set up offices in Asia. All offices in Asia were closed in December 2016 and the Company recognized a write-off of \$ 57,161 relating to prepaid expenses and equipment. In January 2017, the Company changed its name to Capha Pharmaceuticals Inc.

In June 2017, the Company signed a Letter of Intent to purchase all of the shares of AgriForest Bio-Technologies Ltd. After a period of due diligence, the Company decided not to proceed with the transaction.

On September 9, 2015, the Company's common shares were de-listed from the TSX Venture Exchange ("TSXV") and commenced trading on the Canadian Securities Exchange ("CSE") on September 10, 2015 in United States dollars. On January 21, 2016, the Company's shares were suspended from trading by the CSE. On April 4, 2016, the CSE granted the Company's request to withdraw from listing all of the Company's securities on the CSE. The common shares of the Company are not currently trading. The Company intends to re-list its shares on a Canadian stock exchange. The Company's outstanding stock options and share purchase warrants are not listed.

Forward Looking Statements

All statements made in this MD&A, other than statements of historical fact, are forward looking statements. The Company's actual results may differ significantly from those anticipated in the forward looking statements and readers are cautioned not to place undue reliance on these forward looking statements. Except as required by securities regulations, the Company undertakes no obligation to publicly release the results of any revisions to forward looking statements that may be made to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events.

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

Forward looking statements include, but are not limited to, statements with respect to the timing of the development of new ventures, currency fluctuations, requirements for additional capital, government regulations, environmental risks, limitations on insurance coverage and the timing and possible outcome of pending litigation and the settlement of same. In certain cases, forward looking statements can be identified by the use of words such as “plans”, “expects”, or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” “does not anticipate”, “believes”, or variations of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. Forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward looking statements. Such factors include, among others, risks related to the integration of acquisitions; risks related to international operations; actual results of current activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the pharmaceutical industry; delays in obtaining governmental approvals or financing or in the completion of development activities; risks relating to the timing of obtaining the final approval order for the settlement agreement. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward looking statements, there may be other factors that cause actions, events or results to not be as anticipated, estimated or intended. There can be no assurance that forward looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward looking statements.

Financial Condition / Capital Resources

Historically, the Company’s activities have been funded through equity financings and short term shareholder loans. The financial condition and resources of the Company remain uncertain and it is expected that the Company will be funded through equity financings and shareholder loans until it develops cash flows from operations, subject to stock market and general economic conditions. There is no assurance, however, that the Company will be successful in its efforts.

As at September 30, 2017, the Company had a working capital deficit of \$ 445,268 and an accumulated deficit of \$ 15,092,680. To support operations over the next year the Company requires financing from equity or debt. If such funds are not available or other sources of finance cannot be obtained, then the Company will be forced to curtail all its activities until funding is available and can be obtained.

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

Selected Financial Data

The table below presents selected financial information, expressed in Canadian dollars, for the Company's most recently completed quarters.

	2017			2016				2015
	Sept. 30	June 30	Mar. 31	Dec. 31	Sept 30	June 30	Mar. 31	Dec. 31
	\$	\$	\$	\$	\$	\$	\$	\$
Net Income (Loss):	(16,130)	(74,607)	(100,001)	(161,999)	(186,377)	(241,720)	(299,804)	1,617,130
Basic and diluted income per share	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	0.03
Working capital	(445,268)	(425,767)	(351,979)	(251,493)	(162,949)	17,040	245,455	646,450
Total assets	7,185	6,050	11,643	5,897	69,485	175,312	402,308	773,538
Total long-term liabilities	-	-	-	-	-	-	-	-

Analysis of the nine months ended Sept. 30/17 versus the nine months ended Sept. 30/16

Throughout 2016, the Company had a subsidiary company, FPS Pharma Asia Limited ("FPS Asia"), which performed most of the operations for the Company. FPS Asia was closed at the end of 2016 and all assets were written off. Commencing from January 1, 2017, all operations are in Canada on a reduced basis.

The Company incurred net expenses of \$204,648 in the nine months ended September 30, 2017 compared with expenses of \$768,400 in the same period of 2016. All expenses were lower in the current period compared to the previous year due to the different levels of operation.

In the first nine months of 2017, the Company recorded a gain of \$467 on the fair value liability for warrants outstanding which expired in March 2017 and realized exchange gains of \$13,443. The net loss in the nine months ended September 30, 2017 was \$190,738 or \$0.00 per share. In the first nine months of 2016, the Company recorded a gain of \$48,182 on the fair value liability for warrants outstanding, realized a gain of \$1,251 on the sale of assets and incurred exchange losses of \$8,935, resulting in a net loss of \$727,902 or \$0.01 per share.

Analysis of the three months ended Sept. 30/17 versus the three months ended Sept. 30/16

With the closure of FPS Asia at the end of 2016, operations were significantly reduced in 2017 making any comparison of the financial results difficult.

The Company incurred net expenses of \$23,198 in the three months ended September 30, 2017 compared with expenses of \$193,569 in the same period of 2016. All expenses were lower in the current quarter compared to the previous year due to the different levels of operation.

In the third quarter of 2017, the Company realized exchange gains of \$7,068, resulting in a net loss in the three months ended September 30, 2017 of \$16,130 or \$0.00 per share. In the third quarter of 2016, the Company recorded a gain of \$5,720 on the fair value liability for warrants outstanding, realized a gain of \$1,251 on the sale of assets, and realized exchange gains of \$220, resulting in a net loss of \$186,377 or \$0.00 per share.

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

Related party disclosures

Transactions with key management personnel

- a) In January 2017, the Company added a new President and Chief Operating Officer. Management fees of \$ 84,000 (2016 - \$ 41,246) and rent of \$ Nil (2016 - \$ 3,437) were paid to the Chairman and Chief Executive Officer, the President and Chief Operating Officer, and the Chief Financial Officer during the nine months ended September 30, 2017.

Included in accounts payable and accrued liabilities at September 30, 2017 is \$ 133,292 (2016 - \$ 105,337) due to directors.

During the nine months ended September 30, 2017, management fees of Nil (2016 - \$ 166,660) were paid to the Chief Executive Officer of the Company's former wholly owned subsidiary FPS Pharma Asia Limited.

- b) As at September 30, 2017, loans payable of \$ 306,119 (2016 - \$ 94,709) were due to a director. The loans do not bear interest.

Outstanding Share Data

The Company's authorized share capital is an unlimited number of common voting shares of no par value. As at September 30, 2017, there were 54,431,030 common shares issued and outstanding. There were no warrants outstanding and there were 1,947,058 share options outstanding, exercisable at prices ranging from \$0.10 to \$0.85 and expiry dates ranging from October 2017 to May 2020; 447,058 share options, exercisable at \$0.85, expired on October 1, 2017.

Business Development

The Company closed its wholly-owned subsidiary, FPS Pharma Asia Limited, at the end of 2016. In January 2017 the Company changed its name to Capha Pharmaceuticals Inc. and Kyle J. Remenda was appointed President and Chief Operating Officer of the Company.

In June 2017, the Company signed a Letter of Intent to purchase all of the shares of AgriForest Bio-Technologies Ltd. After a period of due diligence, the Company decided not to proceed with the transaction.

Effective June 30, 2017, Kyle J. Remenda resigned as President and Chief Operating Officer of the Company. The current officers of the Company are James R. Brown (Chairman, President and Chief Executive Officer) and Janice Brown (Chief Financial Officer and Corporate Secretary).

The Company continues to pursue opportunities in the cannabis sector.

Capha Pharmaceuticals Inc.
(formerly FPS Pharma Inc.)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

Risks Inherent in the Pharmaceutical Business

The Company's ability to continue its operations is dependent on its ability to generate revenue and/or obtain additional financing. Should the Company be unable to generate sufficient revenues and/or obtain additional financing, it may have no alternative but to significantly curtail, or cease to carry on, business operations.

Legal proceedings

The nature of the Company's business may subject it to numerous regulatory investigations, claims, lawsuits, and other proceedings. The result of these legal proceedings cannot be predicted with certainty. There can be no assurances that these matters will not have a material adverse effect on the Company.

Credit risk

Credit risk arises due to the potential for one party to a financial instrument to fail to discharge its obligations and cause the other party to suffer a loss. Financial instruments that potentially subject the Company to credit risk consist of cash and amounts receivable. The maximum credit risk represented by the Company's financial assets is represented by their carrying amounts. The Company holds its cash with financial institutions that are believed to be creditworthy. The Company does not believe it is exposed to significant credit risk.

Liquidity risk

Liquidity risk arises when adequate funds cannot be raised to settle liabilities and commitments when they become payable. The Company manages its liquidity by maintaining adequate cash to meet anticipated cash needs. As at September 30, 2017, the Company had a working capital deficit of \$445,268 and the Company requires financing from equity or debt to meet its obligations.

Foreign currency risk

The Company is not subject to foreign exchange rate risk as the majority of the Company's transactions are in the Company's functional currency, which is the Canadian dollar.

Investor Relations Activities

The Company provides information packages to investors; the package consists of materials filed with regulatory authorities.

SCHEDULE "E"

FINANCIAL STATEMENTS OF BLOCKAGRAM SUBSIDIARY

**Audited financial statements of the Company for the period from incorporation on November 28,
2017 to December 31, 2017**

(see attached)

BLOCKAGRAM INC.

FINANCIAL STATEMENTS DECEMBER 31, 2017

CONTENTS	PAGE
Independent auditor's report	1
Statement of comprehensive loss and deficit	2
Balance sheet	3
Statement of cash flows	4
Notes to financial statements	5 - 8



INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Blockagram Inc.

We have audited the accompanying financial statements of Blockagram Inc., which comprises the balance sheet as at December 31, 2017, the statement of comprehensive loss and deficit, and the statement of cash flows for one month 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.

Auditor's Responsibility:

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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.

Emphasis of Matter:

We draw attention to Note 9 of the financial statements, which describes a business combination, subject to the approval of the listing on the Canadian Securities Exchange. Our opinion is not modified in respect of this matter.

Opinion:

In our opinion, the financial statements present fairly, in all material respects, the balance sheet of the Company as at December 31, 2017, the statement of comprehensive loss and deficit, and its statement of cash flows for the one month then ended, in accordance with International Financial Reporting Standards.

Millard Foster Thibault Youell

**CHARTERED PROFESSIONAL ACCOUNTANTS
AUTHORIZED TO PRACTISE PUBLIC ACCOUNTING BY THE
CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO**

Aurora, Ontario
January 12, 2018

BLOCKAGRAM INC.
STATEMENT OF COMPREHENSIVE INCOME AND DEFICIT
FOR THE ONE MONTH ENDED DECEMBER 31, 2017

Page 2

EXPENSES	\$
Professional fees	3,000
COMPREHENSIVE LOSS AND DEFICIT - end of year	(3,000)

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

	Note reference	\$
ASSETS		
Intangible assets	4	35,000
		35,000
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities		3,000
		3,000
SHAREHOLDER'S EQUITY		
Common shares	5	35,000
Deficit		(3,000)
		32,000
		35,000

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

Approved on behalf of the Board: _____
Director

BLOCKAGRAM INC.
STATEMENTS OF CASH FLOWS
FOR ONE MONTH ENDED DECEMBER 31, 2017

Page 4

	\$
OPERATING ACTIVITIES	
Comprehensive loss for the year	(3,000)
Non-cash working capital items:	(3,000)
Accounts payable and accrued liabilities	3,000
	-
FINANCING ACTIVITIES	
Issuance of common shares	35,000
INVESTING ACTIVITIES	
Acquisition of intangible assets	(35,000)
INCREASE/(DECREASE) IN CASH	-
CASH - Beginning and end of year	-

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

1. NATURE OF BUSINESS

The Company was incorporated in Canada on November 28, 2017 under the Ontario Business Corporation Act. The Company was established to capitalize on opportunities available in blockchain technology development. It has begun development of its first proprietary blockchain decentralized application, namely the Blockagram™ platform, which allows marketers to pay consumers for their engagement. Based on a proprietary advertisement-for-service solution, the Blockagram™ platform also permits users to send cryptocurrency within the platform free of charge. The Company's registered office is located at Toronto, Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation:

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB). This is the first time that the Company has prepared its financial statements in accordance with IFRS. Details of how the adoption of IFRS has affected the financial position, financial performance and cash flows are disclosed in Note 10.

The Company's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

b) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less. Payables are classified as other financial liabilities and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

c) Common shares:

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any related income tax effects.

d) Intangible assets:

Intangible assets consists of purchased proprietary intellectual property and software and is recorded at acquisition cost. These assets are a proprietary application created as a primary revenue generated source, therefore, it has indefinite useful life.

3. CRITICAL 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, liabilities, contingent assets and liabilities at the date of the financial statements, and the reported amounts of expenses during the year. These financial statements include estimates which, by their nature, are uncertain. The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

There are no estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

4. INTANGIBLE ASSETS

	Computer software	Total
	\$	\$
Cost:		
Balance - November 28, 2017	-	-
Additions	35,000	35,000
Balance, December 31, 2017	35,000	35,000
Net book value:		
December 31, 2017	35,000	35,000

5. SHARE CAPITAL

The authorized share capital of the Company consists of an unlimited number of common shares.

The issued share capital consists of the following:

	Equity
	\$
7,000,000 common shares	35,000

Share capital is recognized as a liability, equity, or compound instrument based on their terms and in accordance with IAS 32 - Financial Instrument Presentation. Shares classified as equity are recognized at cost.

Common shares are entitled to one vote for each share held.

6. SHARE-BASED PAYMENT

During the year, the Company entered into a share-based payment arrangement whereas the Company issued 7,000,000 common shares in the exchange for an intangible asset. The transaction was measured at the fair value of the proprietary intellectual property and software acquired. See Note 7 for further details.

7. RELATED PARTY DISCLOSURES

During the year, the Company entered into a transaction with its shareholder whereas the shareholder received a total of 7,000,000 common shares for proprietary intellectual property and software for \$35,000. See Note 5 for details.

8. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern. The Company monitors capital on the basis of the carrying amount of equity. In order to maintain or adjust its capital structure, the Company may attempt to issue common shares, borrow, acquire or dispose of assets.

In order to maximize developmental costs, the Company does not pay out any dividends.

9. EVENTS AFTER THE REPORTING PERIOD

During the year, the Company entered into the Letter of Intent with Capha Pharmaceuticals Inc. (British Columbia) to carry out a business combination transaction, subject to the conditional approval of the listing of the Common Shares on the Canadian Securities Exchange. It is expected that the Company and its shareholder will enter into the Share Exchange Agreement with Capha Pharmaceuticals Inc. (British Columbia) in January 2018 replacing the Letter of Intent. The shareholder of the Company would exchange all of his 7,000,000 common shares in the Company for a total of 7,000,000 common shares of Capha Pharmaceuticals Inc. (British Columbia).

10. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company adopted IFRS on November 28, 2017. As a result, IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that the date of transition to be transition date of November 28, 2017 (the "Transition Date"), which requires first time adopters to retrospectively apply all effective IFRS standards. Therefore, the financial statements for the year ended December 31, 2017, and the opening IFRS statement of financial position at November 28, 2017 are prepared in accordance with IFRS standards effective at the reporting date. The transition to IFRS resulted in no changes to the amounts reported balances at the Transition Date or the reporting date.

IFRS provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

IFRS 1 Exemptions and exceptions:

The IFRS 1 applicable exemptions and exceptions applied in the conversion to IFRS are as follows:

Optional exemptions:

Business combinations:

The Company has elected not to retrospectively apply IFRS 3, Business Combinations, to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

Compound financial instruments:

The Company has elected not to retrospectively separate the liability and equity components of compound instruments for which the liability component is no longer outstanding at the date of transition to IFRS.

Fair value measurement of financial assets or financial liabilities at initial recognition:

The Company has elected to apply day one fair value gains and losses prospectively from the date of transition to IFRS.

Borrowing costs:

The Company has elected to apply the transitional provisions of IAS 23, Borrowing Costs which permits prospective capitalization of borrowing costs on qualifying assets from the Transition Date.

Mandatory exceptions:

Derecognition of financial assets and liabilities:

The Company has applied the derecognition requirements in IAS 39, Financial Instruments: Recognition and Measurement, prospectively from the date of transition to IFRS. As a result any non derivative financial assets or non derivative financial liabilities derecognized prior to the date of transition to IFRS have not been reviewed for compliance with IAS 39 derecognition requirements.

Estimates:

The estimates previously made by the Company were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

SCHEDULE "F"

MANAGEMENT DISCUSSION AND ANALYSIS OF BLOCKAGRAM INC.

Period from incorporation on November 28, 2017 to December 31, 2017

(see attached)

Blockagram Inc.
Period from incorporation on November 28, 2017 to December 31, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

*This Management Discussion and Analysis ("MD&A") provides a review of the performance of Blockagram Inc. ("**Blockagram Subsidiary**" or the "**Company**") and should be read in conjunction with the audited financial statements of Blockagram Subsidiary (the "Financial Statements") for the period ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").*

The information presented in this MD&A is as of January 17, 2018. The reporting currency for Blockagram Subsidiary is the Canadian dollar. All of the financial information presented herein is expressed in Canadian dollars, unless otherwise stated. This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. The reader is cautioned not to place undue reliance on forward-looking statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A contains "forward-looking information", as such term is defined in applicable Canadian securities legislation. Forward-looking information is necessarily based on a number of estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies. All statements other than statements which are reporting results as well as statements of historical fact set forth or incorporated herein by reference, are forward looking information that may involve a number of known and unknown risks, uncertainties and other factors, many of which are beyond Blockagram Subsidiary's ability to control or predict. Forward-looking information can be identified by the use of words such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "intends", "continue", or the negative of such terms, or other comparable terminology.

This information includes, but is not limited to, comments regarding:

- the development plans for the applications;
- the Company's business strategy;
- the Company's strategy for protecting its intellectual property;
- the Company's ability to obtain necessary funding on favorable terms or at all;
- the Company's plan and ability to secure revenues;
- the risk of competitors entering the market;
- the Company's hiring and retention of skilled staff;
- the ability to obtain financing to fund future expenditure and capital requirements; and
- the impact of adoption of new accounting standards.

Although Blockagram Subsidiary believes that the plans, intentions and expectations reflected in this forward-looking information are reasonable, Blockagram Subsidiary cannot be certain that these plans, intentions or expectations will be achieved. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking information contained in this report. Disclosure of important factors that could cause actual results to differ materially from Blockagram Subsidiary's plans, intentions or expectations is included in this report under the heading *Risk Factors*.

Forward-looking information inherently involves risks and uncertainties that could cause actual results to differ materially from the forward-looking information. Factors that could cause or contribute to such differences include, but are not limited to, unexpected changes in business and economic conditions, including the global financial and capital markets; changes in interest and currency exchange rates; changes in operating revenues and costs; political or economic instability, either globally or in the countries in which Blockagram Subsidiary operates; local and community impacts and issues; labour disputes; environmental costs and risks; competitive factors; availability of external financing at reasonable rates or at all; and the factors discussed in this MD&A under the heading *Risk Factors*. Many of these factors are beyond Blockagram Subsidiary's ability to control or predict. These factors are not intended to represent a complete list of the general or specific factors that may affect Blockagram Subsidiary. Blockagram Subsidiary may note additional factors elsewhere in this MD&A. All forward-looking statements and information speak only as of the date made. All subsequent written and oral forward-looking statements attributable to Blockagram Subsidiary, or persons acting on Blockagram Subsidiary's behalf, are expressly qualified in their entirety by these cautionary statements. Readers are cautioned not to put undue reliance on forward-looking information due to the inherent uncertainty therein. Blockagram Subsidiary disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

COMPANY OVERVIEW

Blockagram Subsidiary was incorporated under the name "Blockagram Inc." under the *Business Corporations Act* (Ontario) on November 28, 2017. Blockagram Subsidiary's registered office and head office is located at 77 King Street West, Suite 400, Toronto-Dominion Centre Toronto, ON M5K 0A1 Canada.

Operational overview

Blockagram Subsidiary was formed to capitalize on the opportunities available at the intersection of advertising/consumer engagement and blockchain technology development. Since incorporation, Blockagram Subsidiary has begun development work on its first proprietary blockchain decentralized application, namely the Blockagram™ platform, a blockchain platform which allows marketers to pay consumers for their engagement. Based on a proprietary advertisement-for-service solution, Blockagram™ also permits users to send cryptocurrency within the platform free of charge.

Blockagram is a blockchain focused technology product company. Blockagram intends to establish itself as a leader in applied blockchain technology and innovation by developing products and services which leverage the best of what blockchain has to offer. Blockagram's business model and strategy is based on identifying and developing blockchain related applications and services. Its first blockchain related application that it has identified is Blockagram™.

BUSINESS OBJECTIVES

Following listing of the common shares of the Company (the "**Common Shares**") on the CSE, the Company intends to develop Blockagram™ in the following three steps:

Step 1: Blockagram™ development (April 2018)

The first step includes completing and initial testing of the Blockagram email marketing platform and smart contract minimum viable product. Real-time input from the blockchain and end-user community will

contain the necessary feedback on how Blockagram™ should be developed, managed, costed, revenue retained by Blockagram, as well as inputs on the potential demand, reach, frequency of use, competition and user types.

Front-end development will focus on:

- ease of signup
- ease of purchasing tokens with major credit cards
- the UX design for creating, managing and reporting on email marketing campaigns
- a dashboard for seeing account balances and activity
- account management and billing tools
- intuitive interface and ease of use

Back-end development will invest in:

- the email analytics engine for tracking email open rates, link clicks and JavaScript CPAs
- transaction system that will track all activity in a way that is both secure and auditable
- implementation of anything required to support the front-end user experience mentioned above
- encryption and security considerations for both storing private keys and hardening against vulnerability.
- high performance bulk email system

Smart contract development will invest in:

- testing and deployment of the smart contract and ERC20 compliant token on the Ethereum main network
- integrating the BLKG tokens into the transaction system

Step 2: *Digital Wallet (June 2018)*

The second step includes the development of the exchange functionality which enables withdrawal of funds into several options of exchanged currencies. This will enable the ability to accept various crypto currencies as payment for BLKG tokens in the system, and also the ability for users to withdraw tokens out in their preferred currency.

Step 3: *Blockagram™ launch and on-going upgrades (August 2018)*

The third step includes listening to our clients and users and prioritizing on improving the platform in the most where we can identify further user and shareholder value. Integration of analytics and split testing tools, as well as customer outreach and surveys will drive the product forward.

The medium term product roadmap includes:

- Innovative product ideas: time limited offers, physical CPAs
- Internationalization – translation of the app into multiple languages
- Android and iOS apps
- Community outreach and education resources

- Integration with partners
- Transactional email product
- Apply Blockagram™ to wider affiliate marketing capabilities
- Investing in blockchain innovations to decentralize and reduce fraud

Recent developments

On December 11, 2017, Capha Pharmaceuticals Inc. announced it had entered into a letter of intent dated December 11, 2017 relating to the acquisition of Blockagram Subsidiary. The acquisition will be effected through an exchange of securities with the sole shareholder of Blockagram Subsidiary.

SELECTED ANNUAL INFORMATION

Expressed in thousands of Canadian dollars, except for per Common Share amounts, and prepared in accordance with IFRS:

	December 31, 2017
Total expenses	\$3,000
Total loss	(\$3,000)
Total loss per Common Share	(0.00)
Cash dividends per Common Share	Nil
Total assets	\$35,000
Total non-current financial liabilities	Nil

Blockagram Subsidiary expects to record losses until such time as it further develops its Blockagram™ platform. See the *Risk Factors* section of this MD&A.

RESULTS OF OPERATIONS

Period ended December 31, 2017

During the period from incorporation on November 28, 2017 to December 31, 2017, the Company recorded a net loss before income taxes of \$3,000. The operating expenses for the period can be attributed mainly to the following items:

- Fees of \$1,000 relating to incorporation and trademark costs.
- Audit fees of \$2,000.

LIQUIDITY AND CAPITAL RESOURCES

Blockagram Subsidiary's liquidity depends on existing cash reserves, to be supplemented as necessary by equity and/or debt financings. As of December 31, 2017, Blockagram Subsidiary had no cash and intangible assets of \$35,000.

Liquidity risk is the risk that the Company will not meet its financial obligations as they become due. The Company is reliant on equity financing or shareholder loans to provide the necessary cash to acquire or participate in an active business. As of December 31, 2017, the Company did not have sufficient cash to meet its business objectives and day-to-day operation needs.

COMMITMENTS AND CONTINGENCIES

Blockagram Subsidiary has not entered into any contract that gives rise to commitments for future payments.

OFF-BALANCE SHEET ARRANGEMENTS

Blockagram Subsidiary has no off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to Blockagram Subsidiary.

OUTSTANDING SHARE INFORMATION

The Company has authorized an unlimited number of Common Shares without par value. As of December 31, 2017, the Company had 7,000,000 Common Shares outstanding.

Blockagram Subsidiary entered into a letter of intent (the "**LOI**") with Capha Pharmaceuticals Inc. on December 11, 2017. On January [●], 2018, this LOI was formalized in a Share Exchange Agreement (the "**Agreement**"). Under the terms of the Agreement, Capha Pharmaceuticals Inc. acquired all of the issued and outstanding Common Shares based on a one for one share exchange. The board of directors of both companies unanimously approved the terms which resulted in 7,000,000 shares of Capha Pharmaceuticals Inc. being issued in exchange for all of the outstanding Common Shares (7,000,000) of Blockagram Subsidiary. Upon closing, Blockagram Subsidiary shareholder holds approximately 8.59% of the outstanding shares of Capha Pharmaceuticals Inc. Effective January [●], 2018, Capha Pharmaceuticals Inc. has changed its name to Blockagram Corp.

RELATED PARTY TRANSACTIONS

During the period ended December 31, 2017, the Company did not enter into a related party transaction.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market Risk

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk exposure arises from the Company entering into transactions which are denominated in currencies other than its functional currency.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

An immaterial amount of interest rate exposure exists in respect of cash balances on the statement of financial position. As a result, the Company is not exposed to material cash flow interest rate risk on its cash balances.

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and receivables.

The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. 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.

RISK FACTORS

The Common Shares should be considered highly speculative due to the nature of the Company's business and the present stage of its development. In evaluating the Company and its business, investors should carefully consider, in addition to the other information contained in this MD&A, the following risk factors. These risk factors are not a definitive list of all risk factors associated with an investment in the Company or in connection with the Company's operations. There may be other risks and uncertainties that are not known to the Company or that the Company currently believes are not material but which also may have a material adverse effect on its business, financial condition, operating results or prospects. In that case, the trading price of the Common Shares could decline substantially, and investors may lose all or part of the value of the Common Shares held by them. An investment in securities of the Company should only be made by persons who can afford a significant or total loss of their investment. There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased.

Risk Factors Related to the Common Shares

There is currently no public trading market for the Common Shares

Currently there is no public market for the Common Shares of the Company and there can be no assurance that an active market for the Common Shares will develop or be sustained.

Risk Factors Associated with Blockagram Subsidiary's Business

Limited Operating History

Blockagram Subsidiary has limited operating history. The Company and its business prospects must be viewed against the background of the risks, expenses and problems frequently encountered by companies in the early stages of their development, particularly companies in new and rapidly evolving markets such as the cryptocurrency and blockchain market. There is no certainty that the Company will operate profitably.

No Profits to Date

Blockagram Subsidiary has not made profits since its incorporation and it is expected that it will not be profitable for foreseeable future. Its future profitability will, in particular, depend upon its success in developing and managing a significant number of cryptocurrency internet platforms and to the extent to which any of these platforms themselves are able to generate significant revenues. Because of the limited operating history, the changes in the business and the uncertainties regarding the development of

the cryptocurrency market and blockchain technology, management does not believe that the operating results to date should be regarded as indicators for Blockagram Subsidiary's future performance.

Additional Requirements for Capital

Substantial additional financing may be required if the Company is to be successful develop its blockchain business. No assurances can be given that the Company will be able to raise the additional capital that it may require for its anticipated future development. Any additional equity financing may be dilutive to investors and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company, if at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

Negative Operating Cash Flow

Blockagram Subsidiary does not generate operating revenue and both have negative cash flow from operating activities. It is anticipated that the Company will continue to have negative cash flow in the foreseeable future. Continued losses may have the following consequences:

- (a) increasing the Company's vulnerability to general adverse economic and industry conditions;
- (b) limiting the Company's ability to obtain additional financing to fund future working capital, capital expenditures, operating costs and other general corporate requirements; and
- (c) limiting the Company's flexibility in planning for, or reacting to, changes in its business and industry.

Development of Cryptocurrencies

Cryptocurrency and blockchain technology is a young and rapidly growing business area. Although it is widely predicted that cryptocurrency will become a leading means of digital payment, it cannot be assured that this will in fact occur. Currently, blockchain software is dependent on the widespread acceptance of cryptocurrency as a means of payment within the digital economy. For a number of reasons, including, for example, the lack of recognized security technologies, inefficient processing of payment transactions, problems in the handling of warranty claims, limited user-friendliness, inconsistent quality, lack of availability of cost-efficient high-speed services and lack of clear universally applicable regulation as well as uncertainties regarding proprietary rights and other legal issues, it can't be ruled out that such cryptocurrency activities may prove in the long run to be an unprofitable means for businesses.

In particular, the factors affecting the further development of the cryptocurrency industry include:

- (a) Worldwide adoption and usage of bitcoins and other cryptocurrencies;
- (b) Regulations by governments and/or by organizations directing governmental regulations (such as the European Union) regarding the use and operation of and access to bitcoins and cryptocurrencies;
- (c) Changes in consumer demographics and public behavior, tastes and preferences;
- (d) Redirection and liberalization of using fiat currencies as well as the development of other forms of publicly acceptable means of buying and selling goods and services; and

- (e) General economic conditions and the regulatory environment relating to cryptocurrencies.

Regulatory Risks

Changes in or more aggressive enforcement of laws and regulations could adversely impact the Company's business. Failure or delays in obtaining necessary approvals could have a materially adverse effect on the Company's financial condition and results of operations. Furthermore, changes in government, regulations and policies and practices could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Regulatory agencies could shut down or restrict the use of platforms or exchanges using virtual currencies or blockchain based technologies. This could lead to a loss of any investment made in the Company and may trigger regulatory action by the OSC or other securities regulators.

The legal status of cryptocurrency varies substantially from country to country and is still undefined and changing in many of them. While some countries have explicitly allowed its use and trade, others have banned or restricted it. Likewise, various government agencies, departments, and courts have classified cryptocurrencies differently.

Dependence on Third Party Relationships

The Company is highly dependent on a number of third party relationships to conduct its business and implement expansion plans. It cannot be assured that all of these partnerships will turn out to be as advantageous as currently anticipated or that other partnerships would not have proven to be more advantageous. In addition, it is impossible to assure that all associated partners will perform their obligations as agreed or that any strategy agreement will be specifically enforceable by the Company.

Dependence on Internet Infrastructure; Risk of System Failures, Security Risks and Rapid Technological Change

The success as a developer of cryptocurrency-based, blockchain platforms will depend by and large upon the continued development of a stable public infrastructure, with the necessary speed, data capacity and security, and the timely development of complementary products such as high-speed modems for providing reliable internet access and services. Cryptocurrency has experienced, and is expected to continue to experience significant growth in the number of users, amount of content and bandwidth availability. It cannot be assured that the cryptocurrency infrastructure will continue to be able to support the demands placed upon it by this continued growth or that the performance or reliability of the technology will not be adversely affected by this continued growth. It is further not assured that the infrastructure or complementary products or services necessary to make cryptocurrency a viable medium for digital payments will be developed in a timely manner, or that such development will not result in the requirement of incurring substantial costs in order to adapt the Company's services to changing technologies.

Intellectual Property Rights

The only significant intellectual property rights are certain domain names which Blockagram Subsidiary owns as well as the licenses which have to be in accordance with certain industry standards. The Company does not believe that it is dependent on any of these intellectual property rights; however, the loss of several of them at any one time could harm its business, results of operations and its financial condition. Although the Company is not aware of violating commercial and other proprietary rights of third parties, there can be no assurance that its products do not violate proprietary rights of third parties or that third parties will not assert or claim that such violation has occurred. Although no legal disputes in this respect or perceptible detrimental effects on Blockagram Subsidiary's business have arisen to date, any

such claims and disputes arising may result in liability for substantial damages which in turn could harm the Company's business, results of operations and financial condition.

Volatilities in Cryptocurrency Prices

The markets for cryptocurrencies have experienced much larger fluctuations than other security markets. There can be no assurances that cryptocurrency price might show erratic swings in the future, which could be related not only to improper payment activities involving cryptocurrency but also regulations by law makers in various countries. Furthermore, cryptocurrencies have not been widely adopted as a means of payments for goods and services by the majority of retail and commercial outlets. On the other hand, a significant portion of the demands for cryptocurrency is generated by investors and speculators focusing on generating profits by buying and holding cryptocurrency which might create limitations on the availability of cryptocurrencies to pay for goods and services resulting in increased volatility of cryptocurrency which could adversely impact an investment in the Company.

Several factors may affect the price and the volatility of cryptocurrency, including, but not limited to:

- (a) Global cryptocurrency demand depending on the acceptance of cryptocurrency by retail merchants and commercial businesses, the perception that the use and holding of cryptocurrency is safe and secure as well as the lack of regulatory restrictions;
- (b) Investor's expectations with respect to the rate of inflation;
- (c) Interest rates;
- (d) Currency exchange rates, including exchange rates between cryptocurrency and fiat currency;
- (e) Fiat currency withdrawal and deposit policies on cryptocurrency exchanges and liquidity on such cryptocurrency exchanges
- (f) Interruption of services or failures of major cryptocurrency exchanges;
- (g) Large investment and trading activities in cryptocurrency
- (h) Monetary policies of governments, trade restrictions, currency devaluations and revaluations;
- (i) Regulatory measures restricting the use of cryptocurrency as a form of payment or the purchase of cryptocurrency;
- (j) Global or regional political, economic or financial events and situations, including increased threat of terrorist activities; and/or
- (k) Self-fulfilling expectations of changes in the cryptocurrency market.

Stability of Bitcoin Exchanges

The price of cryptocurrency is established by public exchanges that have, by nature of their business, a limited operating history. So far, even the largest cryptocurrency exchanges have been subject to operational interruptions or even collapse (Mt. Gox). The interruption and the collapse of cryptocurrency exchanges may limit the liquidity of cryptocurrencies resulting in volatile prices and a reduction in confidence in the cryptocurrency network and the cryptocurrency exchange market. The deposit or withdrawal of fiat currency into or from the cryptocurrency exchanges may also affect the price of cryptocurrency. Operational limits regarding the settlement with fiat currencies may also reduce the demand to use cryptocurrency exchanges which would adversely affect an investment in the Company. Cryptocurrency exchanges are relatively new and largely unregulated, and may, therefore, be more exposed to fraud and failure than other, more established currency and commodity exchanges. While smaller cryptocurrency exchanges are lacking infrastructure and capitalization the larger cryptocurrency exchanges are more likely to become targets of hackers and malware. Also, arbitraging activities between cryptocurrency exchanges may destabilize some of the smaller cryptocurrency exchanges. A

lack of stability in the cryptocurrency exchange market may reduce the confidence in the cryptocurrency network affecting adversely an investment in the Company.

Changes in the Bitcoin Network Protocol

The cryptocurrency network is based on a protocol governing the peer-to-peer interactions between computers that are connected to each other within the cryptocurrency network. The governing code regulating such math-based protocol is informally managed by a development team. This development team, though, might propose and implement amendments to the cryptocurrency network's source code through software upgrades altering the original protocol, including fundamental ideas such as the irreversibility of transactions and limitations on the validation of blockchain software distributed ledgers. Such changes of the original protocol and software may adversely affect an investment in the Company.

Acceptance of Virtual Currencies

Although the Company believes that the usage of cryptocurrencies will be focused on the technology to transmit and clear fiat currencies their usage as virtual currency will be an important factor as well. Hence, in the event that companies or individuals will be increasingly reluctant to accept virtual currencies, such limited usage of cryptocurrencies could adversely affect an investment in the Company.

Misuse of Cryptocurrencies

Ever since the existence of cryptocurrencies and, especially, bitcoins, there has been attempts to use them for speculation purposes and manipulations by hackers to use cryptocurrencies for malicious purposes. Although law makers increasingly regulate the use and applications of cryptocurrencies and software is being developed to curtail hacker activities as well as misuses by speculators no assurances can be given that those measures will be sufficiently deter those illegal activities in the future.

In particular, misuses could occur if a malicious actor or botnet (i.e. a series of computer controlled by a networked software coordinating the actions of the computers) obtains a majority of the processing power controlling the cryptocurrency validating activities and altering the blockchain which cryptocurrency transactions rely upon.

Moreover, if the award for solving transaction blocks declines and transaction fees are not sufficiently high, the incentive to continue validating blockchain transactions would decrease and could lead to a stoppage of validation activities. The collective processing power of the blockchain network would be reduced, which would adversely affect the confirmation process for transactions by decreasing the speed of the adaption and adjustment in the difficulty for transaction block solutions. Such slower adjustments would make the blockchain network more vulnerable to malicious actors or botnets obtaining control of the blockchain network processing power.

Recording of Transactions

It is feasible that blockchain validators will cease to record transactions in solved transaction blocks. In particular, transactions that do not include the payment of transaction fees will not be recorded on the blockchain until a transaction block is solved by validators who are not required to pay such transaction fees. Any widespread delays in the recording of transactions could result in a loss of confidence in the blockchain network which could adversely affect an investment in the Company.

Competition

The market for blockchain technology is highly competitive on both a local and a national level. The Company believes that the primary competitive factors in this market are:

- product features, functionality and ease of use;
- ongoing product enhancements;
- price;
- quality service and support; and
- reputation and stability of the vendor.

The current marketplace in Canada is dominated by and the Company will face substantial competition from and other established competitors, which have greater financial, technical, and marketing resources than it does. The Company's competitors may also have a larger installed base of users, longer operating histories or greater name recognition than the Company will.

There can be no assurance that the Company will successfully differentiate its products from the products of its competitors, or that the marketplace will consider the Company's products to be superior to competing products.

Key Personnel

The future success of the Company will depend, in large part, upon its ability to retain its key management personnel and to attract and retain additional qualified marketing, sales and operational personnel to form part of its technical and customer services support center. The Company may not be able to enlist, train, retain, motivate and manage the required personnel. Competition for these types of personnel is intense. Failure to attract and retain personnel, particularly marketing, sales and operational personnel as well as consultants, could make it difficult for the Company to manage its business and meet its objectives.

Failure to manage growth successfully may adversely impact the Company's operating results. The growth of the Company's operations places a strain on managerial, financial and human resources. The Company's ability to manage future growth will depend in large part upon a number of factors, including the ability to rapidly:

- (a) build and train development, sales and marketing staff to create an expanding presence in the evolving marketplace for the Company's products;
- (b) attract and retain qualified technical personnel in order to administer technical support required for customers located in Canada, the United States and other countries around the world;
- (c) develop customer support capacity as sales increase, so that customer support can be provided without diverting resources from product sales efforts; and
- (d) expand internal management and financial controls significantly, so that control can be maintained over operations as the number of personnel and size of the Company increases.
- (e) Inability to achieve any of these objectives could harm the business and operating results of the Company.

Management of Growth

The Company may be subject to growth-related risks including pressure on its internal systems and controls. The Company's ability to manage its growth effectively will require it to continue to implement

and improve its operational and financial systems. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects. While management believes that it will have made the necessary investments in infrastructure to process anticipated volume increases in the short term, the Company may experience growth in the number of its employees and the scope of its operating and financial systems, resulting in increased responsibilities for the Company's personnel, the hiring of additional personnel and, in general, higher levels of operating expenses. In order to manage its current operations and any future growth effectively, the Company will also need to continue to implement and improve its operational, financial and management information systems and to hire, train, motivate and manage its employees. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth.

Conflicts of interest

The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests, which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. Conflicts, if any, will be subject to the procedures and remedies as provided under the *Business Corporations Act* (Ontario).

To the best of the Company's knowledge, and other than disclosed herein, there are no known existing or potential conflicts of interest between the Company and its directors and officers except that certain of the directors and officers may serve as directors and/or officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director or officer of such other companies.

Currency Risk

To the extent that the Company expands its business into the United States and Europe, the Company will be exposed to foreign currency fluctuations to the extent that certain operations are located in the United States and Europe and therefore certain expenditures and obligations are denominated in US dollars and Euros, yet the Company is headquartered in Canada, has applied to list its Common Shares on a Canadian stock exchange and typically raises funds in Canadian dollars. As such, the Company's results of operations are subject to foreign currency fluctuation risks and such fluctuations may adversely affect the financial position and operating results of the Company.

No dividend history

No dividends have been paid by the Company to date. The Company anticipates that for the foreseeable future it will retain future earnings and other cash resources for the operation and development of its business. Payment of any future dividends will be at the discretion of the board after taking into account many factors, including the Company's financial condition and current and anticipated cash needs.

CRITICAL ACCOUNTING POLICIES

Blockagram Subsidiary's significant accounting policies and new accounting standards issued but not yet effective are disclosed in note 2, *Summary of Significant Accounting Policies*, of the financial statements for the period-ended December 31, 2017. No disclosure is considered more critical than others for additional disclosure.

SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements in conformity with IFRS requires management to make judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Estimates are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical accounting judgments and estimates in applying accounting policies that have the most significant impact on the amounts recognized in the consolidated financial statements are outlined below.

Valuation and amortization of internally generated intangible assets

The Company will capitalize certain costs incurred for the development of its products. Estimates are used in order to determine the point in time whereby the recognition criteria are met and the allocation and nature of costs to capitalize in accordance with IAS 38, Intangible Assets. The capitalized costs may include the cost of direct labour and other costs directly attributable to preparing the intangible asset for its intended use. Management will then estimate the expected term over which the Company will receive benefits from the software application. A change in these estimates may have a significant impact on the carrying value of an intangible asset and the amortization and expenses recognized in the statements of loss and comprehensive loss.

OTHER INFORMATION

Additional information regarding the Company is available on the Company's website at www.blockagram.com

SCHEDULE "G"

**PRO FORMA FINANCIAL STATEMENTS
GIVING EFFECT TO THE TRANSACTION**

As at December 31, 2017

(see attached)

Blockagram Corp. (formerly Capha Pharmaceuticals Inc.)
Pro Forma Consolidated Statement of Financial Position
(unaudited – Prepared by Management)

As at December 31, 2017
(Expressed in Canadian Dollars)

	Capha Pharmaceuticals Inc As at Sept. 30, 2017 \$	Blockagram Inc. As at Dec. 31, 2017 \$	Notes	Pro-Forma Adjustments \$	Pro-Forma Consolidated \$
Assets					
Current Assets					
Cash	1,691		3(a)	(1,691)	617,500
Accounts Receivable	768		3(b)	617,500	
	<u>2,459</u>		3(c)	<u>(768)</u>	617,500
Equipment	4,726		3(d)	(4,726)	
Intangible Assets		35,000			35,000
	7,185	35,000			652,500
Liabilities					
Current Liabilities					
Accounts Payable	141,608	3,000	3(e)	(141,608)	3,000
Loan Payable	306,119		3(f)	(306,119)	
	<u>447,727</u>	<u>3,000</u>			<u>3,000</u>
Shareholders' Equity					
Share Capital	10,954,455	35,000	3(b)	617,500	12,106,955
			3(g)	500,000	
Share-Based Payment Reserve	3,564,621				3,564,621
Currency Translation Reserve	133,062		3(h)	(133,062)	
Deficit	<u>(15,092,680)</u>	<u>(3,000)</u>	3(a)	(1,691)	(15,022,076)
			3(c)	(768)	
			3(d)	(4,726)	
			3(e)	141,608	
			3(f)	306,119	
			3(g)	(500,000)	
			3(h)	133,062	
	<u>(440,452)</u>	<u>32,000</u>			<u>649,500</u>
	7,185	35,000			652,500

The accompanying notes are an integral part of this unaudited pro-forma consolidated statement of financial position.

Blockagram Corp. (formerly Capha Pharmaceuticals Inc.)

Notes to the Pro Forma Consolidated Statement of Financial Position
(unaudited – Prepared by Management)

As at December 31, 2017

(Expressed in Canadian Dollars)

1. Basis of Preparation:

This unaudited pro forma consolidated statement of financial position of Blockagram Corp. (“Blockagram”) has been prepared by management for illustrative purposes only, to show the effect of the acquisition by Blockagram of Blockagram Inc. as described in Note 2. (the “Transaction”).

The unaudited pro form consolidated statement of financial position as at December 31, 2017 has been prepared using the following information:

- (a) Unaudited interim consolidated financial statements of Capha Pharmaceuticals Inc. for the nine months ended September 30, 2017 with adjustments to December 31, 2017, and
- (b) Audited financial statements of Blockagram Inc. for the year ended December 31, 2017.

The unaudited pro form consolidated statement of financial position does not reflect future events that may occur after the Transaction, including, but not limited to, new revenue generating opportunities, cost savings from operating synergies or integration costs. The unaudited pro forma consolidated statement of financial position is not intended to reflect the results of the operations or the financial position that would have resulted had the acquisition of Blockagram Inc. been affected on the date indicated, or the results that may be obtained in the future. The unaudited pro forma consolidated statement of financial position should be read in conjunction with the historical financial statements of Capha Pharmaceuticals and Blockagram Inc.

The unaudited pro forma consolidated statement of financial position has been presented assuming the Transaction had been completed on December 31, 2017.

2. Proposed Transaction:

Blockagram is a British Columbia corporation and a reporting issuer in British Columbia, Alberta, Ontario and Quebec. Blockagram Inc. is a privately held Ontario corporation. Blockagram is proposing to acquire 100% of the issued and outstanding shares of Blockagram Inc. from the sole shareholder of Blockagram Inc. in consideration for 7 million common shares of Blockagram at a value of \$0.005 per share.

On December 22, 2017 Blockagram completed a private placement financing of 12,350,000 Subscription Receipts at a price of \$0.05 per Subscription Receipt for aggregate gross proceeds of \$617,500. Each Subscription Receipt represents the right to receive one common share of Blockagram, without the payment of any additional consideration or further action, upon satisfaction of certain conditions, including that all conditions to the listing of Blockagram on the CSE be completed by February 28, 2018. The gross proceeds were deposited into escrow with Goldberg, Lamba & Ghannoum LLP pursuant to the terms of the subscription receipt agreement dated December 22, 2017. Each Subscription Receipt will also entitle the holder to receive one Warrant, entitling the holders thereof to purchase up to 12,350,000 Common shares at an exercise price of \$0.10 per Common Share. The Warrants will expire two years from the date of issuance.

If the Blockagram listing on the CSE is not completed on or before February 28, 2018 holders of Subscription Receipts will receive, for each Subscription Receipt held, a cash payment equal to the offering price per Subscription Receipt without interest.

Also, \$500,000 of Blockagram's debt was exchanged for 10,000,000 shares at a deemed price of \$0.05 per share.

At the completion of the transaction, Blockagram intends to list its shares on the Canadian Securities Exchange ("CSE").

3. Unaudited Pro Forma Assumptions and of Adjustments

The unaudited pro forma consolidated statement of financial position gives effect to the completion of the Transaction, incorporating the assumptions in notes 1 and 2, as if it had occurred December 31, 2017.

Assumptions:

- a) Cash was all used in the 4th quarter.
- b) On December 22, 2017 Blockagram completed an equity financing raising total gross proceeds of \$617,500 by issuing 12,350,000 subscription receipts at a price of \$0.05 per subscription receipt.
- c) Accounts receivable were written-off in the 4th quarter.
- d) Equipment was written off in 4th quarter.
- e) Debt of \$500,000 was exchanged for 10,000,000 shares at a deemed price of \$0.05.
- f) Part of settlement described in (e) above.
- g) Part of settlement described in (e) above.
- h) Written-up in the 4th quarter as no longer relevant.

4. Share Capital

At December 31, 2017 the Company's authorized share capital consisted of an unlimited number of voting common shares without par value, an unlimited number of first preferred shares without par value and an unlimited number of second preferred shares without par value. All issued common shares are fully paid (subject to the completion of the proposed transaction detailed under Note 2 above).

Shares Issuances

	<u># of Shares</u>	<u>Cost</u>
Opening Balance	54,431,030	\$10,954,455
Private Placement	12,350,000	\$617,500
Debt for share exchange	10,000,000	\$500,000
<u>Share Exchange</u>	<u>7,000,000</u>	<u>\$35,000</u>
	83,781,030	\$12,106,955

Stock Options

The Company has an incentive share option plan (the "plan"). Under the plan, the Company may issue options to directors, officers, employees and consultants for up to 20% of the Company's issued common shares to purchase common shares at a price determined by the Board of Directors on the date of award for a period of not more than five years. The Board of Directors may determine and impose terms upon which each option shall become vested.

There are 3,500,000 options outstanding.

Warrants

The Company has issued 12,350,000 share purchase warrants entitling the holders thereof to purchase up to 12,350,000 Common Shares at an exercise price of \$0.10 per Common Share for two years from the date of issuance of the warrants.

SCHEDULE "H"

AUDIT COMMITTEE CHARTER

Purpose of the Committee

The purpose of the audit committee (the "**Audit Committee**") of the directors of the Company (the "**Board**") is to provide an open avenue of communication between management, the Company's independent auditor and the Board and to assist the Board in its oversight of:

- the integrity, adequacy and timeliness of the Company's financial reporting and disclosure practices;
- the Company's compliance with legal and regulatory requirements related to financial reporting; and
- the independence and performance of the Company's independent auditor.

The Audit Committee will also perform any other activities consistent with this Charter, the Company's articles and governing laws as the Audit Committee or Board deems necessary or appropriate.

The Audit Committee shall consist of at least three directors. Members of the Audit Committee shall be appointed by the Board and may be removed by the Board in its discretion. The members of the Audit Committee shall elect a Chairman from among their number. A majority of the members of the Audit Committee must not be officers or employees of the Company or of an affiliate of the Company. The quorum for a meeting of the Audit Committee is a majority of the members who are not officers or employees of the Company or of an affiliate of the Company. With the exception of the foregoing quorum requirement, the Audit Committee may determine its own procedures.

The Audit Committee's role is one of oversight. Management is responsible for preparing the Company's financial statements and other financial information and for the fair presentation of the information set forth in the financial statements in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board. Management is also responsible for establishing internal controls and procedures and for maintaining the appropriate accounting and financial reporting principles and policies designed to assure compliance with accounting standards and all applicable laws and regulations.

The independent auditor's responsibility is to audit the Company's financial statements and provide its opinion, based on its audit conducted in accordance with IFRS, that the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Company in accordance with IFRS.

The Audit Committee is responsible for recommending to the Board the independent auditor to be nominated for the purpose of auditing the Company's financial statements, preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, and for reviewing and recommending the compensation of the independent auditor. The Audit Committee is also directly responsible for the evaluation of and oversight of the work of the independent auditor. The independent auditor shall report directly to the Audit Committee.

Authority and Responsibilities

In addition to the foregoing, in performing its oversight responsibilities the Audit Committee shall:

1. Monitor the adequacy of this Charter and recommend any proposed changes to the Board.
2. Review the appointments of the Company's Chief Financial Officer and Chief Executive Officer and any other key financial executives involved in the financial reporting process.
3. Review with management and the independent auditor the adequacy and effectiveness of the Company's accounting and financial controls and the adequacy and timeliness of its financial reporting processes.
4. Review with management and the independent auditor the annual financial statements and related documents and review with management the unaudited quarterly financial statements and related documents, prior to filing or distribution, including matters required to be reviewed under applicable legal or regulatory requirements.
5. Where appropriate and prior to release, review with management any news releases that disclose annual or interim financial results or contain other significant financial information that has not previously been released to the public.
6. Review the Company's financial reporting and accounting standards and principles and significant changes in such standards or principles or in their application, including key accounting decisions affecting the financial statements, alternatives thereto and the rationale for decisions made.
7. Review the quality and appropriateness of the accounting policies and the clarity of financial information and disclosure practices adopted by the Company, including consideration of the independent auditor's judgment about the quality and appropriateness of the Company's accounting policies. This review may include discussions with the independent auditor without the presence of management.
8. Review with management and the independent auditor significant related party transactions and potential conflicts of interest.
9. Pre-approve all non-audit services to be provided to the Company by the independent auditor.
10. Monitor the independence of the independent auditor by reviewing all relationships between the independent auditor and the Company and all non-audit work performed for the Company by the independent auditor.
11. Establish and review the Company's procedures for the:
 - receipt, retention and treatment of complaints regarding accounting, financial disclosure,
 - internal controls or auditing matters; and
 - confidential, anonymous submission by employees regarding questionable accounting, auditing and financial reporting and disclosure matters.

12. Conduct or authorize investigations into any matters that the Audit Committee believes is within the scope of its responsibilities. The Audit Committee has the authority to retain independent counsel, accountants or other advisors to assist it, as it considers necessary, to carry out its duties, and to set and pay the compensation of such advisors at the expense of the Company.
13. Perform such other functions and exercise such other powers as are prescribed from time to time for the audit committee of a reporting company in Parts 2 and 4 of National Instrument 52-110 of the Canadian Securities Administrators, the Business Corporations Act (British Columbia) and the articles of the Company.

CERTIFICATE OF THE COMPANY

Date: January 25, 2018

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by Capha Pharmaceuticals Inc. as required by the securities legislation in Ontario.

(signed) "Charles Abraham"

Charles Abraham

Chief Executive Officer

(signed) "Roland Nimmo"

Roland Nimmo

Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS

(signed) "Daniel Kube"

Daniel Kube

Director

(signed) "Ronnie Strasser"

Ronnie Strasser

Director