

# **Callitas Health Inc.**

## **Unaudited Interim Consolidated Financial Statements**

*For the three months ended March 31, 2018 and 2017  
(Expressed in Canadian dollars)*

## **NOTICE TO READER**

The accompanying unaudited Interim Consolidated Financial Statements for Callitas Health Inc. have been prepared by management in accordance with International Financing Reporting Standards consistently applied. These Interim Consolidated Financial Statements have not been audited or reviewed by the auditors.

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**CALLITAS HEALTH INC.****Interim Consolidated Statements of Financial Position (Unaudited)**

As at March 31, 2018 and December 31, 2017

		March 31, 2018	December 31, 2017
<i>(In Canadian Dollars)</i>			
	<b>Notes</b>	\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		825	16,126
Accounts receivable		3,470	21,949
Prepaid expenses and deposits		33,077	33,077
Inventory		108,710	113,802
<b>Total Current Assets</b>		<b>146,082</b>	<b>184,954</b>
<b>Non-current Assets</b>			
Fixed assets		5,776	5,776
Intangible assets	7	4,250,934	4,367,000
<b>Total Assets</b>		<b>4,402,792</b>	<b>4,557,730</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (Deficit)</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	10	1,006,893	871,549
Promissory notes payable	11	120,000	120,000
Convertible debenture	12	137,670	137,670
Derivative liability	9	215,848	215,848
Due to vendor	6	1,318,155	1,374,048
Contingent liability	6	308,000	308,000
Royalty liability	6	1,656,000	1,656,000
<b>Total Current Liabilities</b>		<b>4,762,566</b>	<b>4,683,115</b>
<b>Shareholders' Equity (Deficit)</b>			
Share capital	8(a)	52,204,289	52,204,289
Contributed surplus	8(d)	10,337,800	10,337,800
Accumulated other comprehensive income		278,376	278,376
Deficit		(63,180,239)	(62,945,850)
<b>Total Shareholders' Equity (Deficit)</b>		<b>(359,774)</b>	<b>(125,385)</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>4,402,792</b>	<b>4,557,730</b>

**Going concern (Note 2)****Commitments and contingencies (Note 13)****Subsequent events (Note 18)**

Director:

"Signed"

Rick Skeith

Director:

"Signed"

Gary Thompson

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

**CALLITAS HEALTH INC.****Interim Consolidated Statements of Comprehensive Loss (Unaudited)**

For the three months ended March 31, 2018 and March 31, 2017

<i>(In Canadian Dollars)</i>		<b>March 31, 2018</b>	<b>March 31, 2017</b>
	<i>Notes</i>		
		\$	\$
<b>Revenue</b>		<b>169,433</b>	26,656
<b>Cost of Sales</b>		<b>(18,600)</b>	-
<b>Gross Margin</b>		<b>150,833</b>	26,656
<b>Expenses</b>			
Payroll		<b>94,380</b>	130,666
Professional fees	10	<b>67,781</b>	371,793
General and administrative		<b>106,189</b>	88,671
Travel and promotion	10	<b>12,904</b>	20,127
Consulting fees	10	-	202,965
Research and development		-	140,440
Stock based compensation	8(c)	-	-
Depreciation	7	<b>116,066</b>	619
<b>Loss before the following items</b>		<b>(246,487)</b>	(928,625)
Expenditures incurred for assets held for sale	11	-	-
Accretion	6/12	-	-
Impairment of intangible assets	7	-	-
Impairment of goodwill	6	*	-
Gain (loss) on settlement of debt		-	-
Financing fees		-	-
Derivative fair value adjustment	9	-	-
Warrant inducement expenses		-	-
Interest expense	11	-	-
Foreign exchange gain (loss)		<b>12,098</b>	-
<b>Net loss for the period</b>		<b>(234,389)</b>	(928,625)
<b>Other comprehensive loss</b>			
Functional currency translation		-	-
<b>Total comprehensive loss</b>		<b>(234,389)</b>	(928,625)
<b>Net loss per share - basic &amp; diluted</b>		<b>(0.01)</b>	(0.06)
Weighted average number of shares - basic & diluted		<b>32,166,095</b>	16,193,265

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

**CALLITAS HEALTH INC.**
**Interim Consolidated Statements of Changes in Equity (Deficit) (Unaudited)**

As at

		Share capital			Accumulated other comprehensive income		Total equity (deficit)
	Notes	Number of shares*	Amount	Contributed surplus		Deficit	
			\$	\$	\$	\$	\$
Balance at December 31, 2015		3,315,035	42,013,547	9,180,972	-	(52,298,994)	(1,104,475)
Common shares issued for private placement	8/9	3,443,318	-	-	-	-	-
Share issue costs		-	-	142,000		-	142,000
Common shares issued for debenture conversion	9/12	2,913,731	1,367,860	-	-	-	1,367,860
Common shares issued for warrants exercised	8	200,000	173,800	-	-	-	173,800
Common shares issued for debenture interest	9/12	845,264	-	-	-	-	-
Common shares issued for property acquisition	6	2,000,000	800,000	-	-	-	800,000
Common shares issued for IP acquisition	6	1,000,000	218,000	-	-	-	218,000
Stock based compensation		-	-	599,689	-	-	599,689
Loss for the period		-	-	-	90,000	(2,068,492)	(1,978,492)
Balance at December 31, 2016		13,717,348	44,573,207	9,922,661	90,000	(54,367,486)	218,382

\* Post Consolidated

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

**CALLITAS HEALTH INC.**
**Interim Consolidated Statements of Changes in Equity (Deficit) (Unaudited)**

As at

	Notes	Share capital		Contributed surplus	Accumulated other comprehensive income	Deficit	Total equity (deficit)
		Number of shares*	Amount				
			\$	\$	\$	\$	\$
<b>Balance at December 31, 2016</b>		13,717,348	44,573,207	9,922,661	90,000	(54,367,486)	218,382
Common shares issued for private placement	8	500,000	250,000	-	-	-	250,000
Common shares issued for debenture conversion	12	2,240,767	485,122	-	-	-	485,122
Common shares issued for debenture conversion	8	6,250,002	1,979,996				1,979,996
Common shares issued for warrants exercised	8	5,074,598	3,121,964	-	-	-	3,121,964
Common shares issued for property acquisition	6	3,883,700	1,591,000	-	-	-	1,591,000
Common shares issued for financial advisory and banking services	8	450,000	180,000	-	-	-	180,000
Common shares issued to vendor	8	20,000	8,000	-	-	-	8,000
Stock based compensation	8	29,680	15,000	415,139	-	-	430,139
Loss for the period		-	-	-	188,376	(8,578,364)	(8,389,988)
<b>Balance at December 31, 2017</b>		32,166,095	52,204,289	10,337,800	278,376	(62,945,850)	(125,385)
Loss for the period						(234,389)	(234,389)
<b>Balance at March 31, 2018</b>		32,166,095	52,204,289	10,337,800	278,376	(63,180,239)	(359,774)

\* Post Consolidated

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

**CALLITAS HEALTH INC.**  
**Consolidated Statements of Cash Flows**  
For the three months ended March 31, 2018 and 2017

<i>(In Canadian Dollars)</i>	<i>Notes</i>	<b>March 31, 2018</b>	<b>March 31 2017</b>
		\$	\$
<b>Cash and cash equivalents provided by (used in):</b>			
<b>Operating Activities</b>			
Net (loss) for the interim period		<b>(234,389)</b>	(928,625)
Adjustments for items not affecting cash			
Warrant inducement		-	-
Depreciation		<b>116,066</b>	619
Finance expense		-	-
Impairment of intangible assets		-	-
Impairment of goodwill	6	-	-
Derivative fair value adjustment	12	-	-
Accretion and accrued interest	11&12	-	-
Stock based compensation		-	-
Loss on settlement of debt	12	-	-
Gain on settlement of accounts payable		-	-
Loss on sale of investments		-	-
Unrealized foreign exchange		-	-
Shares issued for services		-	-
Changes in non-cash components of working capital			
Account receivable		<b>18,479</b>	7,912
Prepaid expenses and deposits		-	(11,037)
Accounts payable and accrued liabilities		<b>135,344</b>	(165,877)
Inventory		<b>5,092</b>	-
		<b>40,592</b>	(1,097,008)
<b>Financing Activities</b>			
Issue of common shares	8(a)	-	-
Share issue costs	8(a)	-	1,134,435
Proceeds received from debenture	12	-	-
Repayment of due to vendor	6	<b>(55,893)</b>	-
Royalty liability repayment	6	-	-
		<b>(55,893)</b>	1,134,435
<b>Investing Activities</b>			
Acquisition of fixed assets		-	-
Acquisition of Intangible assets	6 & 7	-	(401,348)
		-	(401,348)
<b>Increase (Decrease) in cash and cash equivalents</b>		<b>(15,301)</b>	(363,920)
Cash and cash equivalents, beginning of the period		<b>16,126</b>	715,290
<b>Cash and cash equivalents, end of the period</b>		<b>825</b>	351,370



# **CALLITAS HEALTH INC.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

For the three months ended March 31, 2018

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### **1. General information**

Callitas Health Inc. (formerly M Pharmaceutical Inc.) ("the Company") is a clinical-stage company developing innovative technologies for the monitoring and treatment of obesity, diabetes, and other gastroenterological indications. The Company also has commercialized products. The Company was incorporated on March 11, 2003 under the laws of the Province of Ontario. On November 26, 2014, the Company was continued into the Province of Alberta from Ontario. The address of the head office is suite 200 -187 Pavilion Parkway, Newport, Kentucky.

### **2. Going concern**

The ability of the Company to realize its business plan and continue operations is dependent upon the Company being able to commercialize a product for sale, to finance research, development and commercialization costs and compete in a competitive marketplace for the monitoring and treatment of obesity, diabetes, and other gastroenterological indications. There is no certainty whether the Company will generate significant revenues or attain profitable operations in the near future and there can be no assurance that it will achieve profitability in the future, as it incurred a loss of \$234,389 for the three months ended March 31, 2018 and \$8,578,364 for the year ended December 31, 2017, and has accumulated \$63,180,239 of losses as at March 31, 2018.

These interim consolidated financial statements (unaudited) have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying interim consolidated financial statements. Such adjustments could be material. The Company has a need for financing working capital, product development, marketing and sales. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operations. It is not possible to accurately predict whether present financing efforts will be successful or if the Company will attain profitable levels of operations. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. These conditions raise significant doubt about its ability to continue as a going concern.

### **3. Basis of preparation**

#### **Basis of measurement**

These interim consolidated financial statements (unaudited) were prepared on a going concern basis, under the historical cost convention, as modified by the measurement at fair value of certain financial assets and financial liabilities.

#### **Statement of compliance**

The interim consolidated financial statements (unaudited) have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board "IASB" and the International Financial Reporting Interpretations Committee ("IFRIC").

# **CALLITAS HEALTH INC.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

For the three months ended March 31, 2018

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### **Use of estimates and judgments**

The preparation of interim consolidated financial statements (unaudited) in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary significantly from these estimates. Estimates and underlying assumptions 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 period affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in Note 5 to the consolidated financial statements.

### **Functional and presentation currency**

These interim consolidated financial statements (unaudited) are presented in Canadian dollars, which is the Company's functional, except Callitas Therapeutics Inc. ("Callitas Therapeutics") which has a US dollar functional currency. Callitas Therapeutics has been translated to Canadian dollars using the period end exchange rate for assets and liabilities and the average exchange rate for the period for expenses.

### **Basis of consolidation**

The interim consolidated financial statements (unaudited) comprise the financial statements of the Company and its wholly owned subsidiaries, M Diagnostics Inc. ("M Diagnostics"), RX Global Capital Inc. ("RX Global"), TriMtec Biomedical Inc. ("TriMtec"), and Callitas Therapeutics Inc. ("Callitas Therapeutics") as at March 31, 2018.

All significant intercompany balances and transactions have been eliminated upon consolidation. There are no non-controlling interests, therefore all loss and comprehensive loss is attributable to the shareholders of the Company.

## **4. Summary of significant accounting policies**

The accounting policies set out below have been applied consistently to all years presented in these interim consolidated financial statements (unaudited) in accordance with IFRS.

### **(a) Cash and cash equivalents**

Cash equivalents include money market instruments and short term deposits which are readily convertible into known amounts of cash or have a maturity at the date of purchase of less than ninety days.

### **(b) Impairment of long-lived assets**

Long-lived assets, including equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

# **CALLITAS HEALTH INC.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

For the three months ended March 31, 2018

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(c) Revenue recognition policy

Revenues from the sale of products are recognized when the risk and rewards of ownership are transferred to the customer and collection is reasonably assured. Royalty revenue is recognized when the product has been sold and the risks and rewards have been transferred.

(d) Income taxes

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

(e) Stock-based compensation

The Company has an employee stock option plan. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate.

For stock options granted to non-employees the compensation expense is measured at the fair value of the goods and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from contributed surplus to share capital.

(f) Earnings/loss per share

The Company presents basic and diluted earnings/loss per share data for its common shares. Basic earnings/loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued. Items with an anti-dilutive impact are excluded from the calculation.

(g) Financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent.

(i) Financial assets

The Company initially recognizes financial assets at fair value on the date that they are acquired and adjusted for transaction costs, if applicable. All financial assets (including assets designated

# CALLITAS HEALTH INC.

## Notes to Interim Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2018

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at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows expire, or when cash flow rights are transferred in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Any interest in the transferred financial assets created or retained by the Company are recognized as a separate asset or liability.

The Company classifies its financial assets as available for sale or loans and receivables.

### *Available-for sale financial assets*

Available-for-sale financial assets are initially recognized at fair value. Subsequent measurement is at fair value with unrealized gains or losses recognized in other comprehensive income. On disposal of an available-for-sale asset, a reclassification adjustment from other comprehensive income to profit or loss is recorded for the fair value adjustment previously recognized in total comprehensive income for the assets disposed of.

### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

### (ii) Financial liabilities

The Company initially recognizes financial liabilities at fair value on the date that they are originated, and are adjusted for transaction costs, if applicable. All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies its financial liabilities as either financial liabilities at fair value through profit or loss, or other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest rate method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss. All of the Companies liabilities are classified as other liabilities, with the exception of derivative liabilities which recognized through profit and loss.

### (iii) Transaction costs

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

### (iv) Impairment of financial assets

Financial assets, other than those classified at fair value through profit and loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

### (h) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they

# **CALLITAS HEALTH INC.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

For the three months ended March 31, 2018

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do not meet the definition of a financial liability or financial asset. The Company's common shares, common share purchase warrants, stock options, and flow-through shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### **(i) Provisions**

Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

### **(j) Business combinations**

A business combination is defined as an acquisition of assets and liabilities that constitute a business. A business consists of inputs, including non-current assets and processes, including operational processes, that when applied to those inputs have the ability to create outputs that provide a return to the Company.

Business combinations are accounted for using the acquisition method of accounting. The consideration of each acquisition is measured at the aggregate of the fair values of tangible and intangible assets obtained, liabilities and contingent liabilities incurred or assumed, and equity instruments issued by the Company at the date of acquisition.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible and intangible assets, the excess is recognized as a loss in the statement of operations.

### **(k) Intangible assets**

The Company owns intangible assets consisting of licensed patent rights and patent rights it acquired through acquisitions. An intangible asset acquired in a business combination with a finite life is recognized at its fair value on the date of acquisition, which is then charged to operating expenses through amortization. The intangible assets will be amortized once commercial operations commence.

Intangible assets with finite lives are amortized on a straight-line basis over the useful economic life of eight years and assessed for indicators of impairment at the end of each reporting period. The amortization period is reviewed at least annually.

Impairment tests on intangible assets with indefinite lives are undertaken annually at the financial year-end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Any impairment loss is charged to profit or loss.

### **(l) Goodwill**

Goodwill represents the excess of the consideration transferred and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets of the acquiree at the date of acquisition. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses.

# CALLITAS HEALTH INC.

## Notes to Interim Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2018

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### (m) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the Company's statement of comprehensive loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria will be deemed by the Company to have been met when revenue is received by the Company and a determination that the criteria to capitalize development expenditures have been met. The expenditure capitalized will include the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are expensed as incurred. Capitalized development expenditures will be measured at cost less accumulated amortization and accumulated impairment losses.

### (n) Foreign currency

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At March 31, 2018, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at March 31, 2018 and the related translation differences are recognized in profit or loss. Exchange gains and losses arising on the retranslation of available-for-sale financial assets are treated as a separate component of the change in fair value and are recognized in profit and loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in profit or loss or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

### (o) Inventory

Inventory costs of finished goods, which are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. The cost of finished goods includes direct costs. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and applicable selling expenses.

### (p) New and revised IFRS in issue but not yet effective

#### IFRS 9 - Financial Instruments ("IFRS 9")

IFRS 9 was issued by the IASB in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, and amortized cost. Financial liabilities held-for-trading are measured at fair value through profit or loss ("FVTPL"), and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is January 1, 2018. The Company is currently assessing the impact this standard will have on the financial statements.

# **CALLITAS HEALTH INC.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

For the three months ended March 31, 2018

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### **IFRS 15 - Revenue from Contracts with Customers ("IFRS 15")**

The IASB issued this standard to replace IAS 18 which establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for the Company for annual periods beginning on January 1, 2018, with required retrospective application and early adoption permitted. The Company is currently assessing the impact this standard will have on the financial statements.

### **Amendments to IAS 16 - Property, Plant and Equipment ("IAS 16") and IAS 38 - Intangible Assets ("IAS 18")**

In May 2014, the IASB issued amendments to IAS 16 and IAS 38 to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The Company is currently assessing the impact this standard will have on the financial statements.

## **5. Critical judgments and accounting estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

### **(a) Impairment of non-financial assets (Judgment)**

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

### **(b) Stock-based payment transactions (Estimate)**

The Company measures the cost of equity-settled transactions with employees and non-employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for stock-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the stock option.

### **(c) Off-market and convertible debt (Estimate)**

The Company measures the fair value of the liability component of debt using a valuation technique significantly dependent on the assumption of a market rate of interest that would be

# CALLITAS HEALTH INC.

## Notes to Interim Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2018

payable on a similar debt instrument that does not include an option to convert to equity. Similarly, when debt is issued to non-arm's length individuals to the Company, a market rate of interest is required to determine the fair value of the instrument on initial recognition. The derived fair value estimate cannot always be substantiated by comparison with independent markets. The assumptions used for estimating fair value for debt are disclosed in Notes 6 & 12.

### (d) Derivative liability (Estimate)

Estimating fair value for derivative liability transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the instrument. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life and volatility of the conversion feature.

### (e) Going concern (Judgment)

These interim consolidated financial statements (unaudited) have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company's ability to continue as a going concern and the conditions that cast doubt upon the going concern assumption (Note 2).

### (f) Intellectual property acquisition accounted as asset acquisition or business combination (Judgment)

The Company must make an assessment if transactions related to the purchase of intellectual property constitutes a business combination or an asset acquisition. The determination of whether the assets acquired constitute a business requires management to make certain judgements relating to the purchase of inputs, the acquisition of processes, and outputs acquired.

## 6. Acquisitions

### Acquisitions for the year ended December 31, 2016:

	<b>C-103</b>	<b>ToConceive</b>	<b>Total</b>
Cash	262,905	-	262,905
Stock based compensation	218,000	800,000	1,018,000
Transactions costs	35,000	35,000	70,000
Intangible assets	\$ 515,905	\$ 835,000	\$ 1,350,905

On July 15, 2016, the Company closed on its previously announced (April 6, 2016) agreement to acquire intellectual property assets from Chelatexx, LLC, an arm's length entity, related to a reformulated version of orlistat (product "C-103"). The addition of C-103 provides a novel weight loss pharmaceutical product to the M Pharma pipeline. The purchase price consisted of \$262,905 in cash; 1,000,000 common shares and a 4% royalty on sales of any product based on the intellectual property rights. The common shares are subject to a 3 year escrow agreement, with 10% of the escrowed shares being immediately releasable, and the balance being released in equal tranches every six months thereafter. A volatility of 177% was used in the Black Scholes model, a 10% point change in volatility would result in \$11,750 change in the fair value of the shares issued. The transaction was determined to be an asset acquisition.

On November 8, 2016, the Company closed on an agreement to acquire intellectual property assets from ToConceive LLC, an arm's length party, related to a women's health product used as an infertility treatment. The purchase price consisted of 2,000,000 common shares and a 5% royalty on



# CALLITAS HEALTH INC.

## Notes to Interim Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2018

sales of any product based on the intellectual property rights. The transaction was determined to be an asset acquisition.

### Acquisitions for the year ended December 31, 2017:

During the year, the Company completed the following business combination. On February 16, 2017, the Company acquired intellectual property from 40J's LLC, a private Ohio company. 40J's is a related party it has a common director/officer with the Company. The Company paid US\$300,000 in cash at closing, issued 3,883,699 shares (Note 8) and unsecured 5-year notes in the principal amount of US \$2,500,000 which are convertible, at the option of either the Company or the Holders, into common shares of the Company at such time as the Company completes a financing in excess of \$1,000,000 on the same terms of such financing (Note 12). As a part of acquisition the Company assumed a Royalty Agreement consist of a monthly payment of USD \$20,000 until the patent expires or the product is abandoned. The Company is also liable for deferred cash payments of US \$1,200,000 and contingent milestone payments of approximately \$2,225,000, which based on the following:

- \$250,000 upon successful publication of phase 2b dose ranging study and raising sufficient capital for phase 3 study (Milestone #1); and
- \$2,000,000 on FDA approval of Extrinsa (Milestone #2).

The Company will pay a mid-single digit royalty on sales of the female sexual dysfunction drug once commercialized. The preliminary allocation of fair values attributed to the assets acquired were as follows:

	40J's LLC
Intangible assets	\$ 3,593,000
Goodwill (1)	3,800,000
Total	<u>\$ 7,393,000</u>
Cash	\$ 392,000
Due to vendor (2)	1,568,000
Common shares (Note 8)	1,591,000
Convertible note payable (Note 8 & 12)	1,705,000
Contingent liability (3)	295,000
Royalty liability (3)	1,842,000
Total	<u>\$ 7,393,000</u>

- (1) Goodwill was impaired immediately after acquisition as the Company determined there was no goodwill acquired as part of the transaction.
- (2) The amount is non-interest bearing, unsecured and is due within the next twelve months, a payment of US \$100,000 (CAD \$131,952) was made during the year. Foreign exchange of (\$63,000) was recognized during the year.
- (3) Accretion of \$26,000 was recorded during the year and foreign exchange of (\$13,000).
- (4) Payments of \$260,000 were made during the year, accretion of CAD \$147,000 and foreign exchange of (\$73,000).

The Company determined the fair value of the revenue producing intellectual property by discounting the future cash flows. The key assumptions used were revenue growth, gross margin percentage and the discount rate.

## **CALLITAS HEALTH INC.**

### **Notes to Interim Consolidated Financial Statements (Unaudited)**

For the three months ended March 31, 2018

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- Revenue growth - A growth rate of 5% per year was used in the calculation, if it increases or decreases by 2% the value of goodwill/impairment would change \$71,000.
- Discount rate – A discount rate of 21.5% was used in the calculation, if it increases or decreases by 1% the value of goodwill/impairment would change \$58,000.

The Company determine the fair value of the non-revenue producing intellectual property by using market comparable. The key assumption used was the price per patent. If the price per patent increases or decreases by 5% the value of goodwill would change \$85,000.

The Contingent liability was based on the probability of the milestone being achieved and discounting cash flows over the term. The key assumptions used were the probability, the term and discount rate.

- Term – A term of 1 year was used for Milestone #1 and 3.5 years was used for Milestone #2, if it increases or decreases by 6 months the value of goodwill/impairment would change \$60,000.

Discount rate – A discount rate of 20% was used in the calculation, if it increases or decreases by 1% the value of goodwill would change \$50,000.

Probability – if it increases or decreases by 5% the value of goodwill would change \$60,000.

The royalty liability was based on discounting cash flows over the term. The key assumptions used were the probability, the term and discount rate.

- Term - if it increases or decreases by 6 months the value of goodwill would change \$50,000.
- Discount rate - if it increases or decreases by 1% the value of goodwill would change \$50,000.

From the date of acquisition February 16, 2017 to December 31, 2017, the acquisition contributed \$642,786 to consolidated revenue and (\$126,638) to consolidated loss. If the acquisition had taken place at the beginning of the year, consolidated revenue and profit for the 2017 year would have been \$734,612 and (\$144,729), respectively.

# CALLITAS HEALTH INC.

## Notes to Interim Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2018

### 7. Intangible assets

Cost	RX Global	C-103	ToConceive	40Js	Total
<b>At December 31, 2015</b>	\$ 569,783	\$ -	\$ -	\$ -	\$ 569,783
Acquisition of intellectual property (Note 6)	-	515,905	835,000	-	1,350,905
Foreign exchange		83,000	7,000	-	90,000
<b>At December 31, 2016</b>	\$ 569,783	\$ 598,905	\$ 842,000	\$ -	\$ 2,010,688
Acquisition of intellectual property (Note 6)	-	-	-	\$ 3,593,000	\$ 3,593,000
Foreign exchange		(38,905)	(55,000)	\$ (143,000)	\$ (236,905)
<b>At December 31, 2017</b>	\$ 569,783	\$ 560,000	\$ 787,000	\$ 3,450,000	\$ 5,366,783
<b>Accumulated Amortization</b>					
<b>At December 31, 2016 &amp; 2015</b>	\$ -	\$ -	\$ -	\$ -	\$ -
Impairment	(569,783)	-	-	-	(569,783)
Amortization	-	-	-	\$ (440,000)	\$ (440,000)
Foreign exchange				10,000	10,000
<b>At December 31, 2017</b>	\$ (569,783)	\$ -	\$ -	\$ (430,000)	\$ (999,783)
Amortization				(116,066)	(116,066)
<b>At March 31, 2018</b>	\$ (569,783)	\$ -	\$ -	\$ (546,066)	\$ (1,115,849)
<b>NBV</b>					
<b>At December 31, 2016</b>	\$ 569,783	\$ 598,905	\$ 842,000	\$ -	\$ 2,010,688
<b>At December 31, 2017</b>	\$ -	\$ 560,000	\$ 787,000	\$ 3,020,000	\$ 4,367,000
<b>At March 31, 2018</b>	\$ -	\$ 560,000	\$ 787,000	\$ 2,903,934	\$ 4,250,934

The Company completed an impairment assessment at December 31, 2017, which included a peer based analysis. It was determined that there was no impairment of the intellectual property related to the C-103, ToConceive or 40J's LLC acquisition. The impairment assessment used unobservable inputs and the valuation has been determined to be a level 3 measurement in the fair value hierarchy.

During 2017, the Company decided not to proceed with the intellectual property acquired from RX Global. Thus, an impairment of \$569,783 was recorded.

### 8. Share capital

#### (a) Authorised

Unlimited number of common voting shares. The common shares do not have a par or stated value. All issued common shares are fully paid.

# **CALLITAS HEALTH INC.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

For the three months ended March 31, 2018

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On September 12, 2017, the Board of Directors of the Company approved a one for ten reverse stock split. The reverse stock split was approved by the Canadian Securities Exchange ("CSE") in September 2017. All common shares, warrants, and options are presented on a post consolidation basis.

On June 27, 2016, the Company completed a private placement and raised gross proceeds of \$860,830 by issuing 3,443,318 units at \$0.25. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable for 1 year from closing at an exercise price of \$0.5 per common share. The common share purchase warrants were recognized, as derivative liability as they breached the fixed for fixed criteria, using the assumptions in Note 9.

The Company issued 86,880 finder's warrants related to the June 27, 2016 private placement. The Company recognized \$10,000 of share issue costs related to the finder's warrants, using the following assumptions: term 1 year, share price \$0.025, exercise price \$0.05.

On July 11, 2016 200,000 shares were issued pursuant to exercise of warrants at \$0.50 for cash proceeds of \$100,000. The derivative liability related to the warrants was \$73,800, which was reclassified to share capital on the exercise of the warrants.

During 2017, the Company issued 3,883,700 shares for the acquisition of certain assets from 40J's LLC, a private Ohio company (Note 6).

During 2017, the Company issued 450,000 common shares to a vendor as specified in the terms of the agreement. The vendor is to supply financial advisory and investment banking services to the Company.

During 2017, the Company issued 20,000 common shares to a vendor as specified in the terms of the agreement. The vendor is to supply advertising services to the Company.

During 2017, 5,074,598 shares were issued pursuant to exercise of warrants at \$0.50 for cash proceeds of \$2,537,299. The derivative liability related to the warrants was \$584,665, which was reclassified to share capital on the exercise of the warrants.

During 2017, 2,240,767 shares were issued settle convertible debentures. The derivative liability related to the convertible debentures was \$184,857, which was reclassified to share capital on the exercise of the convertible debentures. The host liability related to the convertible debentures was \$300,265 which was reclassified to share capital on the exercise of the convertible debentures.

During 2017, 6,250,002 shares, with a fair value of \$3,125,000, were issued settle debentures with a carrying value of \$1,979,996.

During 2017, the Company completed a private placement and raised gross proceeds of \$250,00 by issuing 500,000 at \$0.05.

### **(b) Common share purchase warrants**

On January 26, 2017, exercise repricing term modifications occurred relating to warrant issuances dated February 6, 2015 and February 13, 2015. The term modifications included exercise price changes from \$0.50/share to \$0.05/share. These warrants had an original exercise price per share of \$0.05 prior to a share consolidation of ten to one common shares resulting in an exercise price of \$0.50/share.

On June 27, 2017, an extended expiry date term modification occurred relating to warrant issuances dated June 27, 2016 and June 30, 2016. The term modifications included a change in expiry date from June 27, 2017 and June 30, 2017 to August 15, 2017.

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## Notes to Interim Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2018

On June 27, 2017, 115,200 shares were issued pursuant to exercise of warrants at \$0.50 for cash proceeds of \$57,600. The derivative liability related to the warrants was \$18,639, which was reclassified to share capital on the exercise of the warrants.

A summary of the changes in the Company's share purchase warrants during the year ended December 31, 2017 and December 31, 2016 (post consolidated) are as follows:

	Number of Warrants (Post Consolidated)	Weighted Average Exercise Price
<b>Balance, January 1, 2016</b>	<b>2,090,919</b>	<b>\$ 3.50</b>
Issued	7,029,563	\$ 0.50
Exercised	(200,000)	\$ 0.50
Expired	(528,560)	\$ 0.50
<b>Balance, December 31, 2016</b>	<b>8,391,922</b>	<b>\$ 1.00</b>
Issued	-	-
Exercised	(5,074,598)	\$ 0.50
Expired	(1,763,024)	\$ 0.55
<b>Balance, December 31, 2017 and March 31, 2018</b>	<b>1,554,300</b>	<b>\$ 0.80</b>

As at March 31, 2018, the following common share purchase warrants were outstanding and exercisable:

Expiry date	Exercise Price (\$)	Warrants
February 7, 2020	2.50	544,000
September 7, 2018	0.80	677,464
September 7, 2018	0.80	9,484
September 20, 2018	0.80	167,800
September 20, 2018	0.80	1,552
October 10, 2018	0.50	154,000
		<b><u>1,554,300</u></b>

### (c) Stock based compensation

The Company has established a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors and employees of the Company as well as persons providing ongoing services to the Company. The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed 10% of the total number of common shares outstanding immediately prior to such an issuance. Under the plan, the Board of Directors has the choice of either vesting or allowing options issued to be exercisable upon issuance. Options are normally issued for a five-year term. For the three months ended March 31, 2018 no options were granted. During the year ended December 31, 2017, 1,500,000 (2016 – 740,000) options were granted. The stock options granted vest 1/3 immediately, 1/3 on the first anniversary and 1/3 on the second anniversary.

# CALLITAS HEALTH INC.

## Notes to Interim Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2018

A summary of the share option transactions for the three months ended March 31, 2018 are summarized as follows:

	Number of Options	Weighted Average Exercise Price
<b>Balance, December 31, 2015</b>	<b><u>235,275</u></b>	<b><u>\$ 1.70</u></b>
Granted	740,000	\$ 0.80
Expired	(130,275)	\$ 1.50
<b>Balance, December 31, 2016</b>	<b><u>845,000</u></b>	<b><u>\$ 0.90</u></b>
Granted	1,500,000	\$ 0.60
Expired	(125,000)	\$ 0.52
<b>Balance, December 31, 2017 and March 31, 2018</b>	<b><u>2,220,000</u></b>	<b><u>\$ 0.76</u></b>

The following table summarizes stock options outstanding and exercisable under the Company's stock option plan as at December 31, 2017:

Expiry date	Options Outstanding	Exercise Price per share (\$)	Options Exercisable
May 17, 2020	35,000	1.70	35,000
June 15, 2020	65,000	1.70	65,000
July 25, 2021	650,000	0.80	650,000
January 26, 2022	720,000	0.80	240,000
October 17, 2022	750,000	0.40	375,000
	<b>2,220,000</b>		<b>1,365,000</b>

The stock options were valued at issuance using the Black-Scholes Option Pricing Model using the following assumptions. The unvested stock options issued to non-employees were revalued at the end of the period.

	March 31, 2018	December 31, 2017
Exercise price	<b>\$0.60</b>	\$0.60
Grant date share price	<b>\$0.43</b>	\$0.43
Time to maturity	<b>5 years</b>	5 years
Risk-free rate	<b>1.43%</b>	1.43%
Volatility	<b>191%</b>	191%
Dividend rate	<b>nil</b>	nil

### (d) Contributed surplus

The contributed surplus reserve is used to recognize the fair value of share purchase warrants, share options granted to employees, including key management personnel, as part of their remuneration. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital.

## 9. Derivative liabilities and warrants

Warrants are issued in connection with private placements of common shares, convertible debentures and promissory notes with an exercise price in Canadian dollars. All warrants have been

# CALLITAS HEALTH INC.

## Notes to Interim Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2018

treated as derivative financial liabilities as exercise price of the warrants may be adjusted if the Company issues common shares at less than 95% of the quoted market price. The fair value movement during the period was recognized in profit or loss (however, warrants issued to agents and brokers are classified as stock based compensation and are therefore not accounted for as liabilities and are not subject to re-measurement at each statement of financial position date). The Company also issues convertible debentures and the conversion features were considered a derivative liability and measured in accordance with the above. The Company uses the Black-Sholes Option Pricing Model to determine the fair value of the derivative liabilities at inception and at each period end.

<b>Balance, December 31, 2015</b>	<b>\$721,021</b>
Conversion Features issued with Debentures (Note 12)	1,390,395
Warrants issued with Debentures (Note 12)	412,226
Warrants issued with sale of Common Shares (Note 8)	860,830
Exercise of warrants (Note 8)	(73,800)
Warrants issued on conversion of debentures	1,071,291
Conversion of debentures (Note 12)	(1,264,492)
Derivative revaluation adjustment	(1,758,236)
<b>Balance, December 31, 2016</b>	<b>\$1,359,235</b>
Exercise of warrants (Note 8)	(584,665)
Conversion of debentures (Note 12)	(184,857)
Derivative revaluation adjustment	(373,865)
<b>Balance, December 31, 2017 and March 31, 2018</b>	<b>\$215,848</b>

The warrants and conversion features were valued at issuance using the Black-Scholes Option Pricing Model and the following assumptions. The unvested stock options issued to non-employees were revalued at the end of the period.

	Warrants December 31, 2017	Warrants March 31, 2018	Conversion Feature December 31, 2017	Conversion Feature March, 31, 2018
Exercise price	\$0.80-\$2.50	\$0.80-\$2.50	\$0.75	\$0.75
Grant date share price	\$0.26	\$0.26	\$0.26	\$0.26
Time to maturity	1.19 years	1.16 years	1.7 years	1.4 years
Risk-free rate	1.66%	1.66%	1.66%	1.66%
Volatility	178%	178%	152%	152%
Dividend rate	nil	nil	nil	nil

## 10. Related party transactions

The following is a summary of the Company's related party transactions during the year:

(a) Key Management compensation consists of:

(i) Consulting fees and director salaries

During the three months ended March 31, 2018, the Company incurred total consulting fees to the directors and to the directors companies for \$Nil (2017 - \$Nil) of which \$Nil (2016 - \$Nil) is owed at period end.

# CALLITAS HEALTH INC.

## Notes to Interim Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2018

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During the three months ended December 31, 2018, the Company incurred total director salaries of \$Nil (2017 - \$130,666) for its US subsidiary.

During the three months ended March 31, 2018, the Company incurred total consulting fees to Management and to Management's companies for \$Nil (2017 - \$Nil). A balance of \$Nil (2017 - \$Nil) is owed at period end.

(ii) Accounting fees

During the three months ended March 31, 2018, the Company incurred and paid total accounting fees to an officer's company for \$15,000 (2017 - \$32,000). A balance of \$100,000 (2017 - \$Nil) is owed at period end.

(iii) Legal and professional fees

During the three months ended March 31, 2018, the Company incurred and paid total legal and professional fees to a director's company for \$Nil (2017 - \$44,338). A balance of \$143,483 (2017 - \$271,348) is owed at period end.

## 11. Promissory notes payable

On March 8, 2012, the Company issued a promissory note with a face value of \$300,000 bearing annual interest of 10% payable in common shares. The promissory note matured on March 8, 2014. The Company settled the promissory note with \$200,000 of cash, 2,000,000 common shares of the Company, 1,000,000 warrants at a strike price of \$0.50 per share, 2,000,000 common shares of a private exploration company, and a new promissory note for principal amount of \$100,000 that matures June 29, 2016 and bears annual interest of 10% which is payable at the anniversary of the note. Additionally, the Company incurred \$17,091 of expenditures related to the assets held for sale, which have been recognized in the statement of profit and loss in 2016. On December 31, 2017, promissory note is still outstanding. Outstanding interest payable on this promissory note as at March 31, 2018 is \$20,000.

For the three months ended March 31, 2018 and for the year ended December 31, 2017, no accretion and interest was recorded.

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Balance, beginning of the period	<b>\$ 120,000</b>	\$ 120,000
Accrued accretion and interest expense	-	-
Balance, end of the period	<b>\$ 120,000</b>	\$ 120,000



# **CALLITAS HEALTH INC.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

For the three months ended March 31, 2018

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### **12. Convertible debentures**

On October 27, 2015, the Company issued unsecured convertible securities ("Debentures") with face value of \$743,266 to settle trade payables in the amount of \$449,266 and promissory notes with fair value of \$245,000 (Note 11).

Each Debenture is convertible to common shares at an exercise price of \$ 0.10. However, the conversion price will be adjusted if the Company completes a rights offering for less than 90% of the quoted price. The variability of the conversion price creates a derivative which has been recognized as a financial liability.

The terms of the October 27, 2015 debentures are 36 months at 10% annual simple interest. The interest was paid up front through the issuance of Prepaid Interest Units on the date of issuance. Each Prepaid Interest Unit consists of one common share of the Company's common stock and one common share purchase warrant with an exercise price of \$0.80 and a term of two years. The exercise price will be adjusted if the Company completes a rights offering for less than 95% of the exercise price. The variability of the conversion price creates a derivative which has been recognized as a financial liability.

On June 28, 2016, the Company completed a private placement for less than 90% of the conversion price of the debentures and the exercise price of the warrants: consisting of units, consisting of shares and warrants with an exercise price of \$0.30 (Note 8 & Note 9), therefore triggering the ratchet clause of the October 27, 2015 debentures. As such, the conversion price of the debentures and the exercise price of purchase warrants in the Prepaid Interest Units were reduced to \$0.30. The issuance of the warrant on conversion of the debentures was recognized as inducement and has been recorded as an expense. In all other respects, the terms of the original debentures remained unchanged.

In 2017, debentures with a face value of \$37,600 (2016 - \$660,764) from this series were converted into 154,000 (2016 - 2,643,064) common shares. The aggregate impact was a reduction of the debenture value of \$52,478 (2016 - \$74,593).

On September 7, 2016 ("Tranche 1") the Company issued unsecured convertible securities ("Debentures") with a face value of \$1,693,660. In connection the closing, 6,774,640 common shares and warrants were issued as prepaid interest unit. In addition, finder's fees of \$100,040 and 94,840 broker warrants, which have the same terms as the warrants issued as part of the Prepaid Interest Units, were issued. All securities issued on this closing are restricted from trading until January 8, 2017.

On September 20, 2016 ("Tranche 2") the Company issued unsecured convertible securities ("Debentures") with a face value of \$404,500. In connection the closing, 1,678,000 common shares and warrants were issued as prepaid interest unit. In addition, finder's fees of \$15,520 and 15,520 broker warrants, which have the same terms as the warrants issued as part of the Prepaid Interest Units, were issued. All securities issued on this closing are restricted from trading until January 21, 2017.

Each debenture of Tranche 1 and Tranche 2 are convertible into common shares at an exercise price of \$0.075. However, the conversion price will be adjusted if the Company completes a rights offering for less than 90% of the quoted price. The variability of the conversion price creates a derivative which has been recognized as a financial liability.

The terms of the Tranche 1 and Tranche 2 debentures are 36 months at 10% annual simple interest. The interest was paid up front through the issuance of Prepaid Interest Units. Each prepaid Interest Unit consists of one common share of the Company's common stock and one common share purchase warrant with an exercise price of \$0.08 and a term of two years. The conversion price will be adjusted if the Company completes a rights offering for less than 95% of the quoted price. The

# CALLITAS HEALTH INC.

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variability of the conversion price creates a derivative which has been recognized as a financial liability.

The Company determined that the transaction price of the consideration was the best evidence of fair value as the transaction was an arm's length transaction, between knowledgeable, willing parties who were under no compulsion to act unless the fair value is more readily determinable in reference to other observable market transactions in the same financial instrument or observable market data.

The values attributed to the loans on the date of issuance were determined to be \$238,202 and \$57,337 for the September 7, 2016 and September 20, 2016 debentures respectively by applying a risk-adjusted rate of 85.9% and 85.83% respectively to discount the monthly repayments over the life of the loan.

The valuation model for the derivative liabilities consisted of both market observable and unobservable inputs, and were initially recognized on the statement of financial position at \$1,119,451 and \$270,944 respectively. The warrants were estimated to have a value of \$336,007 and \$76,219 on initial recognition for September 7, 2016 and September 20, 2016 respectively.

In 2017, September 2016 debentures with a face value of \$1,647,075 (2016 - \$207,500) of the Tranche 1 were converted into 2,086,767 (2016 - 285,667) common shares. The aggregate impact was a reduction of the debenture value of \$247,787 (2016 - \$28,775).

On February 16, 2017, the Company issued unsecured convertible securities ("Debentures") with a face value of US \$2,500,000 (CDN \$3,265,000) related to the acquisition of 40J's. The Debentures bear an interest at 5% and mature February 16, 2022. The debentures may be converted into common shares of the Company at a conversion price equal to the subscription price of qualified financing. All securities issued on this closing are restricted from trading until January 8, 2018. The debentures were converted in September 2017 (Note 6).

The fair values of the debentures on the date of issuance was determined to be US \$1,300,000 (CAD \$1,705,000) by applying a risk-adjusted rate of 20% to discount the semi-repayments over the life of the loan.

	2015	2016	2017	
Issuances	October	September	February	Total
<b>December 31, 2015</b>	\$ 125,491	\$ -	\$ -	\$ 125,491
Issued	-	2,098,160	-	2,098,160
Conversion Features	-	(1,390,395)	-	(1,390,395)
Warrants issued	-	(412,226)	-	(412,226)
Accretion	19,860	53,399	-	73,259
Interest	11,760	-	-	11,760
Converted	(74,593)	(28,775)	-	(103,368)
<b>December 31, 2016</b>	\$ 82,518	\$ 320,163	\$ -	\$ 402,681
Issued	-	-	1,705,000	1,705,000
Accretion	4,267	26,681	179,405	210,353
Interest	4,306	-	95,591	99,897
Converted	(52,478)	(247,787)	(1,979,996)	(2,280,261)
<b>December 31, 2017 and March 31, 2018</b>	\$ 38,613	\$ 99,057	\$ -	\$ 137,670

# CALLITAS HEALTH INC.

## Notes to Interim Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2018

The warrants and conversion feature were valued using Black Scholes Option Pricing Model with the following assumptions:

	Warrants		Conversion Feature	
	Sept. 7, 2016	Sept. 20, 2016	Sept. 7, 2016	Sept. 20, 2016
Exercise price	\$0.08	\$0.08	\$0.075	\$0.075
Time to maturity	2	2	3	3
Risk-free rate	0.55%	0.59%	0.55%	0.59%
Volatility	40.8%	43.5%	40.8%	43.5%
Dividend rate	nil	nil	nil	nil

### 13. Commitments and contingencies

The Company may be required to make milestone, royalty, and other research and development funding payments under research and development collaboration and other agreements with third parties. These payments are contingent upon the achievement of specific development, regulatory and/or commercial milestones. The Company has not accrued for these payments as of March 31, 2018 due to the uncertainty over whether these milestones will be achieved. The Company's significant contingent milestone, royalty and other research and development commitments are described in Note 6.

On December 7, 2017, an entity has become a defendant to a lawsuit due to a case brought against TriMtec, its wholly-owned subsidiary due to the breach of a license agreement. The total amount of the claim is \$227,150 plus interest, alleged lost royalties of \$125,000, loss of opportunity and costs. TriMtec recorded an accrual of \$220,000 related to the agreement. Callitas Health Inc. and TriMtec filed a Statement of Defence arguing that only TriMtec and no other entity owes this obligation. As of March 31, 2018, exact amount to settle this claim is still unknown.

### 14. Capital management

The Company considers its capital structure to include working capital, debt and shareholders' equity. The Company monitors capital based on annual funds used in operations, and the availability of debt and equity capital. The Company prepares budgets for its capital expenditures, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors.

The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. In order to maintain or adjust its capital structure, the Company may issue new shares. The Board of Directors does not establish quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements and the Company's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2017.

# CALLITAS HEALTH INC.

## Notes to Interim Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2018

### 15. Income taxes

The provision for income taxes varies from the amount that would be computed by applying the expected tax rate to income (loss) before income taxes. The principle reason for differences between such "expected" income tax expense and the amount actually recorded are as follows:

	December 31, 2017	December 31, 2016
Loss before income taxes	\$ (8,578,364)	\$ (2,068,492)
Statutory income tax rate	24.13%	27.36%
Tax recovery	(2,069,959)	(565,962)
Non-deductible expenses	244,465	332,002
Stock based compensation	139,088	155,919
Other	(90,213)	(437,922)
Disposal of resource property tax pools	-	(4,290,687)
Adjustment to prior year pool balances	-	197,099
Change in unrecognized deferred tax asset	1,776,620	4,609,551
Balance, end of the year	\$ -	\$ -

The statutory income tax rate represented is a blended Canadian and U.S. statutory tax rate (2016 – blended Canadian and U.S. statutory tax rate). The operations of the Company are in both Canada and in the U.S. and therefore this rate would provide a more meaningful representation of the tax consequences.

The components of the unrecognized net deferred income tax asset at December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Fixed and intangible assets	\$ 4,301,893	\$ 3,496,638
Other	137,800	63,109
Share issue costs	43,152	41,554
Non-capital losses	6,130,632	5,235,556
Balance, end of the year	\$ 10,613,477	\$ 8,836,857

The potential benefits of these carry-forward non-capital losses and deductible temporary differences has not been recognized in these financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

At December 31, 2017, the Company had Canadian tax losses of \$21.2 million (2016 - \$19.6 million) that will expire between 2031 and 2037, and U.S. tax losses of approximately CAD \$4.2 million (2016 - \$0.4 million) which will expire in between 2036 and 2037.

### 16. Financial risk management

Financial instruments consist of cash and cash equivalents, sales tax receivable, accounts payable and accrued liabilities, promissory notes payable, convertible debentures and derivative liabilities. Cash and cash equivalents and sales tax receivable are categorized as loans and receivables;

# CALLITAS HEALTH INC.

## Notes to Interim Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2018

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investments are categorized as held for sale; accounts payable and accrued liabilities, promissory notes and convertible debentures are categorized as other financial liabilities. Derivative financial liabilities are measured at fair value.

IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

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

The carrying values of cash and cash equivalents, account receivable, accounts payable and accrued liabilities, promissory notes payable, and due to vendor approximate their fair values and any difference would not be significant.

The Company measures its convertible debentures and royalty liability at amortized cost and has determined the carrying value approximates their fair value, using a level 2 valuation as it is based on inputs that are observable.

The Company measures its contingent liability at fair value through profit or loss, using a level 3 valuation, as the probability of achieving the milestone is not observable.

The Company measures its derivative liabilities at fair value through profit or loss and has determined this valuation to be a level 2 valuation as it is based on inputs that are observable.

### Risk exposures:

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk, market risk and interest rate risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

#### (i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's policy is to ensure that its investments are liquid and not to invest in asset backed commercial paper products. At March 31, 2018 the Company's credit risk was \$4,295 (December 31, 2017 - \$38,075) and is concentrated in cash and cash equivalents, investments and sales tax receivable.

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the period. The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted.

As the Company has not entered into any hedging arrangements, it is not exposed to credit risk associated with possible non-performance by counterparties to any such derivative financial instrument contracts.

# **CALLITAS HEALTH INC.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

For the three months ended March 31, 2018

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### **(ii) Liquidity risk**

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. However, since the Company is in the research and development phase and is dependent upon capital markets to provide sufficient funds to continue its research and development activities, the Company may not be able to limit its liquidity risk during periods of uncertainty in the capital markets (see Note 2).

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures and board approval of significant individual expenditures to further manage capital expenditures.

Accounts payable and accrued liabilities promissory notes payable are due on demand and convertible debentures are due October 2018 (\$26,150), September 2019 (\$325,585).

### **(iii) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, comprising three types of risk: currency risk, interest rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with a risk management policy as set out herein. As the Company is managing in the pre-production stage of development these risks affect the Company's ability to raise capital.

### **(iv) Interest rate risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not exposed to interest rate risk as at March 31, 2018 as the promissory notes payable (Note 12) and the convertible debentures (Note 13) are at a fixed rate of interest.

## **17. Subsequent events**

Subsequent to the three months ended March 31, 2018, the Company closed a private placement of convertible debenture and common share units resulting in a total of \$157,000 of convertible debentures and 776,800 common shares being issued. The debentures bear interest at 10% per annum for a term of two years, and are convertible at any time by the holder of the debentures into common shares at the conversion rate of \$0.50 per share. Each unit consist of 2,000 common shares at \$0.25 per share, \$500 of unsecured debentures and 2,000 warrants exercisable at \$0.32 for a period of two years. These securities are restricted from trading until August 13, 2018.

Subsequent to period end the Company issued a total of 400,000 shares as partial consideration to two consultants. These shares are also subject to trading restrictions until August 13, 2018.

Subsequent to period end the Company has signed multiple letters of intent with two separate California-based companies for the licensing, development, and marketing/sales of the Company's proprietary, patent and trademark-pending CannaMint strips for THC (Tetrahydrocannabinol) and CBD (Cannabidiol) respectively.