

FORM 7

MONTHLY PROGRESS REPORT

Name of Listed Issuer: FPS Pharma Inc. (the "Issuer").

Trading Symbol: FPS.U

Number of Outstanding Listed Securities: 79,431,030

Date: January 8, 2016

This Monthly Progress Report must be posted before the opening of trading on the fifth trading day of each month. This report is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by Exchange Policies. If material information became known and was reported during the preceding month to which this report relates, this report should refer to the material information, the news release date and the posting date on the Exchange website.

This report is intended to keep investors and the market informed of the Issuer's ongoing business and management activities that occurred during the preceding month. Do not discuss goals or future plans unless they have crystallized to the point that they are "material information" as defined in the Policies. The discussion in this report must be factual, balanced and non-promotional.

General Instructions

- (a) Prepare this Monthly Progress Report using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the items must be in narrative form. State when the answer to any item is negative or not applicable to the Issuer. The title to each item must precede the answer.
- (b) The term "Issuer" includes the Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

Report on Business

1. Provide a general overview and discussion of the development of the Issuer's business and operations over the previous month. Where the Issuer was inactive disclose this fact.

The Company entered into a settlement agreement (the "**Settlement Agreement**") dated December 4, 2015 with J. Lester Alexander III, as Liquidating Trustee of Franklin Pharmacy, LLC (the "**Liquidating Trustee**"), Mr. James Wesley Moss ("**Wes Moss**"), Cary Moss and FPSI for the settlement of certain legal actions (the "**Actions**") involving the Company, the

transfer of all of the issued shares of FPSI to the Trustee and cancellation of 25 million escrowed common shares in the capital of the Company (the “**Escrowed Shares**”) which were issued on the attempted acquisition by the Company for all of the issued shares of FPSI, repayment by the Company of certain advances to FPSI and certain other matters. The Settlement Agreement has received final approval of the United States District Court for the Northern District of Alabama (the “**District Court**”). In addition, the Company, through a wholly owned subsidiary, plans to continue operating in the pharmaceutical business through marketing prescription based pharmaceutical products as well as over-the-counter pharmaceutical products throughout Asia.

Litigation and Settlement Matters

Background

Pursuant to a letter agreement dated August 3, 2015 between the Company and FPSI (the “**Letter Agreement**”), the Company agreed to acquire 100% of the issued and outstanding shares of FPSI from the four shareholders of FPSI (the “**Vendors**”) for US\$12.5 million through the issuance of 25 million Escrowed Shares at a deemed value of US\$0.50 per share, which shares were deposited in escrow (the “**FPS Transaction**”).

In connection with the FPS Transaction, Wes Moss, then president and director of FPSI and a 33.33% shareholder of FPSI (i.e., one of the Vendors), became a director of the Company effective August 21, 2015 and retained his positions as a director and an officer of FPSI.

In early September 2015, the Company was advised by legal counsel for FPSI of allegations by the Liquidating Trustee in the Northern District of Alabama. On September 14, 2015, the Company received a copy of the complaint filed by the Liquidating Trustee, which alleges that Wes Moss was instrumental in arranging the fraudulent conveyance of assets of Franklin Pharmacy, LLC to FPSI and that Wes Moss has significantly benefited by obtaining ownership of FPSI (the “**Civil Action**”). The Company had no knowledge concerning the alleged facts and circumstances prior to completing the FPS Transaction. On September 15, 2015, the Company issued a press release in which it announced its intention to vigorously defend the Civil Action and to continue to operate FPSI as a compounding pharmacy at its business premises in Zephyrhills, Florida.

On or about September 23, 2015, the Company received a letter from Wes Moss’s New Jersey attorney through the Canadian Securities Exchange (the “**CSE**”), a copy of which was also provided to the Alberta Securities Commission. The letter advised that it is Wes Moss’s intention to take action to set aside the transactions contemplated under the FPS Transaction. The Company had asked that this letter be retracted.

At around this time, it came to the Company’s attention that Wes Moss had taken funds belonging to FPSI by removing all of the signing authorities on the Company’s various bank accounts and keeping himself as sole signing authority, including a US\$1,015,796.82 certified cheque drawn on FPSI’s account at Centennial Bank in Pasco County, Florida and the proceeds of a bank transfer in the amount of US\$1,104,654.55 made from the FPSI account at Chase Bank NA (the “**Funds**”).

The Company took steps to, among other things, terminate the employment of Wes Moss and remove Wes Moss as a director and officer of FPSI effective September 23, 2015. The Company also scheduled its next annual general meeting held on December 14, 2015 at which management did not nominate Wes Moss for election as a director of the Company. In addition, as detailed below with respect to the Settlement Agreement, Wes Moss has resigned as a director of the Company.

Wes Moss also caused to be filed a Complaint (the “**Moss Litigation**”) on behalf of FPSI (and himself) in the United States District Court for the Middle District of Florida on October 7, 2015.

In the Liquidating Trustee action pending in the Northern District of Alabama, the Company obtained a temporary restraining order (“**TRO**”) against Wes Moss on October 6, 2015, which was converted into a preliminary injunction on October 15, 2015, enjoining Wes Moss from, among other things, taking possession of any cash, inventory or other property of FPSI and acting on behalf of FPSI in any manner whatsoever, including the filing of any legal proceeding, whether in state or federal court, on behalf of FPSI. Wes Moss was further ordered to immediately dismiss, in its entirety, the Moss Litigation he caused to be filed on October 7, 2015 on behalf of himself and FPSI in the United States District Court for the Middle District of Florida in direct violation of the TRO. Pursuant to the Settlement Agreement, Wes Moss has agreed to dismiss the Moss Litigation against the Company and its directors and officers.

The Company successfully negotiated the return of US\$1,015,796.82 removed by Wes Moss from the FPSI account at Centennial Bank, less attorneys fees paid by agreement to Centennial Bank. Of the remaining US\$1,104,654.55, US\$700,000 remains frozen in a Chase Bank Account controlled by Wes Moss. The balance was used by Wes Moss as operating capital for FPSI.

On October 29, 2015, FPSI filed its crossclaim against Wes Moss alleging breach of fiduciary duties, fraud, conversion, and other wrongful conduct which has caused damage to FPSI.

Settlement Agreement

After weighing the costs and benefits of entering into what could become an acrimonious and protracted legal dispute with the Liquidating Trustee and Wes Moss and extensive consultation with legal counsel, management decided to pursue settlement negotiations with the Liquidating Trustee as a mitigative measure.

In early December, 2015, after extensive negotiations among the Company, the Liquidating Trustee, Wes Moss and their respective legal counsel, the parties agreed to enter into the Settlement Agreement to enable the various legal actions to be settled and dismissed between the parties and to allow FPSI business to be transferred to the Liquidating Trustee while allowing the Company to be able to continue in the pharmaceutical business as described below.

Under the Settlement Agreement, the parties agreed to seek entry of an order of the District Court (the “**Preliminary Approval Order**”) providing for, among other things, approval of the Settlement Agreement, the deadline by which creditors may file any objection to the Settlement Agreement and scheduling of the hearing date (the “**Final Approval Hearing Date**”) for a judgment of the District Court (the “**Final Approval Judgment**”).

Following entry of the Preliminary Approval Order (which was granted on December 4, 2015) and prior to the Final Approval Hearing Date, among other things:

- the then directors and officers of FPSI, being James Brown, Janice Brown and Pierre Joncas, resigned effective immediately following entry of the Preliminary Approval Order;
- Wes Moss assumed day-to-day management of the operations (including the bank accounts) of FPSI in accordance with the terms of the Settlement Agreement;
- the Company received the resignation of Wes Moss as a director of the Company; and
- the Company transferred to the Liquidating Trustee the sum of US\$400,000.

In accordance with the terms of the Settlement Agreement, the parties appeared at the hearing on the Final Approval Hearing Date to seek the Final Approval Judgment.

The Final Approval Judgment was granted on December 18, 2015 and provided for, among other things:

- a finding of the District Court that any and all claims, demands and causes of action of any type or description arising out of or relating to (A) the Company's acquisition of common stock of FPSI; (B) the issuance to the then FPSI shareholders of the Escrowed Shares; and (C) the subsequent cancellation of such Escrowed Shares are the sole and exclusive claims of FPSI and may not be filed or pursued by any other person, whether purportedly acting in an individual or derivative capacity and all such claims may be released by FPSI as part of the settlement; and
- dismissal of the Civil Action with prejudice as to the Company.

Following the entry of the Final Approval Judgment, among other things:

- the Company was deemed to have delivered to the Liquidating Trustee, all common stock of FPSI in the ownership, custody or control of the Company;
- Wes Moss and Cary Moss (collectively, "**Moss**") were deemed to have delivered to the Company all Escrowed Shares in their possession, custody or control and Moss released the Company from any claim, demand or obligation of any type or description pertaining to the Escrowed Shares issued to FPSI's then shareholders and the subsequent cancellation of such shares;
- Wes Moss dismissed the Moss Litigation with prejudice as to the Company, Mill City Gold Corp., James R. Brown, Janice Brown, Pierre Rodrigue Joncas, Herbert Leary, Robert Hubbard and Gordon McKinnon;
- the Letter Agreement and the escrow agreement dated August 20, 2015 between Moss, the Company, Barbara Bode and Lindsay Fladd were terminated and are of no further force or effect;
- FPSI, Wes Moss and Cary Moss provided general releases in favour of the Company and the Liquidating Trustee;

- the Company provided general releases in favour of FPSI, Wes Moss, Cary Moss and the Liquidating Trustee; and
- FPSI delivered to the Company the indemnity and hold harmless agreement in substantially the form attached as Exhibit B to the Settlement Agreement.

A copy of the Settlement Agreement is available on SEDAR at www.sedar.com under The Company's profile.

Settlement of Intercorporate Loan Between FPSI and the Company

Following the FPS Transaction in August, 2015, FPSI transferred an aggregate of US\$2,000,000 on September 2, 2015 to its then parent corporation, the Company, as a non-interest-bearing intercorporate loan (the "**Loan**"). Subsequent to such transfer, the Company paid a total of US\$131,925.63 in expenses on behalf of FPSI. To satisfy one of the its obligations under the Settlement Agreement, the Company has transferred the sum of US\$400,000 to the Liquidating Trustee. FPSI and the Company have agreed that (i) the payment by the Company of the sum of US\$400,000 to the Liquidating Trustee in accordance with the Settlement Agreement and the sum of US\$131,925.63 paid by the Company on FPSI's behalf (of which US\$38,142 was paid prior to September 30, 2015 and US\$93,783 was paid after period end) constitutes a partial repayment of the Loan in an aggregate amount of US\$531,925.63, leaving a remaining balance of US\$1,468,074.37 (the "**Remaining Balance**") in respect of the Loan and (ii) the Remaining Balance is forgiven and accordingly is satisfied and extinguished in full. The Remaining Balance was derecognized from the Company's accounts on December 18, 2015, being the date on which settlement became legally effective, and a gain on extinguishment of the financial liability of \$1,568,074 was realized in net income at the same time; both as are required by IAS 39 *Financial instruments: recognition and measurement*.

Financial Statements for the Period Ended September 30, 2015

In preparing its financial statements for the period ended September 30, 2015 (the "**Financial Statements**"), the Company considered the effect of the FPS Transaction and the Settlement Agreement and concluded that the foregoing matters had no effect on the financial statements (other than the loan outstanding at September 30, 2015 as described above under the heading "Settlement of Intercorporate Loan Between FPSI and the Company"). As a result, in the Financial Statements, the FPS Transaction has been accounted for as if it had not occurred based on the Company's analysis as to whether the Company had ever fully gained control of FPSI as a result of the FPS Transaction.

Under IFRS 10 *Consolidated Financial Statements* (in which "control" is discussed), an investor controls an investee if and only if the investor has all of the following:

- i. power over the investee;
- ii. exposure, or rights, to variable returns from its involvement with the investee; and
- iii. the ability to use its power over the investee to affect the amount of the investor's returns

The Company is of the view that, although the Company believed it had legal control over FPSI when it believed that it had completed the FPS Transaction, the review of the completion of the FPS Transaction revealed certain deficiencies in the closing of the FPS Transaction, including

the following, which shows that the Company may not have achieved legal control over FPSI for the following reasons:

- i. the vendor parties to the acquisition agreement were not the shareholders who were transferring their FPSI shares to the Company but FPSI was the vendor party;
- ii. there was no formal closing of the FPS Transaction whereby the vendor shareholders signed all necessary documents to transfer the FPSI shares to the Company;
- iii. only two of the vendor shareholders signed the escrow agreement to deposit their portion of the Escrowed Shares in escrow;
- iv. the FPSI shares to be acquired by the Company pursuant to the FPS Transaction were never registered in the name of the Company as would be the case of the closing of a transaction of the nature of the FPS Transaction; and
- v. the Company never was able to realize any corporate profits from the purported acquisition of all of the issued shares of FPSI, and

furthermore, actual and *de facto* control was not fully achieved as a result of the fact that Wes Moss had taken control of certain of the Company's bank accounts without the apparent authority and possibly the legal authority to do so as well as the actions taken by the Trustee and Wes Moss as evidenced by the Actions which called into question the Company's ability to effectively operate the FPSI business.

Taking into account all of the foregoing and because of the uncertainty in sustaining the Company's legal position with respect to the acquisition of all of the issued shares of FPSI and the likely substantial costs both from a financial and time point of view in continuing to pursue its position while allowing the Company to continue to pursue its business objectives in the pharmaceutical business other than through FPSI, the Company came to the conclusion that the Settlement Agreement would be in the best interests of the Company and its shareholders.

The net result of (i) the purported completion of the acquisition of the issued shares of FPSI and (ii) the completion of the Settlement Agreement has been effectively an advance of US\$2 million in funds to the Company, of which US\$400,000 was repaid in accordance with the Settlement Agreement, US\$131,925.63 was used to pay expenses of FPSI and the balance of US\$1,468,074.37 was forgiven.

Accordingly, the Company is of the view that (i) the matters that arose after September 30, 2015 were akin to an "adjusting subsequent event"; and (ii) to disclose these two events as two separate transactions with their apparent legal and practical uncertainties (which uncertainties will, as a result of the Settlement Agreement, never be resolved due to the fact that there will never be any determination by the courts) would be misleading and not reflective of the true effect of the transactions, which is further exacerbated by the fact that the acquisition and the settlement straddle the Company's third and fourth quarter reporting periods.

Having regard to the foregoing, the Financial Statements consider that the acquisition did not occur with no shares issued and no assets transferred. The Company believes that this treatment is supportable and the most appropriate accounting treatment under the applicable provisions of IFRS.

The Company's Pharmaceutical Business Plan

The Company, through a wholly owned subsidiary, plans to continue operating in the pharmaceutical business through marketing prescription based pharmaceutical products as well as over-the-counter pharmaceutical products throughout Asia.

The Company has incorporated a wholly owned subsidiary in Hong Kong named "FPS Pharma Asia Limited" ("**FPS Pharma Asia**"). FPS Pharma Asia has set up offices in Jakarta, Indonesia as well as Hong Kong.

FPS Pharma Asia will market its products through "Country Licensees", who in turn have established, what the Company believes are reliable and successful marketing networks. FPS Pharma Asia has identified the following countries for its market: Indonesia, Malaysia, Thailand, Cambodia, Peoples Republic of China, Philippines, Australia, New Zealand, Singapore and Vietnam. FPS Pharma Asia has currently identified country licensees in Indonesia, Malaysia, Thailand, Cambodia and the Philippines.

FPS Pharma Asia expects to joint venture the marketing of its products in Indonesia and is currently awaiting cost estimates for the manufacturing of various prescription based pharmaceutical products from one of the largest pharmaceutical manufacturing companies in the world based in New Zealand.

FPS Pharma Asia has also identified several over-the-counter nutritional products in the baby food industry as potential areas for expansion.

Furthermore, the Settlement Agreement provides that nothing therein constitutes a non-compete covenant of any nature and no such covenant shall arise as a result of the Settlement Agreement, and each party to the Settlement Agreement may continue its business, trade, or professional pursuits, whatever they may be and whether in the pharmaceutical business or otherwise, without reference from any other party and without any claim by any other party that such business, trade, or professional could constitute a corporate opportunity or otherwise could give rise to a civil claim of any nature whatsoever. Each of the parties has agreed that it will not assert any claim inconsistent with this provision following the entry of the Final Approval Judgment.

2. Provide a general overview and discussion of the activities of management.

See 1. above

3. Describe and provide details of any new products or services developed or offered. For resource companies, provide details of new drilling, exploration or production programs and acquisitions of any new properties and attach any mineral or oil and gas or other reports required under Ontario securities law.

Not Applicable

4. Describe and provide details of any products or services that were discontinued. For resource companies, provide details of any drilling, exploration or production programs that have been amended or abandoned.

Not Applicable

5. Describe any new business relationships entered into between the Issuer, the Issuer's affiliates or third parties including contracts to supply products or services, joint venture agreements and licensing agreements etc. State whether the relationship is with a Related Person of the Issuer and provide details of the relationship.

Not Applicable

6. Describe the expiry or termination of any contracts or agreements between the Issuer, the Issuer's affiliates or third parties or cancellation of any financing arrangements that have been previously announced.

Not Applicable

7. Describe any acquisitions by the Issuer or dispositions of the Issuer's assets that occurred during the preceding month. Provide details of the nature of the assets acquired or disposed of and provide details of the consideration paid or payable together with a schedule of payments if applicable, and of any valuation. State how the consideration was determined and whether the acquisition was from or the disposition was to a Related Person of the Issuer and provide details of the relationship.

Not Applicable

8. Describe the acquisition of new customers or loss of customers.

Not Applicable

9. Describe any new developments or effects on intangible products such as brand names, circulation lists, copyrights, franchises, licenses, patents, software, subscription lists and trade-marks.

Not Applicable

10. Report on any employee hirings, terminations or lay-offs with details of anticipated length of lay-offs.

Not Applicable

11. Report on any labour disputes and resolutions of those disputes if applicable.

Not Applicable

12. Describe and provide details of legal proceedings to which the Issuer became a party, including the name of the court or agency, the date instituted, the principal parties to the proceedings, the nature of the claim, the amount claimed, if any, if the proceedings are being contested, and the present status of the proceedings.

Not Applicable

13. Provide details of any indebtedness incurred or repaid by the Issuer together with the terms of such indebtedness.

Not Applicable

14. Provide details of any securities issued and options or warrants granted.

Security	Number Issued	Details of Issuance	Use of Proceeds ⁽¹⁾

Not Applicable

(1) State aggregate proceeds and intended allocation of proceeds.

15. Provide details of any loans to or by Related Persons.

Not Applicable

16. Provide details of any changes in directors, officers or committee members.

Not Applicable

17. Discuss any trends which are likely to impact the Issuer including trends in the Issuer's market(s) or political/regulatory trends.

Not Applicable

Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Certificate of Compliance.
2. As of the date hereof there were is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 7 Monthly Progress Report is true.

Dated **January 8, 2016**_____.

James R. Brown

Name of Director or Senior
Officer

“James R. Brown”

Signature
President & CEO

Official Capacity

Issuer Details	For Month	Date of Report
Name of Issuer	End	YY/MM/D
FPS Pharma Inc.	December	16/01/8
Issuer Address		
2417 Main Street, Suite 52		
City/Province/Postal Code	Issuer Fax No.	Issuer Telephone No.
West Kelowna, BC V4T 2H8	Nil	778-754-3000
Contact Name	Contact Position	Contact Telephone No.
James R. Brown	President	778-754-3000

Contact Email Address info@fpspharma.com	Web Site Address www.fpspharma.com "Under Construction"
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