

DeepMarkit Corp.
Condensed Interim Financial Statements
for the three and nine months ended September 30, 2017
(Unaudited)
(Expressed in Canadian Dollars)

DeepMarket Corp.
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September 30, 2017
(Unaudited)
(Expressed in Canadian Dollars)

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Management's Responsibility for Financial Reporting

To the Shareholders of DeepMarkit Corp.:

The accompanying condensed interim financial statements have been prepared by Management in accordance with International Financial Reporting Standards and have been approved by the Board of Directors. In support of this responsibility, Management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The condensed interim financial statements include amounts which are based on the best estimates and judgments of Management.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises this responsibility principally through the Audit Committee.

The Audit Committee consists of a majority of independent directors not involved in the daily operations of the Company. The Audit Committee meets with Management and the external auditors to satisfy itself that Management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The auditor has not performed a review of the unaudited condensed interim financial statements for the three and nine month period ending September 30, 2017.

November 29, 2017

(signed) "Darold H. Parken",
Director and President and Chief Executive Officer

(signed) "Sandra Généreux",
Chief Financial Officer

DeepMarket Corp.
Condensed Interim Statements of Financial Position
As at September 30, 2017
(Unaudited)
(Expressed in Canadian Dollars)

	September 30, 2017	December 31, 2016
Assets		
Current		
Cash and cash equivalents	\$ 1,059,356	\$ 333,099
Accounts receivable	3,896	10,799
Prepaid expenses and deposits	44,053	11,982
	1,107,305	355,880
Property and equipment (Note 5)	30,694	35,175
	\$ 1,137,999	\$ 391,055
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 59,061	\$ 68,087
Debenture payable (Note 6)	2,000,000	2,000,000
	2,059,061	2,068,087
Shareholders' Equity		
Share capital (Note 7)	12,245,804	9,788,090
Contributed surplus	1,611,798	1,474,427
Accumulated deficit	(14,778,664)	(12,939,549)
	(921,062)	(1,677,032)
	\$ 1,137,999	\$ 391,055

Going concern (Note 2)

Approved by the Board:

(signed) "Darold H. Parken", Director

(signed) "Leo R. Kelly", Director

DeepMarket Corp.
Condensed Interim Statements of Loss and Comprehensive Loss
For the three and nine months ended September 30, 2017
(Unaudited)
(Expressed in Canadian Dollars)

	For The Three Months Ended		For The Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
Expenses				
Wages and benefits (Note 8)	\$ 262,386	\$ 301,835	\$ 782,084	\$ 921,268
General and administrative (Note 8)	242,432	143,342	620,612	361,502
Stock-based compensation (Notes 7 & 8)	20,213	21,538	137,371	46,107
Professional fees (Note 8)	25,858	13,676	67,403	32,096
Listing and filing fees	8,282	1,961	38,330	12,481
Amortization (Note 5)	2,932	3,218	8,404	8,095
Finance costs (Notes 6 & 8)	60,434	69,139	181,313	93,299
Loss (gain) on foreign exchange	4,007	259	7,769	(332)
Interest income	(2,852)	(834)	(4,171)	(1,227)
Net Loss and Comprehensive Loss	\$ 623,692	\$ 554,134	\$ 1,839,115	\$ 1,473,289
Loss per share - basic	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Weighted average number of shares outstanding (Note 7)	88,777,733	62,321,618	79,140,370	62,321,618

DeepMarket Corp.
Condensed Interim Statements of Changes in Equity
For the nine months ended September 30, 2017
(Unaudited)
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	Share capital	Contributed surplus	Accumulated deficit	Total equity
Balance - January 1, 2016	\$ 9,738,904	\$ 1,404,785	\$ (10,936,524)	\$ 207,165
Stock-based compensation (Note 7)	-	46,107	-	46,107
Comprehensive loss	-	-	(1,473,289)	(1,473,289)
Balance - September 30, 2016	\$ 9,738,904	\$ 1,450,892	\$ (12,409,813)	\$ (1,220,017)
Balance - January 1, 2017	\$ 9,788,090	\$ 1,474,427	\$ (12,939,549)	\$ (1,677,032)
Shares issued in private placements (Note 7)	2,647,500	-	-	2,647,500
Share issue costs (Note 7)	(189,786)	-	-	(189,786)
Stock-based compensation (Note 7)	-	137,371	-	137,371
Comprehensive loss	-	-	(1,839,115)	(1,839,115)
Balance - September 30, 2017	\$ 12,245,804	\$ 1,611,798	\$ (14,778,664)	\$ (921,062)

DeepMarket Corp.
Condensed Interim Statements of Cash Flows
For the nine months ended September 30, 2017
(Unaudited)
(Expressed in Canadian Dollars)

	2017	2016
Cash provided by (used in):		
Operating activities		
Net loss	\$ (1,839,115)	\$ (1,473,289)
Non cash items		
Amortization (Note 5)	8,404	8,095
Amortization of transaction costs	-	20,000
Stock-based compensation (Note 7)	137,371	46,107
	(1,693,340)	(1,399,087)
Change in non-cash working capital items (Note 11)	(34,194)	(67,466)
	(1,727,534)	(1,466,553)
Investing activities		
Purchase of property and equipment (Note 5)	(3,923)	(16,872)
Financing activities		
Debt payable	-	1,980,000
Issuance of common shares and warrants (Note 7)	2,457,714	-
	2,457,714	1,980,000
Increase in cash	726,257	496,575
Cash and cash equivalents, beginning of periods	333,099	257,615
Cash and cash equivalents, end of periods	\$ 1,059,356	\$ 754,190
Cash and cash equivalents consists of:		
Cash	\$ 1,018,985	\$ 714,000
Redeemable term deposit	40,371	40,190
	\$ 1,059,356	\$ 754,190
Supplemental disclosure of cash flow information		
Interest paid	\$ 181,313	\$ 73,299
Interest income received	\$ 4,171	\$ 1,227
Supplemental disclosure of non-cash items:		
Transaction costs offset against debenture proceeds	\$ -	\$ 20,000

DeepMarket Corp.
Notes to the Condensed Interim Financial Statements
For the three and nine months ended September 30, 2017
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1. Nature of operations

DeepMarket Corp. (the “Corporation” or the “Company”) was incorporated under the Business Corporation's Act (Alberta) on November 20, 2007 under the name Challenger Deep Resources Corp. On October 30, 2015, the Company changed its name to DeepMarket Corp. The Company now trades on the TSX-V under the symbol MKT and on the OTCQB under the symbol MKTDF and is a Technology Issuer. Originally, the Company was in the business of acquiring, exploring and developing coal properties, both directly and through joint ventures. In 2014, the Company divested all of its exploration and evaluation assets and discontinued its coal exploration operations. To date the Company has not generated revenues from operations. The registered address of the Company is Suite 202, 615 15th Avenue SW Calgary, Alberta T2R 0R4.

2. Going concern

These condensed interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

The Company’s ability to maintain its current level of operations is dependent on its ability to generate sufficient cash to fund its strategic business plan. To date, the Company has no sources of revenue. At September 30, 2017, the Company had cash of \$1,059,356 (December 31, 2016 - \$333,099) and a working capital surplus of \$1,048,244 (December 31, 2016 - \$287,793).

During the nine months ended September 30, 2017, the Company completed two equity private placements for gross proceeds of \$2,647,500. In fiscal 2016, the Company received debt financing in the amount of \$2,000,000 in the form of participating debentures. In addition to any capital raised from new financing, if any, there are 45,855,129 (December 31, 2016 – 31,733,629) share purchase warrants exercisable at prices ranging from \$0.10 to \$0.25 expiring at various points from October 2017 to April 2018. Each share purchase warrant is exercisable into one common share.

While Management believes the Company has sufficient cash to discharge its obligations in the normal course of operations for the short-term, future operations will continue to be dependent upon the successful development of the Company’s business plan and raising of sufficient capital to execute on that plan, and the corresponding generation of future cash flows. Management believes the going concern assumption is appropriate for these condensed interim financial statements. The Company’s ability to continue as a going concern on a near, medium and longer term basis depends on its ability to successfully raise additional financing for further activity and development and achieve profitable operations. In order to fund the Company’s 2018 capital and operating budget, additional financing will be required.

While the Company has been successful to date in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. Because the Company has been unsuccessful in generating income from its business, there is significant risk that additional financing may not be attainable in which event the Corporation would not be able to continue its business operations. If the going concern assumption were not appropriate for these condensed interim financial statements, adjustments might be necessary to the carrying value of assets and liabilities, reported revenues and expenses and the statement of financial position classifications used.

DeepMarket Corp.
Notes to the Condensed Interim Financial Statements
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3. Basis of presentation

(a) Statement of compliance

The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. Specifically they have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. The unaudited condensed interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the audited financial statements for the year ended December 31, 2016 which have been prepared in accordance with IFRS.

The condensed interim financial statements were authorized for issue by the Board of Directors on November 29, 2017.

(b) Basis of measurement

The condensed interim financial statements have been prepared on the historical cost basis except for available-for-sale financial assets measured at fair value. The condensed interim financial statements are presented in Canadian dollars.

(c) Use of estimates and judgments

The preparation of the condensed interim financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results may differ from these estimates. The more significant areas requiring the use of Management estimates and assumptions are discussed below. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Estimate of recoverability for non-financial assets

Events or changes in circumstances, may give rise to significant impairment charges or reversals of impairment in a particular year. In accordance with the Company's accounting policy, each non-financial asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use. Impairment testing is also performed annually for goodwill, if any. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset. Future cash flow estimates are based on expected sales volumes, operating costs and future capital expenditure. This policy requires Management to

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3. Basis of presentation, continued

make these estimates and assumptions which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged to the statement of loss and comprehensive loss.

(ii) Share-based payments

The Company provides compensation benefits to employees, directors and officers through a stock option plan. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. Expected volatility is based on historical volatility of the Company's share price. Historical data is utilized to estimate option exercises and forfeiture behaviour with the valuation model. The risk-free rate for the expected term of the option is based on the Government of Canada yield curve in effect at the time of the grant.

(iii) Fair value of financial instruments, including embedded derivatives

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(iv) Taxation

The Company's accounting policy for taxation requires Management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the statement of financial position. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on Management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of loss and comprehensive loss.

4. Summary of significant accounting policies

The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent audited annual financial statements for the year ended December 31, 2016.

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5. Property and equipment

The Company expended the following amounts on equipment during 2016 and the nine months ended September 30, 2017:

Cost	<u>Office equipment</u>
Balance, December 31, 2015	\$ 37,368
Additions	<u>20,851</u>
Balance, December 31, 2016	58,219
Additions	<u>3,923</u>
Balance, September 30, 2017	<u>\$ 62,142</u>
Accumulated amortization	
Balance, December 31, 2015	\$ (11,333)
Amortization for the year	<u>(11,711)</u>
Balance, December 31, 2016	(23,044)
Amortization for the period	<u>(8,404)</u>
Balance, September 30, 2017	<u>\$ (31,448)</u>
Net Book Value	
Balance, December 31, 2016	\$ 35,175
Balance, September 30, 2017	<u>\$ 30,694</u>

6. Debenture payable

During fiscal 2016, the Company entered into a secured debenture financing (the "Participating Debentures") with various arm's length and non-arm's length investors. Under this financing, the debenture holders have advanced \$2,000,000 in long-term capital. The majority of the Participating Debentures are currently held by an Officer and Director of the Corporation.

The Participating Debentures bear both basic and participating interest. Basic interest on the Participating Debentures accrues and is payable at the rate of twelve percent (12%) per annum calculated and paid quarterly. Participation interest will be calculated on the basis of twelve percent (12%) of gross DeepMarket campaign sales, if any, and will be paid quarterly, one quarter in arrears. The Participating Debentures have a term of four (4) years.

The Participating debentures are secured by a fixed and floating first charge on all of the assets of the Company. As additional security, debenture holders have been granted a nonexclusive, unrestricted license to use the DeepMarket Platform software in the event of a default in payment of any amounts due under the Participating Debentures or in the event that the Company ceases, for any reason, to diligently pursue the commercial sale of DeepMarket campaigns. The license will terminate on payment of all amounts owing under the Participating Debentures, in accordance with the provisions thereof.

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7. Share capital

a) **Authorized**

Unlimited number of common shares
 Unlimited number of preferred shares, issuable in series

Issued and outstanding common shares:

	September 30, 2017		December 31, 2016	
	Number	Amount	Number	Amount
Balance, beginning of periods	62,777,733	\$ 9,788,090	62,321,618	\$ 9,738,904
Issued:				
On private placement	26,000,000	2,647,500	-	-
Warrants exercised	-	-	456,115	49,186
Share issue costs	-	(189,786)	-	-
Balance, end of periods	88,777,733	\$ 12,245,804	62,777,733	\$ 9,788,090

(i) 2017 transactions

On June 26, 2017, the Company closed a non-brokered private placement consisting of 12,500,000 units (each a "Unit") of the Company, at a subscription price of \$0.12 per Unit for gross proceeds of \$1,500,000. Each Unit consists of one common share and 0.52 of a common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.15 for a period of one hundred and eighty days from the date of issuance of the Units.

The Company paid a finder's fee in connection with the private placement in the amount of \$150,000.

On January 31, 2017, the Company closed a non-brokered private placement consisting of 13,500,000 units (each a "Unit") of the Company, at a subscription price of \$0.085 per Unit for gross proceeds of \$1,147,500. Each Unit consists of one common share and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.15 for a period of one year from the date of issuance of the Units.

The Company paid a finder's fee in connection with the private placement in the amount of \$25,049.

(ii) 2016 transactions

During the year ended December 31, 2016, 456,115 warrants were exercised at an average price of \$0.108 per warrant.

DeepMarket Corp.
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7. Share capital, continued

b) Warrants

	September 30, 2017		December 31, 2016	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance, beginning of periods	31,733,629	\$ 0.15	32,189,744	\$ 0.15
Issued:				
On private placement	20,000,000	0.15	-	-
Exercised	-	-	(456,115)	0.11
Expired	(5,878,500)	0.15	-	-
Balance, end of periods	45,855,129	\$ 0.15	31,733,629	\$ 0.15

As of September 30, 2017, the following warrants are outstanding:

Number	Exercise price	Expiry Date
9,316,667	\$ 0.25	April 2018
13,500,000	\$ 0.15	January 2018
6,500,000	\$ 0.15	December 2017
16,538,462	\$ 0.10	October 2017
<u>45,855,129</u>		

The weighted average remaining life span of the warrants is 0.25 year (December 31, 2016 - 0.88 year).

c) Stock option plan

The Company has an incentive stock option plan (the "Option Plan") which provides the Board of Directors of the Company from time-to-time, in its discretion and in accordance with the Exchange requirements, the authority to grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Options have been granted pursuant to the Option Plan which was last approved by the shareholders of the Company at a special meeting held on March 13, 2017.

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Notes to the Condensed Interim Financial Statements
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7. Share capital, continued

(i) 2017 transactions

During the period ended September 30, 2017, the Company granted 500,000 options with an exercise price of \$0.14 to a consultant of the Company. The options vest in equal 25% increments over a period of four years and expire five years from the date of grant.

During the period ended September 30, 2017, the Company granted 200,000 options with an exercise price of \$0.15 to a consultant of the Company. The options vested immediately and expire two years from the date of grant.

During the period ended September 30, 2017, the Company granted 500,000 options with an exercise price of \$0.14 to an employee of the Company. The options vest in equal 25% increments over a period of four years and expire five years from the date of grant.

During the period ended September 30, 2017, the Company granted 500,000 options with an exercise price of \$0.15 to a director of the Company. The options vested immediately and expire five years from the date of grant.

During the period ended September 30, 2017, 208,000 options expired and 400,000 options were forfeited.

(ii) 2016 transactions

During 2016, the Company granted 2,100,000 options with an exercise price of \$0.15 to employees of the Company. The options vest in equal 25% increments over a period of four years and expire five years from the date of grant.

During 2016, the Company granted 400,000 options with an exercise price of \$0.12 to an employee of the Company. The options vest in equal 25% increments over a period of four years and expire five years from the date of grant.

During 2016, the Company granted 175,000 options with an exercise price of \$0.15 to a consultant of the Company. The options vest in equal 50% increments over a period of one year and expire two years from the date of grant.

During 2016, 1,273,750 options expired and 1,467,000 options were forfeited.

The following assumptions were used for valuing the options granted during the period ended September 30, 2017, using the Black-Scholes Option Pricing Model.

Risk-free interest rate	0.6% to 1.2%
Expected volatility	93% to 125%
Dividend yield	0%
Expected life of each option issued	1 to 5 years
Forfeiture rate	0% to 20%

Total stock-based compensation recognized during the three-month period ended September 30, 2017 is \$20,213 (2016 - \$21,538) and during the nine-month period ended September 30, 2017 is \$137,371 (2016 - \$46,107).

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7. Share capital, continued

Details as to the stock options outstanding are as follows:

	September 30, 2017		December 31, 2016	
	Number of	Weighted	Number of	Weighted
	options	average exercise	options	average exercise
		price		price
Balance, beginning of periods	4,808,000	\$ 0.15	4,873,750	\$ 0.18
Issued to directors, officers, employees and consultants	1,700,000	0.14	2,675,000	0.15
Expired	(208,000)	0.08	(1,273,750)	0.28
Forfeitures	(400,000)	0.12	(1,467,000)	0.13
Balance, end of periods	5,900,000	\$ 0.15	4,808,000	\$ 0.15

As of September 30, 2017, the following options are outstanding:

	Number	Exercised price	Expiry Date
	200,000	\$ 0.150	April 2019
	1,000,000	\$ 0.075	February 2020
	1,500,000	\$ 0.200	June 2020
	300,000	\$ 0.210	December 2020
	200,000	\$ 0.150	April 2021
	1,200,000	\$ 0.150	July 2021
	500,000	\$ 0.150	January 2022
	500,000	\$ 0.140	April 2022
	<u>500,000</u>	\$ 0.140	July 2022
	<u>5,900,000</u>		

As of September 30, 2017, the weighted average remaining contractual life for options outstanding is 3.34 years (December 31, 2016 - 3.68 years).

As of September 30, 2017, 3,125,000 (December 31, 2016 - 2,033,000) options are fully exercisable and outstanding at a weighted average exercise price of \$0.16 (December 31, 2016 - \$0.17).

As of September 30, 2017, there was \$96,021 (December 31, 2016 - \$148,484) in unvested stock-based compensation expense that will be recorded over the remaining vesting period of the stock options.

d) Earnings per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period as follows:

	September 30, 2017	September 30, 2016
Weighted average number of common shares outstanding	88,777,733	62,321,618

Options and warrants to purchase common shares were outstanding however they are anti-dilutive in nature.

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8. Related party transactions

Included in wages and benefits, general and administrative, stock-based compensation, professional fees and finance costs are transactions with related parties. Related party transactions are disclosed below, unless they have been disclosed elsewhere in the condensed interim financial statements.

During the three and nine months ended September 30, 2017, the Company incurred \$47,500 and \$180,558 respectively for wages, benefits and consulting fees (2016 - \$72,500 and \$232,976 respectively), charged by directors, officers and key management personnel of the Company.

During the three and nine months ended September 30, 2017, included in expenses are options having a fair value of \$Nil and \$58,353 respectively (2016 - \$Nil and \$Nil respectively), granted to a director of the Company.

During the three and nine months ended September 30, 2017, the Company incurred \$22,200 and \$66,600 respectively for rental fees (2016 - \$22,200 and \$66,600 respectively), paid to two companies in which a director and officer of the Company is the principal or a significant shareholder.

During the three and nine months ended September 30, 2017, the Company incurred \$7,500 and \$22,500 respectively for accounting fees (2016 - \$7,500 and \$22,500 respectively), paid to a company in which an officer of the Company is the principal shareholder.

During 2016, the Company secured debenture financing with a director and officer and family members for a total of \$1,900,000. During the three and nine months ended September 30, 2017, the Company incurred \$57,412 and \$166,248 respectively for interest (2016 - \$46,038 and \$65,606 respectively) in respect of the debenture financing which is included in finance costs on the statement of loss and comprehensive loss. See Note 6. - Debenture payable, for detailed information regarding the debentures.

Related party transactions are incurred in the normal course of business and are measured at the exchange amount which is the amount of consideration established and approved by the related parties. As of September 30, 2017, \$Nil (December 31, 2016 - \$986) was due to related parties and included in accounts payable and accrued liabilities with respect to those transactions. The amounts are non-interest bearing, unsecured and have no specific terms of repayment.

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9. Capital management

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern.
- To maintain appropriate cash reserves on hand to meet ongoing development and operating costs.
- To invest cash on hand in highly liquid and highly rated financial instruments.

In the management of capital, the Company includes debenture payable and shareholders' equity in the definition of capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company (upon approval from its Board of Directors, as required) may issue additional capital primarily through equity financing. The Company has no externally imposed capital requirements.

The following table describes the Company's capital structure:

Capital Structure	September 30, 2017	December 31, 2016
Debenture payable	\$2,000,000	\$2,000,000
Shareholders' Equity	(921,062)	(1,677,032)
Total	\$1,078,938	\$322,968

10. Financial instruments

As at September 30, 2017 and 2016, the Company's financial instruments are cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and debenture payable. The amounts reflected in the condensed interim statement of financial position are carrying amounts. These financial instruments are classified as follows:

- Cash and cash equivalents – fair value through profit or loss
- Accounts receivable – loans and receivables
- Accounts payable and accrued liabilities – financial liabilities at amortized cost
- Debenture payable – financial liabilities at amortized cost

The Company does not use derivative instruments or hedges to manage risks because the Company's exposure to credit risk, interest rate risk and currency risk is small.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and cash equivalents is exposed to credit risk, however the risk is deemed minimal as the counterparty is considered to be a low risk financial institution. Accounts Receivable consists of the amounts due from Canada Revenue Agency in relation to input tax credits arising as a result of the Goods and Services Tax (GST).

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10. Financial instruments, continued

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash and cash equivalents are exposed to interest rate risk as the Company invests cash and cash equivalents at floating rates of interest in highly liquid instruments. Fluctuations in interest rates impact the value of cash and cash equivalents. For the nine months ended September 30, 2017 and 2016, if interest rates had been 1% higher, total interest income received would have been higher by approximately \$6,962 and \$2,954 respectively on an annualized basis. If interest rate had been 1% lower, total interest income would have been lower by approximately \$5,561 and \$1,713 respectively on an annualized basis. Pursuant to the terms of the participating debentures, the Company is required to pay additional interest equal to 12% of the revenue generated on qualifying product sales, see Note 6. - Debenture payable.

c) Currency risk

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company minimizes its currency risk by maintaining the majority of its liquid assets in stable currencies, including Canadian and US currencies. The Company holds US dollars, a 10% change in the exchange rate between the Canadian dollar and the US Dollar would result in the Company incurring a gain or loss of \$6,321 (2016 - \$3,466).

d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's accounts payable and accrued liabilities are all current and due within 90 days of the financial statement date. The Company ensures that it has sufficient capital to meet short term financial obligations after taking into account cash and cash equivalents on hand.

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10. Financial instruments, continued

e) Fair value risk

The methods and assumptions used to develop fair value measurements for those financial instruments carried at fair value on the condensed interim statement of financial position have been prioritized into three levels of a fair value hierarchy included in IFRS 7. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities, level two includes inputs that are observable other than quoted prices included in level one and level three includes inputs that are not based on observable market data.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Company's cash and cash equivalents are recorded using a Level one fair value measurement.

The accounts receivable and accounts payable and accrued liabilities carrying values approximate fair value due to the short-term nature of the financial instruments.

The fair value of the debenture payable is impacted by changes in market yields which can result in differences between the carrying value and the fair value of the instruments. The carrying value of the debenture payable as at September 30, 2017 is \$2,000,000 (December 31, 2016 - \$2,000,000). The fair value of the debenture payable is not disclosed as it cannot be measured reliably due to the fact that there is no open market for similar debentures, the majority of the balance is held by related parties and the participating interest component is dependent on future sales, which are not reliably predictable.

11. Change in non-cash working capital items

Changes in non-cash working capital, were comprised of the following:

	September 30, 2017	September 30, 2016
Accounts receivable	\$ 6,903	\$ 7,278
Prepaid expenses and deposits	(32,071)	(18,241)
Accounts payable and accrued liabilities	(9,026)	(56,503)
Net change	\$ (34,194)	\$ (67,466)