# Solarvest BioEnergy Inc.

Consolidated Financial Statements
**July 31, 2015**

ArsenaultBestCameronEllis
CHARTERED ACCOUNTANTS

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November 17, 2015

**Independent Auditor's Report**

**To the shareholders of**
**Solarvest BioEnergy Inc.**

We have audited the accompanying consolidated financial statements of **Solarvest BioEnergy Inc.**, which comprise the consolidated statement of financial position as at July 31, 2015, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended July 31, 2015 and July 31, 2014, and a summary of significant accounting policies and other explanatory information.

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

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Solarvest BioEnergy Inc.** as at July 31, 2015 and July 31, 2014, and the results of its operations and its cash flows for the years ended July 31, 2015 and July 31, 2014 in accordance with International Financial Reporting Standards.

**Emphasis of matter**
Without modifying our opinion, we draw attention to the fact that the financial statements have been prepared on a going concern basis. This basis may not be appropriate because its validity depends on the success of research and development and the availability of funding to continue the Company's research and development project. The financial statements do not include any adjustments that would arise from a failure to achieve these results. Details of the circumstances relating to this fundamental uncertainty are described in note 1 of the financial statements.

ArsenaultBestCameronEllis

**Chartered Accountants**

# Solarvest BioEnergy Inc.

Consolidated Statement of Financial Position
(expressed in Canadian dollars)
**As at July 31, 2015**

| | 2015 $ | 2014 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 3 | 148,495 |
| Accounts receivable | 25,676 | 93,331 |
| Prepaid expenses | 3,851 | 15,588 |
| | 29,530 | 257,414 |
| **Property and equipment** (note 5) | 699,164 | 811,817 |
| **Intellectual property** (note 6) | 350,237 | 272,042 |
| | 1,078,931 | 1,341,273 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 15) | 527,362 | 398,228 |
| Due to related party (note 15) | 352,403 | 148,403 |
| Promissory note payable (notes 7 and 15) | 136,328 | 130,312 |
| Current portion of long-term debt | 14,400 | 16,450 |
| | 1,030,493 | 693,393 |
| **Long-term debt**, less current portion (note 8) | 126,000 | 69,577 |
| | 1,156,493 | 762,970 |
| **Deficit Less Capital Stock** | | |
| **Share capital** (note 9) | 4,296,544 | 3,542,127 |
| **Contributed surplus** (note 10) | 196,203 | 128,353 |
| **Warrants** (note 11) | 158,973 | 153,317 |
| **Deficit** | (4,729,282) | (3,245,494) |
| | (77,562) | 578,303 |
| | 1,078,931 | 1,341,273 |

**Approved by the Board of Directors**

*"Gerri Greenham"* Director *"Kenneth A. Cawkell"* Director

# Solarvest BioEnergy Inc.

Consolidated Statement of Comprehensive Loss
(expressed in Canadian dollars)
**For the year ended July 31, 2015**

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Expenses** | | |
| Insurance | 23,224 | 24,833 |
| Interest expense (note 15) | 5,942 | 6,685 |
| License fees | 6,271 | 10,209 |
| Office and general | 40,481 | 41,790 |
| Professional fees (note 15) | 212,668 | 185,473 |
| Registration and filing fees | 18,034 | 16,675 |
| Rent and utilities | 91,667 | 83,351 |
| Research and development (note 17) | 1,023,926 | 922,272 |
| Shareholder costs | 6,301 | 5,684 |
| Transfer agent | 7,205 | 7,792 |
| Travel | 24,337 | 23,927 |
| Foreign exchange loss | 4,069 | 18,800 |
| Stock-based compensation | 3,508 | - |
| Amortization of intellectual property | 24,448 | 19,317 |
| Amortization of property and equipment | 197,359 | 187,378 |
| | 1,689,440 | 1,554,186 |
| **Operating loss** | (1,689,440) | (1,554,186) |
| **Other income** | | |
| Recovery of research and development expenses | 205,652 | 603,012 |
| **Net loss for the year** | (1,483,788) | (951,174) |
| Basic and diluted loss per share (note 12) | (0.08) | (0.06) |

# Solarvest BioEnergy Inc.

Consolidated Statement of Changes in Equity
(expressed in Canadian dollars)
**For the year ended July 31, 2015**

| | Share Capital | | Contributed Surplus: Equity settled employee benefits | | | |
|---|---|---|---|---|---|---|
| | Number of shares | Amount $ | $ | Warrants $ | Deficit $ | Total $ |
| Balance - July 31, 2013 | 13,286,137 | 2,595,719 | 128,353 | - | (2,294,320) | 429,752 |
| Private placement - net of costs (note 9) | 4,206,665 | 946,408 | - | - | - | 946,408 |
| Warrants | - | - | - | 153,317 | - | 153,317 |
| Total comprehensive loss for the year | - | - | - | - | (951,174) | (951,174) |
| Balance - July 31, 2014 | 17,492,802 | 3,542,127 | 128,353 | 153,317 | (3,245,494) | 578,303 |
| Private placement - net of costs (note 9) | 2,700,000 | 584,417 | - | - | - | 584,417 |
| Debt settlement (note 9) | 285,714 | 100,000 | - | - | - | 100,000 |
| Intellectual property (note 9) | 200,000 | 70,000 | - | - | - | 70,000 |
| Warrants (note 11) | - | - | - | 69,998 | - | 69,998 |
| Fair value of warrants expired | - | - | 64,342 | (64,342) | - | - |
| Stock-based compensation (note 10) | - | - | 3,508 | - | - | 3,508 |
| Comprehensive loss for the year | - | - | - | - | (1,483,788) | (1,483,788) |
| Balance - July 31, 2015 | 20,678,516 | 4,296,544 | 196,203 | 158,973 | (4,729,282) | (77,562) |

# Solarvest BioEnergy Inc.

Consolidated Statement of Cash Flows
(expressed in Canadian dollars)
**For the year ended July 31, 2015**

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net loss for the year | (1,483,788) | (951,174) |
| Items not affecting cash | | |
| Amortization of intellectual property | 24,448 | 19,317 |
| Amortization of property and equipment | 197,359 | 187,378 |
| Shares for debt settlement | 100,000 | - |
| Assumption of debt for patent acquisition | (32,643) | - |
| Stock-based compensation | 3,508 | - |
| | (1,191,116) | (744,479) |
| Net change in non-cash working capital items | | |
| Decrease (increase) in accounts receivable | 67,655 | (1,438) |
| Decrease (increase) in prepaid expenses | 11,737 | (5,008) |
| Increase (decrease) in accounts payable and accrued liabilities | 129,134 | (58,830) |
| Increase in due to related party | 204,000 | 25,000 |
| | (778,590) | (784,755) |
| **Financing activities** | | |
| Increase in long-term debt | 57,973 | - |
| Proceeds from issuance of capital stock | 654,415 | 1,099,725 |
| Repayment of long-term debt | (3,600) | (9,462) |
| Increase in promissory note payable | 6,016 | 6,016 |
| | 714,804 | 1,096,279 |
| **Investing activities** | | |
| Purchase of equipment | (42,733) | (78,653) |
| Purchase of leasehold improvements | (41,973) | (152,754) |
| | (84,706) | (231,407) |
| **Increase (decrease) in cash and cash equivalents** | (148,492) | 80,117 |
| **Cash and cash equivalents - Beginning of year** | 148,495 | 68,378 |
| **Cash and cash equivalents - End of year** | 3 | 148,495 |
| **Non-cash transactions** | | |
| Shares issued for Kohilo's patent rights | 70,000 | - |
| Assumption of debt for Kohilo's patent rights | 32,643 | - |
| Shares for debt settlement | 100,000 | - |

## 1 Nature of operations and continuance of operations

The Company was incorporated under the Business Corporations Act (BC) on November 9, 2005. The principal business of the Company is the development of its algal-based production systems to produce natural based "green" commercial projects. The address of the Company's registered office is 439 Helmcken Street, Vancouver B.C. V6B 2E6. To date the Company has not earned significant revenues and is considered to be in the development stage.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Phycobiologics (Europe) Limited ("Phyco Europe"), Phyco Hydrogen Inc. ("PHI"), and Solarvest (P.E.I.) Inc. ("PEI"). All significant inter company accounts and transactions have been eliminated upon consolidation.

The Company has financed its activities to date through the issuance of common shares and continues to seek capital through various means including the issuance of equity and/or debt.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has had net losses for the past two years, has a working capital deficiency and a deficit, as follows:

| | **2015** | **2014** |
|---|---|---|
| | **$** | **$** |
| Working capital (deficiency) | (1,000,963) | (435,979) |
| Deficit | (4,729,282) | (3,245,494) |

The continuing operations of the Company are dependent upon its ability to continue to secure adequate financing and to commence profitable operations in the future:

## 2 Basis of presentation

(a) Statement of compliance

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

These consolidated financial statements have been approved by the Board of Directors on November 17, 2015.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting.

(c) Functional currency

These consolidated financial statements are presented in Canadian dollars, which is the company's functional currency.

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those 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 periods affected.

The judgments that have the most significant effect on the amounts recognized in the financial statements are detailed in note 4.

## 3 Summary of significant accounting policies

(a) Foreign currency translation

Foreign currency transactions are initially recorded by the Company using the exchange rates prevailing at the date of the transaction. At the financial reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the period end rates of exchange. Non monetary assets and liabilities are translated at the historical exchange rates. Exchange gains and losses arising from the translation of foreign currency items are in the Statement of Comprehensive Loss.

(b) Financial instruments

The Company classifies its financial assets and liabilities into one of the following categories, depending on the purpose for which the instrument was acquired. The Company's accounting policy for each category is as follows:

*Financial assets*

Loans and receivables - These are financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost initially and subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

All financial assets are subject to review for impairment at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

*Financial liabilities*

Other financial liabilities - This category includes all financial liabilities which are recognized at amortized cost.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of twelve months or less.

(d) Property and equipment

Property and equipment is recorded at cost less accumulated amortization. Bases of amortization are as follows:

| | |
|---|---|
| Equipment | 20% declining balance |
| Computer | 3 years, straight line |
| Leasehold improvement | 5 years, straight line |
| Intellectual property | 20 years, straight line |

Amortization is calculated at one-half of the normal rate of amortization in the year of acquisition; no amortization is recorded in the year of disposal.

(e) Intellectual property

Intellectual property is recorded at cost less accumulated amortization. The intellectual property is being amortized over 20 years on a straight-line basis.

(f) Government assistance

The Company incurs research and development expenditures which are eligible for government grants. Government grants are recorded as a recovery of research and development expenses when the amounts are expected to be recovered based on the signed funding agreements.

(g) Research and development expenses

Research and development expenditures are expensed in the period in which they are incurred, unless a development project meets the criteria under IFRS for deferral and amortization. The Company has not deferred any such development expenditures to date.

(h) Income taxes

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

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

Deferred tax is calculated using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

(i) Loss per share

The Company presents the basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(j) Share based payment transactions

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

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

(k) Related parties

A related party is a person or an entity that is related to the Company.

A person or a close member of that person's family is related to the Company if that person:

i) Has control or joint control over the Company, with the power to govern the Company's financial and operating policies;

ii) Has significant influence over the Company, participating in financial and operating policy decisions, but not control over these policies; or

iii) Is a member of the key management personnel of the Company. Key management personnel, consistent with the definition under IAS 24, Related Party Disclosures, are persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director of the Company.

(l) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the July 31, 2015 reporting period. The following standards are assessed not to have any impact on the Company's financial statements:

**IFRS 9**, Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. 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. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

## 4 Critical accounting estimates and judgments

The preparation of the Company's consolidated financial statements requires management to make judgments, 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.

(a) Significant judgments

The significant judgments attributed to the Company's are:

(i) Going Concern

The Company reviews its operations periodically to ensure that it has the potential to be an economic viable entity.

(ii) Impairment and valuation of intellectual property

In making this judgment, Company evaluates, among other factors, market capitalization in addition to the milestone progress in its research and development program.

(b) Significant estimates

Reported amounts and note disclosures reflect the overall economic conditions that management estimates are most likely to occur and anticipated measures management intends to take. Actual results could differ materially from those estimates. Estimates and assumptions are reviewed quarterly. All revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant estimates in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements relate to:

(i) Impairment of property and equipment and intellectual property

Whether an asset is impaired requires management to determine whether there is an indication of impairment based on the consideration of external and internal indicators. If an indication of impairment exists, management must determine if the carrying value of the asset exceeds its recoverable amount. The estimation of future cash flows requires assumptions to be made by management. Therefore, the determination of a recoverable amount requires estimates which may affect the amount of an impairment loss, if any.

(ii) Valuation of share-based compensation and warrants

Management measures the costs for share-based compensation and warrants using market-based option valuation techniques. Assumptions are made and estimates are used in applying the valuation techniques. These include estimating the future volatility of the share price, expected dividend yield, expected risk-free interest rate, future employee turnover rates, future exercise behaviours and corporate performance. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of the share-based payments and warrants.

The Company reviewed its previous assumptions and concluded that no changes were required.

## 5 Property and equipment

| | Equipment<br>$ | Computer<br>$ | Leasehold improvements<br>$ | Total<br>$ |
|---|---|---|---|---|
| Cost | | | | |
| Balance - July 31, 2014 | 833,275 | 17,450 | 476,550 | 1,327,275 |
| Additions | 41,307 | 1,426 | 41,973 | 84,706 |
| Balance - July 31, 2015 | 874,582 | 18,876 | 518,523 | 1,411,981 |
| **Accumulated amortization** | | | | |
| Balance - July 31, 2014 | 375,610 | 10,871 | 128,977 | 515,458 |
| Current year amortization | 95,663 | 2,188 | 99,508 | 197,359 |
| Balance - July 31, 2015 | 471,273 | 13,059 | 228,485 | 712,817 |
| **Carrying value** | | | | |
| July 31, 2015 | 403,309 | 5,817 | 290,038 | 699,164 |
| July 31, 2014 | 457,665 | 6,579 | 347,573 | 811,817 |

## 6 Intellectual property

The Intellectual property consists of the acquisition costs of worldwide exclusive rights, subject to limited exceptions, to an Inducible Chloroplast Gene Expression System, through the acquisition of the shares of Psyco Europe, the issuance of Class B common shares of PHI, the subsequent repurchase of the Class B common shares of PHI and patent acquisition costs. Component costs have been summarized below:

| | **2015** | **2014** |
|---|---|---|
| | **$** | **$** |
| Acquisition of shares of Phyco Europe | 146,886 | 146,886 |
| Issuance of Class B common shares of PHI | 10 | 10 |
| Acquired pursuant to acquisition of shares of PHI | 144,426 | 144,426 |
| Patent acquisition costs | 95,011 | 95,011 |
| Kohilo patent acquisition costs | 102,643 | - |
| | 488,976 | 386,333 |
| Accumulated amortization | 138,739 | 114,291 |
| | 350,237 | 272,042 |

## 7 Promissory note payable

The Company received $100,000 by issuing a promissory note to a director of the Company. The promissory note was issued on July 15, 2009 bearing an interest rate of 6% compounded annually, and is due on demand. Interest of $36,328 has been accrued to July 31, 2015.

## 8 Long-term debt

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| 0% ACOA loan, due April 1, 2025, repayable in monthly instalments of $1,200 | 140,400 | 86,027 |
| Less: Current portion | 14,400 | 16,450 |
| | 126,000 | 69,577 |

On January 23, 2013, the Company entered into an agreement with Atlantic Canada Opportunities Agency (ACOA) whereby ACOA agreed to loan 50% of the value of eligible capital assets incurred on the newly leased premises estimated to be $789,000. On March 25, 2015, the loan agreement was amended under same terms and conditions except that the monthly repayment amount is changed to $1,200 per month commencing May 1, 2015. This loan is unsecured.

The aggregate amount of principal payments estimated to be required in each of the next five years to meet retirement provisions is as follows:

| | $ |
|---|---|
| Year ending July 31, 2016 | 14,400 |
| 2017 | 14,400 |
| 2018 | 14,400 |
| 2019 | 14,400 |
| 2020 | 14,400 |

## 9 Capital stock

**Authorized share capital**

At July 31, 2015, the authorized share capital consisted of unlimited number of common shares and the issued share capital amounted to $4,296,544. The common shares do not have a par value. All issued shares are fully paid.

**Fiscal year ending July 31, 2014**

On September 3, 2013, the Company closed a non-brokered private placement through the issuance of 400,000 common shares at a price of $0.25 per share for gross proceeds of $100,000. The non-brokered private placement was subscribed by Gerri Greenham (a Control Person of the Company).

On October 3, 2013, the Company closed a non-brokered private placement of 1,700,000 Units at a price of $0.25 per unit for gross proceeds of $425,000. Each unit consists of one common share and one-half warrant. Each whole warrants is exercisable at $0.35 per share for a period of 18 months from date of issuance and include an acceleration clause that is triggered by a share price of $0.60 per share. In connection with the private placement, the Company paid finders' fees of $25,000 and issued 50,000 non-transferable finder's warrants. Each finder's warrant is exercisable at $0.35 per share for a period of 18 months from date of issuance and include an acceleration clause that is triggered by a share price of $0.60 per share. Gerri Greenham (a Control Person of the Company) subscribed for a total of 200,000 of the 1,700,000 Units.

On January 22, 2014, the Company closed a non-brokered private placement through the issuance of 300,000 common shares at a price of $0.30 per share for gross proceeds of $90,000. The non-brokered private placement was subscribed by Gerri Greenham (a Control Person of the Company).

On April 9, 2014, the Company closed a non-brokered private placement of 1,506,665 Units at a price of $0.30 per unit for gross proceeds of $452,000. Each unit consists of one common share and one-half warrant. Each whole warrants is exercisable at $0.40 per share for a period of 18 months from date of issuance and include an acceleration clause that is triggered by a share price of $0.60 per share. In connection with the private placement, the Company paid finders' fees of $15,470 and issued 44,200 non-transferable finder's warrants. Each finder's warrant is exercisable at $0.50 per share for a period of 18 months from date of issuance and include an acceleration clause that is triggered by a share price of $0.60 per share. Gerri Greenham (a Control Person of the Company) subscribed for a total of 200,000 of the 1,506,665 Units.

On July 7, 2014, the Company closed a non-brokered private placement though the issuance of 300,000 common shares at a price of $0.30 per share for gross proceeds of $90,000. The non-brokered private placement was subscribed by Gerri Greenham (a Control Person of the Company).

**Fiscal year ended July 31, 2015**

*Shares issued for intellectual property*
On August 6, 2014, the Company entered into an agreement to purchase worldwide rights to certain patents and patent applications from Kohilo Bio Inc. ("Kohilo"). Pursuant to the purchase agreement, the total purchase price of $102,643 was satisfied through the issuance of 200,000 common shares of the Company at a deemed price of $0.35 per share and the assumption of $32,643 of Kohilo's debt.

*Private placements*
On October 15, 2014, the Company closed a non-brokered private placement of 2,000,000 Units at a price of $0.25 per share for gross proceeds of $500,000. Each unit consists of one common share and one warrant. Each whole warrant is exercisable at $0.35 per share for a period of 18 months from date of issuance and include an acceleration clause that is triggered by a share price of $0.55 per share. In connection with the private placement, the Company paid finders' fees of $15,750 and issued 63,000 non-transferable finder's warrants. Each finder's warrant is exercisable at $0.35 per share for a period of 18 months from date of issuance and include an acceleration clause that is triggered by a share price of $0.55 per share. Gerri Greenham (a Control Person of the Company) subscribed for a total of 500,000 of the 2,000,000 Units.

On April 28, 2015, the Company closed a non-brokered private placement of 242,000 Units at a price of $0.25 per share for gross proceeds of $60,500. Each unit consists of one common share and one warrant. Each whole warrant is exercisable at $0.35 per share for a period of 18 months from date of issuance and include an acceleration clause that is triggered by a share price of $0.55 per share. In connection with the private placement, the Company paid finders' fees of $4,235 and issued 16,940 non-transferable finder's warrants. Each finder's warrant is exercisable at $0.35 per share for a period of 18 months from date of issuance and include an acceleration clause that is triggered by a share price of $0.55 per share.

On May 25, 2015, the Company closed a non-brokered private placement though the issuance of 458,000 common shares at a price of $0.25 per share for gross proceeds of $114,500. The non-brokered private placement was subscribed by Garth Greenham (an officer of the Company).

*Shares for debt settlement*
On January 19, 2015, the Company issued 285,714 common shares at a deemed price of $0.35 per share aggregating $100,000 as a settlement of debt to a related party with respect to legal services performed in fiscal years ending July 31, 2009 and 2010.

**Other Commitments to Issue Shares**

As at July 31, 2015, the Company was obligated to issue up to a total of 500,000 shares pursuant to the project having reached a level in research whereby hydrogen production can be brought to viable commercial production through a method of controlling key genes in algae which will result in continuous production of hydrogen.

## 10 Share options

The Company has a Share Option Plan (the "Plan") under which it is authorized to grant options to purchase common shares of the Company to directors, senior officers, employees and/or consultants of the Company. The aggregate number of shares of the Company which may be issued and sold under the Plan will not exceed 10% of the total number of common shares issued and outstanding. Share options are granted with a maximum term of five years with vesting requirements at the discretion of the Board of Directors.

The Company records a charge to the statement of comprehensive loss and and a corresponding increase to contributed surplus using the Black Scholes fair valuation option pricing model with respect to a share option grant. The valuation is dependent on a number of estimates, including the risk free interest rate, the level of share volatility, together with an estimate of the level of forfeiture. The level of share volatility is calculated with reference to the historic traded daily closing share price at the date of issue. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

The following table reflects the actual share options issued and outstanding as at July 31, 2015.

| No. of options Outstanding and Exercisable | Average Exercise Price $ | Expiry Date |
|---|---|---|
| 600,000 | 0.25 | January 28, 2016 |
| 70,000 | 0.25 | June 24, 2016 |
| 75,000 | 0.40 | August 1, 2016 |
| 745,000 | 0.27 | |

On November 1, 2014, the Company granted 300,000 stock options to a consultant at an exercise price of $0.40 per share with an expiry date of 18 months from the date of the grant. The stock options granted is vested quarterly over a one year period at a rate of 75,000 stock options per quarter commencing February 1, 2015. The value attributed to the 75,000 stock options vested is estimated at $3,508 using the Black-Scholes model of option pricing. The assumptions used were: risk free interest rate - 1.25%; dividend yield - 0%; expected stock volatility - 68% and an expected life of 1.5 years.

## 11 Warrants

As explained in note 9, in connection with the private placement on April 9, 2014, the Company issued 753,333 warrants to subscribers and 44,200 finder's warrants. These warrants expire on October 9, 2015 and have a fair value of $88,975 assigned to the warrants estimated using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 1.12%; dividend yield - 0%; expected stock volatility - 72% and an expected life of 1.5 years.

As explained in note 9, in connection with the private placement on October 15, 2014, the Company issued 2,000,000 warrants to subscribers and 63,000 finder's warrants. These warrants expire on March 15, 2017 and have a fair value of $54,167 assigned to the warrants estimated using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 1.25%; dividend yield - 0%; expected stock volatility - 57.61% and an expected life of 1.5 years.

As explained in note 9, in connection with the private placement on April 28, 2015, the Company issued 242,000 warrants to subscribers and 16,940 finder's warrants. These warrants expire on July 28, 2016 and have a fair value of $15,831 assigned to the warrants estimated using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 1.25%; dividend yield - 0%; expected stock volatility - 64.18% and an expected life of 1.5 years.

The warrants outstanding as at July 31, 2015 is summarized below:

| No. of warrants Outstanding and Exercisable | Exercise Price $ | Expiry Date |
|---|---|---|
| 797,533 | 0.40 | October 9, 2015 |
| 2,063,000 | 0.35 | April 15, 2016 |
| 258,940 | 0.35 | October 29, 2016 |
| 3,119,473 | | |

## 12 Loss per share

Basic and diluted loss per share

The calculations of basic and diluted loss per share for the year ended were based on the following losses attributable to common shareholders and weighted average number of common shares outstanding:

*Basic loss per share*

| | 2015 $ | 2014 $ |
|---|---|---|
| Net loss for the year | (1,483,788) | (951,174) |
| Weighted average number of common shares outstanding for the period | 19,419,969 | 15,771,692 |
| Loss per share | (0.08) | (0.06) |

*Diluted loss per share*

| | 2015 $ | 2014 $ |
|---|---|---|
| Net loss for the year | (1,483,788) | (951,174) |
| Weighted average number of common shares (diluted) for the period | 20,164,969 | 16,411,692 |
| Loss per share | (0.07) | (0.06) |

Diluted loss per share does not include the effect of the warrants outstanding, as they are antidilutive.

## 13 Income taxes

(a) The company recognized no income taxes in the consolidated statement of comprehensive loss as it has been incurring losses since inception.

(b) The significant components of the Company's future income tax assets are as follows:

| | 2015 $ | 2014 $ |
|---|---|---|
| Future income tax assets | | |
| Non-capital loss carry forward | 4,045,937 | 2,608,400 |
| Share issuance costs and other assets | 146,615 | 146,615 |
| | 4,192,552 | 2,755,015 |
| Valuation allowance | (4,192,552) | (2,755,015) |
| Net future income tax assets | - | - |

The Company has available for deduction against future taxable income non-capital losses of $4,045,937. These losses, if not utilized will expire through to 2035. Future tax benefits which may arise as a result of these non-capital losses and other tax assets have not been recognized in these financial statements and have been offset by a valuation allowance due to the uncertainty of their realization.

## 14 Financial instruments

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk. Management, the Board of Directors and the Audit Committee monitor risk management activities and review the adequacy of such activities.

Credit risk

Credit risk is the risk of potential loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is limited to the carrying amount on the balance sheet and arises from the Company's cash and receivables.

The Company's cash is held with high credit quality financial institutions. Receivables mainly consist of goods and services tax due from the Federal Government of Canada and funding receivables from ACOA, a governmental agency.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations, and anticipating investing and financing activities. As at July 31, 2015, the Company had cash of $3 and is insufficient to settle current liabilities of $527,362, which have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market prices, such as interest rates and foreign exchange rates.

i) Interest rate risk

The company has cash and has a fixed interest rate bearing promissory note payable as a debt instrument. The Company's current policy is to invest excess cash in investment grade short term certificates of deposit issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks.

ii) Foreign exchange rate risks

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations and administrative activities in United States by using US dollar currency from its Canadian dollar bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

Sensitivity analysis

The carrying values of cash, receivables, and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturities of these financial instruments.

Based on management's knowledge of and experience in the financial markets, management does not believe that the Company's current financial instruments will be affected by credit risk, liquidity risk or market risk.

## 15 Related party transactions

The Company entered into the following transactions with related parties during the year ended July 31, 2014.

(a) Received advances of $204,000 (2014 - $27,383) from a director of the Company.
(b) Accrued interest of $6,016 (2014 - $6,016) due on the promissory note held by a director of the Company.
(c) Incurred and accrued $38,035 (2014 - $41,155) of legal fees to a legal firm where a principal is a director of the Company.
(d) During the year ended July 31, 2015, a director of the Company subscribed for 1,200,000 units (2014 - 1,000,000 common shares and 400,000 units) of the Company in connection with the private placements for proceeds of $300,000 (2014 - $390,000).
(e) During the year ended July 31, 2015 the Company paid $24,000 to the CFO for accounting services (2014 - $24,000).
(f) On August 6, 2014, the Company purchased the worldwide rights to certain patents and patent applications from Kohilo Bio Inc. ("Kohilo"). The total purchase price of $102,643 was satisfied through the issuance of 200,000 common shares of the Company at a deemed price of $0.35 per share and the assumption of $32,643 of Kohilo's debt. Kohilo is a company controlled by Garth Greenham, Chief Operating Officer of the Company and Mike Horne, a director of Phyco Europe.
(g) On January 19, 2015, the Company issued 285,714 common shares at a deemed price of $0.35 per share aggregating $100,000 as a settlement of debt to Cambro Holdings Ltd. (a private holding company for the partners of Cawkell Brodie LLP) with respect to legal services performed in fiscal years ended July 31, 2009 and 2010.
(h) On May 28, 2015, Garth Greenham, Chief Operating Officer of the company, subscribed for 458,000 common shares at a price of $0.25 per share.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

Included in accounts payable and accrued liabilities is $144,224 (2014 - $222,068) due to a Company controlled by a director.

Due to a related party in the amount of $352,403 (2014 - $148,403) and promissory note payable in the amount of $136,328 (2014 - $130,312) is due to Gerri Greenham (a Control Person of the Company).

## 16 Capital management

The objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders, benefits to other stakeholders and to have sufficient funds on hand to ensure the Company's on going growth of the business.

The Company considers the promissory note payable and the items in the shareholders' equity as 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 capital structure, the Company may issue new shares through private placements, sell assets, incur debts, or return capital to shareholders. As of July 31, 2015, the Company has an unsecured promissory note payable (see note 7) and is not subject to externally imposed capital requirements.

## 17 Research and development and Contingent liabilities

*Atlantic Innovation Fund*

The Company signed an agreement with the Atlantic Canada Opportunities Agency (ACOA) whereby, subject to certain conditions, the Company may be eligible to receive approximately $1.9 million in funding under the Atlantic Innovation Fund for the purpose of implementing a $3.3 million research and development project to develop dietary oils from the aquaculture industry using algae. Under the terms of the funding agreement, the project will be conducted in Prince Edward Island and Nova Scotia, and the Company will be expected to finance, through debt or equity, the balance of the project costs estimated at approximately $1.4 million over the four year life of the project. Work on the project has begun and costs incurred to date will be eligible for support under the program.

As at July 31, 2015, the Company has substantially received all of the allocated funding from ACOA. Under terms of the agreement, these funds are contingently repayable on a royalty basis of 5% of gross revenue from the above project beginning March 31, 2015.

*Business Development Program*

The Government of Canada through its ACOA Business Development Program extended additional funding to the Company aggregating approximately $378,000 to assist the Company further its research program in pursuing an alternative new source of renewable energy by generating hydrogen through algae production. The Company’s share of cost for the research program is $235,000.

As at July 31, 2015, the Company has substantially received all of the allocated funding from ACOA. Under the terms of the agreement, these funds are contingently repayable on a royalty basis of 2.5% of gross revenue from the above project beginning March 31, 2015.

## 18 Commitments

The future minimum rental lease payments for the next four years under an operating lease expiring in December 31, 2018 is as follows:

| | $ |
|---|---|
| Year ending July 31, 2016 | 54,000 |
| 2017 | 54,000 |
| 2018 | 54,000 |
| 2019 | 22,500 |

## 19 Subsequent event

On November 17, 2015, the Company closed a non-brokered private placement of 400,000 Units at a price of $0.25 per unit for gross proceeds of $100,000. Each unit consists of one common share and one warrant. Each whole warrant is exercisable at $0.35 per share for a period of 18 months from date of issuance and include an acceleration clause that is triggered by a share price of $0.55 per share.

## 20 Financial statement presentation

Certain amounts in the prior year have been reclassified to confirm to current year's presentation.