

Interim Condensed Financial Statements
(Expressed in Canadian Dollars)

KANE BIOTECH INC.

Three Months ended March 31, 2012 and 2011
(Unaudited)

In accordance with National Instruments 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the three months ended March 31, 2012.

KANE BIOTECH INC.

Interim Condensed Statement of Financial Position (unaudited)

| | Note | March 31, 2012 | December 31, 2011 |
|---|------|---------------------|---------------------|
| Assets | | | |
| Current assets: | | | |
| Cash | | \$ 963,545 | \$ 1,319,386 |
| Other receivables | | 124,124 | 93,472 |
| Other current assets | | 15,661 | 16,221 |
| Total current assets | | 1,103,330 | 1,429,079 |
| Non-current assets: | | | |
| Property and equipment | | 45,337 | 36,441 |
| Intangible assets | 4 | 1,009,927 | 1,005,288 |
| Total non-current assets | | 1,055,264 | 1,041,729 |
| Total assets | | \$ 2,158,594 | \$ 2,470,808 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | 5 | 72,091 | 92,725 |
| Total current liabilities | | 72,091 | 92,725 |
| Shareholders' Equity | | | |
| Share capital | 6(b) | 8,505,641 | 8,505,641 |
| Contributed surplus | | 1,543,041 | 1,530,429 |
| Warrants | 6(d) | 828,347 | 828,347 |
| Deficit | | (8,790,526) | (8,486,334) |
| Total | | 2,086,503 | 2,378,083 |
| Total liabilities and equity | | \$ 2,158,594 | \$ 2,470,808 |

The notes on pages 5 to 16 are an integral part of these financial statements

KANE BIOTECH INC.

Interim Condensed Statement of Comprehensive Loss (unaudited)

| | Note | Three months ended March 31, 2012 | Three months ended March 31, 2011 |
|--|----------|--------------------------------------|--------------------------------------|
| Expenses | | | |
| General and administration | | \$ 176,798 | \$ 141,368 |
| Research | | 132,866 | 213,366 |
| Loss from operations | | (309,664) | (354,734) |
| Finance income (costs): | | | |
| Finance income | | 5,712 | 520 |
| Finance expense | | (139) | (159) |
| Foreign exchange loss, net | | (654) | (2,107) |
| Net finance income | | 4,919 | (1,746) |
| Gain on disposal of assets | | 553 | - |
| Loss and comprehensive loss for the period | | \$ (304,192) | \$ (356,480) |
| Basic and diluted loss per share for the period | 6 | \$ (0.01) | \$ (0.01) |

The notes on pages 5 to 16 are an integral part of these financial statements

KANE BIOTECH INC.

Interim Condensed Statement of Changes in Equity Three months ended March 31, 2012 and 2011

| | Note | Share Capital | Contributed Surplus | Warrants | Deficit | Total |
|---|------|------------------|------------------------|------------|----------------|--------------|
| Balance January 1, 2011 | | \$ 7,091,173 | \$ 1,049,905 | \$ 287,723 | \$ (7,265,185) | \$ 1,163,616 |
| Loss and comprehensive loss for the period | | | | | (356,480) | (356,480) |
| Transactions with owners, recorded directly in equity | | | | | | |
| Share based payments | 6(c) | - | 109,428 | - | | 109,428 |
| Warrants expired | 6(d) | - | 52,083 | (52,083) | | - |
| Total transactions with owners | | - | 161,511 | (52,083) | - | 109,428 |
| Balance March 31, 2011 | | \$ 7,091,173 | \$ 1,211,416 | \$ 235,640 | \$ (7,621,665) | \$ 916,564 |
| | Note | Share Capital | Contributed Surplus | Warrants | Deficit | Total |
| Balance January 1, 2012 | | \$ 8,505,641 | \$ 1,530,429 | \$ 828,347 | \$ (8,486,334) | \$ 2,378,083 |
| Loss and comprehensive loss for the period | | | | | (304,192) | (304,192) |
| Transactions with owners, recorded directly in equity | | | | | | |
| Share based payments | 6(c) | - | 12,612 | - | | 12,612 |
| Total transactions with owners | | - | 12,612 | - | - | 12,612 |
| Balance March 31, 2012 | | \$ 8,505,641 | \$ 1,543,041 | \$ 828,347 | \$ (8,790,526) | \$ 2,086,503 |

The notes on pages 5 to 16 are an integral part of these financial statements.

KANE BIOTECH INC.
Interim Condensed Statement of Cash Flows
(Unaudited)

| | Three months ended March 31, 2012 | Three months ended March 31, 2011 |
|---|--------------------------------------|--------------------------------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Loss and comprehensive loss for the period | \$ (304,192) | \$ (356,480) |
| Adjustments for: | | |
| Depreciation of property and equipment | 2,137 | 1,727 |
| Amortization of patents | 5,527 | 4,770 |
| Write down of patents | 7,863 | - |
| Share based compensation | 12,612 | 109,428 |
| Gain on disposal of assets | (553) | - |
| Change in the following: | | |
| Other receivables | (30,652) | 26,300 |
| Other current assets | 560 | 21,614 |
| Accounts payable and accrued liabilities | (20,634) | 115,803 |
| | <u>(327,332)</u> | <u>(76,838)</u> |
| Investing activities: | | |
| Purchase of property and equipment, net of proceeds on disposal | (10,482) | - |
| Patent and trademark costs | (18,027) | (14,578) |
| | <u>(28,509)</u> | <u>(14,578)</u> |
| Increase (decrease) in cash | (355,841) | (91,416) |
| Cash, beginning of period | 1,319,386 | 187,522 |
| Cash, end of period | \$ 963,545 | \$ 96,106 |

The notes on pages 5 to 16 are an integral part of these financial statements.

KANE BIOTECH INC.

Notes to the Interim Condensed Financial Statements
Three months ended March 31, 2012 and 2011

1. Reporting entity:

Kane Biotech Inc. (the "Company") is a company domiciled and incorporated in Canada. The address of the Company's registered office is 162-196 Innovation Drive, Winnipeg, Manitoba, Canada. The Company is primarily involved in research and development. To date, the Company has no products in commercial production or use.

2. Basis of preparation of financial statements:**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). These condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual statements.

The financial statements were authorized for issue by the Board of Directors on May 22, 2012.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items:

- financial instruments at fair value at the issue date
- equity settled share-based payment awards are measured at fair value at the grant date

(c) Going concern

These financial statements have been prepared using IFRSs that are applicable to a going concern, which contemplates that Kane Biotech Inc. will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is substantial doubt about the appropriateness of the use of the going concern assumption because the Company has experienced operating losses and cash outflows from operations since inception and has not reached successful commercialization of its products.

The Company's future operations are completely dependent upon its ability to generate product sales, negotiate collaboration or licence agreements with upfront payments, obtain research grant funding, or other strategic alternatives, and/or secure additional funds. While the Company is striving to achieve the above plans, there is no assurance that such sources of funds will be available or obtained on favourable terms. If the Company cannot generate product sales, negotiate collaboration or licence agreements with upfront payments, obtain research grant funding, or if it cannot secure additional financing on terms that would be acceptable to it, the Company will have to consider additional strategic alternatives which may include, among other strategies, exploring the monetization of certain tangible and intangible assets as well as seeking to license assets, potential asset divestitures, winding up, dissolution or liquidation of the Company.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the successful completion of the actions taken or planned, some of which are described above, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption used in preparing these financial statements. There is no certainty that these and other strategies will be sufficient to permit the Company to continue as a going concern.

These financial statements do not reflect adjustments in the carrying values of the Company's assets and liabilities, expenses, and the balance sheet classifications used, that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

(d) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented has been rounded to the nearest dollar except where indicated otherwise.

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Notes to the Interim Condensed Financial Statements
Three months ended March 31, 2012 and 2011

2. Basis of preparation of financial statements (continued):**(e) Use of estimates and judgments**

The preparation of these financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial years are included in the following notes:

- Note 3(d)(i) Research and development costs
- Note 3(d)(ii) Patents and trademarks
- Note 3(d)(iii) Technology licenses
- Note 3(f)(ii) and Note 13(b) Share-based compensation
- Note 3(e)(ii) impairment of non-financial assets.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and to the 2011 annual audited financial statements unless otherwise indicated.

(a) Foreign currency transactions

Transactions in foreign currencies are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated at the exchange rate at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Financial instruments**(i) Non-derivative financial assets**

The Company initially recognizes receivables on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company classifies non-derivative financial assets into the following categories: loans and receivables. The Company has not classified any assets or liabilities as held-to-maturity or as available-for-sale. The Company had no "other comprehensive income or loss" transactions during the three months ended March 31, 2012 or 2011 and no opening or closing balances for accumulated other comprehensive income or loss.

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Notes to the Interim Condensed Financial Statements
 Three months ended March 31, 2012 and 2011

3. Significant accounting policies (continued):

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company has the following non-derivative financial liabilities which are classified as other financial liabilities: accounts payable and accrued liabilities.

(iii) Share capital

Common voting shares are classified as equity. Incremental costs directly attributable to the issue of common voting shares are recognized as a deduction from equity, net of any tax effects.

(iv) Warrants

Warrants are classified as equity. Incremental costs directly attributable to the exercise of warrants and related issue of common voting shares are recognized as a deduction from equity, net of any tax effects.

(c) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The costs of the day-to-day servicing of property and equipment are recognized in the statement of loss and comprehensive loss in the period in which they are incurred.

(ii) Depreciation

Depreciation is recognized in profit or loss over the estimated useful lives of each part of an item of property and equipment in a manner which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

| Asset | Basis | Rate |
|------------------------|---------------------|---------|
| Computer equipment | Diminishing balance | 30% |
| Scientific equipment | Diminishing balance | 20% |
| Office equipment | Diminishing balance | 20% |
| Leasehold improvements | Straight-line | 5 years |

Depreciation methods, useful lives and residual values are reviewed at each financial period and adjusted if appropriate.

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Notes to the Interim Condensed Financial Statements
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3. Significant accounting policies (continued):**(d) Intangible assets****(i) Research and development**

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

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. No development costs have been capitalized to date.

(ii) Patents and trademarks

Costs incurred in obtaining a patent are capitalized and amortized on a straight-line basis over the legal life of the respective patent or trademark, being approximately twenty years, or its economic life, if shorter. Trademarks have an indefinite life. Costs incurred in successfully obtaining a patent or trademark are measured at cost less accumulated amortization and accumulated impairment losses. The cost of servicing the Company's patents and trademarks is expensed as incurred.

(iii) Technology licenses

Technology licenses are recorded at cost. The cost of technology licences will be amortized over their estimated useful life commencing in the period in which the product is commercially launched and sales of the licensed products are first earned.

(iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

(e) Impairment**(i) Financial assets**

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

If such evidence exists, the Company recognizes an impairment loss for financial assets. The loss is the difference between the receivable and the present value of the estimated future cash flows. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(ii) Non-financial assets

The carrying amount of long-lived non-financial assets, including intangible assets and property and equipment, is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite lives and intangible assets not yet put into use are evaluated for impairment at least annually.

An impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. The fair value less costs to sell calculation is based on available data from observable market prices, less incremental costs. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market size and market growth trends, strength of customer demand and degree of variability in cash flows,

KANE BIOTECH INC.

Notes to the Interim Condensed Financial Statements
Three months ended March 31, 2012 and 2011

3. Significant accounting policies (continued):

as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. A change in any of the significant assumptions of estimates used to evaluate the underlying assets could result in a material change to the results of operations.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed, to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment had been recognized. Write-downs as a result of impairment are recognized in research expense in the statement of comprehensive loss.

(f) Employee benefits**(i) Short-term employee benefits**

Short-term employee benefit obligations are expensed as the related service is provided.

(ii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as a personnel expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions. In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

(g) Government grants

An unconditional government grant related to research and development activities is recognized in profit or loss as a deduction from the related expenditure when the grant becomes receivable. Grants that compensate the company for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

(h) Finance income and finance costs

Finance income comprises interest income on funds invested which is recognized as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest and service charges expense on borrowings which are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(i) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable

KANE BIOTECH INC.

Notes to the Interim Condensed Financial Statements
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3. Significant accounting policies (continued):

right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Scientific research and development tax credits, which are earned as a result of incurring qualifying research and development expenditures, are recorded as a reduction of the related expense or cost of the asset acquired when there is reasonable assurance that they will be realized.

(j) Earnings (loss) per share

The Company presents basic earnings per share (EPS) data for its common voting shares. Basic EPS is calculated by dividing the profit or loss attributable to common voting shareholders of the Company by the weighted average number of common voting shares outstanding during the period, adjusted for own shares held. Common voting share equivalents have been excluded from the calculation of diluted loss per share as their effect is anti-dilutive.

4. Intangible assets:

The following is a summary of intangible assets as at March 31, 2012:

| Cost | Patents | Trademarks | Licenses | Total |
|-----------------------------|------------|------------|------------|--------------|
| Balance December 31, 2010 | \$ 686,975 | \$ 21,021 | \$ 298,150 | \$ 1,006,146 |
| Additions | 98,076 | 5,789 | - | 103,865 |
| Change due to derecognition | (41,797) | - | - | (41,797) |
| Balance December 31, 2011 | 743,254 | 26,810 | 298,150 | 1,068,214 |
| Additions | 17,738 | 289 | - | 18,027 |
| Change due to derecognition | (7,862) | - | - | (7,862) |
| Balance March 31, 2012 | \$ 753,130 | \$ 27,099 | \$ 298,150 | \$ 1,078,379 |

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Notes to the Interim Condensed Financial Statements
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4. Intangible assets (continued):

| Accumulated amortization and derecognition | Patents | Trademarks | Technology | | Total |
|--|-----------|------------|------------|--|-----------|
| | | | Licenses | | |
| Balance December 31, 2010 | \$ 43,586 | \$ - | \$ - | | \$ 43,586 |
| Amortization | 20,253 | - | - | | 20,253 |
| Change due to derecognition | (913) | - | - | | (913) |
| Balance December 31, 2011 | 62,926 | - | - | | 62,926 |
| Additions | 5,526 | - | - | | 5,526 |
| Change due to derecognition | - | - | - | | - |
| Balance March 31, 2012 | \$ 68,452 | \$ - | \$ - | | \$ 68,452 |

| Carrying amounts | Patents | Trademarks | Technology | | Total |
|------------------------|------------|------------|------------|--|--------------|
| | | | Licenses | | |
| At December 31, 2010 | \$ 643,389 | \$ 21,021 | \$ 298,150 | | \$ 962,560 |
| At December 31, 2011 | \$ 680,328 | \$ 26,810 | \$ 298,150 | | \$ 1,005,288 |
| Balance March 31, 2012 | \$ 684,678 | \$ 27,099 | \$ 298,150 | | \$ 1,009,927 |

The Company has considered indicators of impairment as of December 31, 2011. To March 31, 2012, the Company has recorded aggregate impairment losses of \$307,354, primarily resulting from patent applications not pursued.

Amortization and write down expenses are recognized in research expense.

5. Accounts payable and accrued liabilities:

| | March 31, 2012 | December 31, 2011 |
|---|----------------|-------------------|
| Trade payables due to related parties | \$ - | \$ 1,035 |
| Other trade payables | 36,528 | 47,644 |
| Non-trade payables and accrued expenses | 35,563 | 44,046 |
| | \$ 72,091 | \$ 92,725 |

KANE BIOTECH INC.

Notes to the Interim Condensed Financial Statements
Three months ended March 31, 2012 and 2011

6. Share capital:

(a) Authorized

The Company has authorized share capital of an unlimited number of common voting shares, an unlimited number of class A common shares and an unlimited number of preferred shares. The preferred shares may be issued in one or more series, and the directors may fix prior to each series issued, the designation, rights, privileges, restrictions and conditions attached to each series of preferred shares.

(b) Shares issued and outstanding

Shares issued and outstanding are as follows:

| | Number of Common Voting Shares | Amount |
|--|-----------------------------------|--------------|
| Balance January 1, 2011 | 40,619,901 | \$ 7,091,173 |
| Issued for cash, net of issue costs of \$230,984 | 19,926,328 | 1,409,468 |
| Exercise of options | 50,000 | 5,000 |
| Exercise of warrants | - | - |
| Balance, December 31, 2011 | 60,596,229 | 8,505,641 |
| Exercise of options | - | - |
| Exercise of warrants | - | - |
| Balance, March 31, 2012 | 60,596,229 | \$ 8,505,641 |

On April 15, 2011, the Company closed a private placement offering (the "2011 Offering") of 19,926,328 units (a "Unit") at a price of \$0.12 per Unit, for aggregate gross proceeds to the Company of \$2,391,159 from the sale. Each Unit was comprised of one common share of the Company (a "Share") and one Share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder to purchase one Share at a price of \$0.17 for a period of 18 months from the date the warrant was issued. The gross proceeds have been prorated to share capital and warrants based on the relative fair value of each component as follows: share capital - \$1,637,074 and warrants - \$754,086.

Certain individuals and companies assisted the Company by introducing potential subscribers for the 2011 offering and received a finder's fee in the amount of \$176,655 calculated as seven percent of the total subscription proceeds received from subscribers introduced to the Company by each particular individual and company. In addition, these individuals and companies were issued 1,532,107 compensation warrants, equivalent to eight percent of the Units subscribed for by subscribers introduced to the Company by each particular individual and company. Each compensation warrant entitles the holder thereof to purchase one Share at a price of \$0.14 for a period of 18 months from the date of issue. The fair value of \$129,616 assigned to the compensation warrants upon issuance is included in share and warrant issue costs of \$337,384. The total costs of the 2011 Offering of \$337,384 have been allocated to share capital (\$230,984) and warrants (\$106,400) on a pro rata basis.

(c) Stock option plan

The Company has an equity-settled Stock Option Plan ("Plan") in place for employees, directors, officers and consultants of the Company which is administered by the Board of Directors. The number of common shares reserved for issuance of stock options is limited to a maximum of 10% of the issued and outstanding shares of the Company at any one time. At March 31, 2012, an aggregate maximum of 6,059,623 (December 31, 2011 - 6,059,623) common voting shares are available to be purchased under the Plan and 2,244,623 (December 31, 2011 - 2,244,623) common share options remain available to be issued under the Plan.

Share options issued to employees, directors and officers of the Company under the Plan expire five years from the grant date and beginning in 2011, new grants generally vest over 3 years. Share options issued to non-employee consultants expire five years from grant and generally vest over twenty-four months. The attributed exercise price of the grant per

KANE BIOTECH INC.

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6. Share capital (continued):

the Plan cannot be less than the closing price per common share on the date of the grant:

Changes in the number of options outstanding during the period ended March 31, 2012 and 2011 are as follows:

| | March 31, 2012 | | March 31, 2011 | |
|--|----------------|---------------------------------|----------------|---------------------------------|
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| Balance , beginning of period | 3,815,000 | \$ 0.17 | 1,577,500 | \$ 0.27 |
| Granted | - | - | 2,350,000 | 0.17 |
| Exercised | - | - | (22,500) | 0.28 |
| Forfeited, cancelled or expired | - | - | - | - |
| Balance, end of period | 3,815,000 | \$ 0.17 | 3,905,000 | \$ 0.21 |
| Options exercisable, end of period | 3,098,332 | | 2,214,164 | |
| Weighted average fair value per unit of option granted during the year | | \$ - | | \$ 0.12 |

Options outstanding at March 31, 2012 consist of the following:

| Range of exercise prices | Outstanding number | Weighted average remaining contractual life | Weighted average exercise price | Exercisable number |
|--------------------------|--------------------|---|---------------------------------|--------------------|
| \$0.10-\$0.25 | 3,305,000 | 3.25 | 2,588,332 | 3.16 |
| \$0.26-\$0.42 | 510,000 | 0.17 | 510,000 | 0.17 |
| \$0.10-\$0.42 | 3,815,000 | 2.84 | 3,098,332 | 2.66 |

For the period ended March 31, 2012 the Company recorded share option compensation expense of \$12,612 (2011 - \$109,428) with a corresponding credit to contributed surplus. The share option compensation expense for options issued to employees was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model (Note 10) with the following weighted average assumptions:

For awards that vest at the end of a vesting period, compensation cost is recognized on a straight-line basis over the period of service. For awards subject to graded vesting, each instalment is treated as a separate award with separate fair value and a separate vesting period.

The share option expense of stock-based payments to non-employees was determined based on the fair value of the services received and recognized over the period in which the related service is received.

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. Volatility is determined based on the five-year share price history. The

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6. Share capital (continued):

expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

(d) Warrants

Changes in the number of warrants outstanding during the period ended March 31, 2012 and 2011 are as follows:

| | March 31, 2012 | | | March 31, 2011 | | |
|---|----------------|------------|---------------------------------|----------------|-----------|---------------------------------|
| | Warrants | Amount | Weighted average exercise price | Warrants | Amount | Weighted average exercise price |
| Balance , beginning of year | 24,624,435 | \$ 828,347 | \$ 0.16 | 5,913,245 | \$287,723 | \$ 0.17 |
| Granted, pursuant to private placements | - | - | - | - | - | - |
| Granted | - | - | - | - | - | - |
| Exercised | - | - | - | - | - | - |
| Expired | - | - | - | (553,000) | (52,083) | 0.14 |
| Balance, end of year | 24,624,435 | \$ 828,347 | \$ 0.16 | 5,360,245 | \$235,640 | \$ 0.17 |
| Weighted average remaining contractual life (years) | | | .49 years | | | .47 years |

(e) Per share amounts

The weighted average number of common voting shares outstanding for the period ended March 31, 2012 and 2011 was 60,596,229 and 40,619,901, respectively. The dilution created by options and warrants has not been reflected in the per share amounts as the effect would be anti-dilutive.

7. Commitments and contingencies:

(a) Commitments

As at March 31, 2012 and in the normal course of business, the Company has obligations to make future payments, representing contracts and other commitments that are known and committed.

Contractual obligation payments due by period ending March 31:

| | |
|------|-----------|
| 2012 | 108,512 |
| 2013 | 10,000 |
| 2014 | 10,000 |
| 2015 | 10,000 |
| 2016 | 10,000 |
| | \$ 40,000 |

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7. Commitments and contingencies (continued):

The Company holds a worldwide exclusive right to Competence Stimulating Peptide (CSP) technology from the University of Toronto Innovations Foundation (UTIF). In consideration for the right, the Company will pay UTIF a royalty of a stipulated percentage of the net sales, if any, of the licensed products. If the Company sublicenses any rights to a third party, the Company will pay UTIF a percentage of a sublicense fee or sublicense royalty fee. The Company does not expect to make royalty payments under this agreement in fiscal 2013 and cannot predict when such royalties will become payable, at all.

The Company also holds a worldwide exclusive license to DispersinB[®] enzyme from the University of Medicine and Dentistry of New Jersey (UMDNJ). In consideration for the right, the Company will pay royalty to UMDNJ of a stipulated percentage of the net sales, if any, of the licensed products. If the Company sublicenses any rights to a third party, the Company will pay a percentage of a sublicense fee or sublicense royalty fee. A minimum royalty fee of \$10,000 USD per annum is payable for the life of the patent, and, additional milestone payments throughout the term of the agreement.

(b) Guarantees

The Company periodically enters into research and licence agreements with third parties that include indemnification provisions customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of claims arising from research and development activities undertaken on behalf of the Company. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions could be unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying financial statements with respect to these indemnification obligations.

8. Government and other assistance:

During the period ended March 31, 2012, the Company received \$41,371 (March 31, 2011 - \$5,000) in government and other assistance for the purpose of research. Government and other assistance has been recorded as a reduction to research expenses, property & equipment and intangible assets.

9. Related parties:

(a) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Board of Directors, President & CEO, and Chief Scientific Officer are key management personnel.

In addition to their salaries, the Company also provides non-cash benefits and participation in the Stock Option Plan (Note 6(c)). The following table details the compensation paid to key management personnel:

| | March 31, 2012 | March 31, 2011 |
|---|----------------|----------------|
| Salaries, fees and short-term employee benefits | \$ 89,118 | \$ 65,450 |
| Post-employment benefits | 968 | 834 |
| Share-based payments | 8,375 | 64,881 |
| | \$ 98,461 | \$ 131,165 |

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9. Related parties (continued):**(b) Key management personnel and director transactions**

Directors and key management personnel control five percent of the voting shares of the Company. During the three months ended March 31, 2011, the Company paid GVI, a company controlled by the now former Chairman of the Board of Directors, a total of \$26,000 for consulting fees and \$6,938 under a sub-lease rental agreement.

10. Determination of fair values:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following models. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Share-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.