KANE BIOTECH INC.
FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

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KANE BIOTECH INC.

Interim Balance Sheets

	March 31, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 568,253	$ 804,920
Accounts receivable	133,757	104,373
Prepaid expenses (Note 9)	11,935	11,331
	713,945	920,624
Property and equipment (Note 5)	40,159	44,536
Intangible assets (Note 6)	921,983	900,778
	$ 1,676,087	**$ 1,865,938**
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Note 9)	$ 69,927	$ 68,619
Shareholders' equity:		
Capital stock (Note 7(b))	6,898,291	6,792,616
Warrants (Note 7(d))	269,295	311,794
Contributed surplus (Note 7(f))	1,007,544	984,840
Deficit	(6,568,970)	(6,291,931)
	1,606,160	1,797,319
Nature and continuation of operations (Note 1)		
Commitments and contingencies (Note 8)		
Subsequent event (Note 13)		
	$ 1,676,087	**$ 1,865,938**

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

KANE BIOTECH INC.

Interim Statements of Operations and Deficit
(unaudited - prepared by management)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Expenses		
General and administration (Note 9)	$ 102,139	$ 113,331
Research	134,668	83,896
Amortization	8,937	8,865
Write-down of patents (Note 6)	11,612	-
Stock-based compensation		
General and administration	22,704	-
Loss before the undernoted	(280,060)	(206,092)
Other		
Investment income	3,021	2,453
Loss and comprehensive loss for the period	(277,039)	(203,639)
Deficit, beginning of period	(6,291,931)	(5,414,684)
Deficit, end of period	$ (6,568,970)	$ (5,618,323)
Basic and diluted loss per share (Note 7(g))	$ (0.01)	$ (0.01)

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

KANE BIOTECH INC.

Interim Statements of Cash Flows
(unaudited - prepared by management)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Cash provided by (used in):		
Operating activities:		
Loss and comprehensive loss for the period	$ (277,039)	$ (203,639)
Adjustments for:		
Amortization of property and equipment	4,376	6,817
Amortization of patents	4,561	2,048
Write-down of patents	11,612	-
Stock-based compensation	22,704	-
Change in the following:		
Accounts receivable	(29,383)	63,400
Prepaid expenses	(604)	6,452
Accounts payable and accrued liabilities	1,309	(33,513)
	(262,464)	(158,435)
Financing activities:		
Issuance of common shares, net of share issue costs	63,175	-
Investing activities:		
Patent and trademark costs	(37,378)	(39,310)
	(37,378)	(39,310)
Increase (decrease) in cash	(236,667)	(197,745)
Cash and cash equivalents, beginning of period	804,920	548,983
Cash and cash equivalents, end of period	$ 568,253	$ 351,238

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

1. Nature and continuation of operations:

Kane Biotech Inc. (the "Company") was established to use a patent protected technology intended to find compounds which prevent or disrupt biofilms in medical and industrial applications. To date, the Company has no products in commercial production or use. Accordingly, the Company is considered to be a development stage enterprise for accounting purposes. Since May 17, 2001, the date of incorporation of Kane Biotech Inc., through to March 31, 2010, the Company has expended approximately $2,868,989, net of government assistance, on research.

The accompanying unaudited interim financial statements include the operations of the Company for the three months ended March 31, 2010. These financial statements have not been reviewed by the Company's auditor. These statements should be read in conjunction with the December 31, 2009 audited financial statements.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and on a basis consistent with the Company's annual audited financial statements for the year ended December 31, 2009 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 in the normal course of business. The Company has experienced operating losses and cash outflows from operations since inception. The use of these principles may not be appropriate because at March 31, 2010 there was substantial doubt that the Company will be able to continue as a going concern without raising additional financial resources.

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, defer expenditures, or other strategic alternatives, and/or secure additional funds. While the Company is striving to achieve the above plans, there is no assurance these and other strategies will be achieved or that such sources of funds will be available or obtained on favourable terms.

The Company's ability to continue as a going concern is dependent on its ability to obtain sufficient funds to conduct its research and development, and to successfully commercialize its products. The outcome of these matters cannot be predicted at this time. These financial statements do not reflect adjustments to the carrying values of the assets and liabilities, expenses, and the balance sheet classification used, that would be necessary if the going concern assumption were not appropriate. Such adjustment could be material.

2. Significant accounting policies:

These interim financial statements should be read in conjunction with the Company's audited annual financial statements as at December 31, 2009. All accounting policies are the same as described in Note 2 of the Company's audited financial statements for the year ended December 31, 2009.

3. Recent accounting pronouncements:

(a) Convergence to International Financial Reporting Standards ("IFRS"):

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB's strategic plan outlines the convergence of Canadian GAAP with IFRS over a five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP.

3. Recent accounting pronouncements (continued):

(a) Convergence to International Financial Reporting Standards ("IFRS") (continued):

The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's first year end under IFRS will be December 31, 2011. The transition date for the Company will be January 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for fiscal 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. Financial instruments:

The Company has classified its financial instruments as follows:

	March 31, 2010	December 31, 2009
Financial assets:		
Cash and cash equivalents (Held-for-trading)	$ 568,253	$ 804,920
Accounts receivable (Loans and receivables)	133,757	104,373
	$ 702,010	$ 909,293
Financial liabilities:		
Accounts payable and accrued liabilities (Other financial liabilities)	$ 69,927	$ 68,619

The Company had neither available-for-sale, nor held-to-maturity financial instruments during the three months ended March 31, 2010 or 2009. Cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

5. Property and equipment:

March 31, 2010	Cost	Accumulated amortization	Net book value
Computer and office equipment	$ 13,015	$ 9,606	$ 3,409
Scientific equipment	126,321	89,704	36,617
Leasehold improvements	82,789	82,656	133
	222,125	181,966	40,159

5. Property and equipment (continued):

December 31, 2009	Cost	Accumulated amortization	Net book value
Computer and office equipment	$ 13,015	$ 9,359	$ 3,656
Scientific equipment	126,321	87,776	38,545
Leasehold improvements	82,789	80,454	2,335
	$ 222,125	$ 177,589	$ 44,536

6. Intangible assets:

March 31, 2010	Cost, net of impairments	Accumulated amortization	Net book value
Patents (1)	$ 639,683	$ 32,011	$ 607,672
Trademarks	16,161	-	16,161
Technology licenses (2)	298,150	-	298,150
	$ 953,994	$ 32,011	$ 921,983

December 31, 2009	Cost, net of impairments	Accumulated amortization	Net book value
Patents (1)	$ 618,890	$ 32,423	$ 586,467
Trademarks	16,161	-	16,161
Technology licenses (2)	298,150	-	298,150
	$ 933,201	$ 32,423	$ 900,778

(1) During the three months ended March 31, 2010 the Company recorded a write-down of patents equal to $11,612 (March 31, 2009 - nil) as part of the ongoing review of the portfolio of intellectual property. The write-down recognized certain applications no longer being pursued and consequently determined to have no future value.

(2) The Company has a worldwide exclusive licence to technology from the University of North Texas Health Science Center. The Company is obligated to pay all costs of filing and maintaining patents, pay a royalty of a stipulated percentage on the net sales of licensed products, and pay a stipulated percentage of any sublicense fee. Fees payable, if any, are to be paid quarterly. The agreement terminates on the expiration or invalidity of the last patent issued under the agreement.

On December 31, 2004, the Company acquired the worldwide exclusive rights to the Competence Stimulating Peptide (CSP) technology from the University of Toronto. Under the terms of the agreement, the Company paid an initial license fee of $30,000 to University of Toronto Innovations Foundation (UTIF) and, in fiscal 2005, issued 165,000 common shares to each of UTIF and the Governing Council of University of Toronto for an aggregate of 330,000 common shares at deemed consideration of $0.72 per share or $237,600.

6. Intangible assets (continued):

The Company is also obligated to pay $20,000 to UTIF for each patent issued as a result of this license agreement to a maximum of $40,000 as well as pay for all costs of filing and maintaining the patents. In further consideration of granting of the license, the Company will pay a royalty to UTIF of a stipulated percentage of the net sales of the licensed products. If the Company sub-licenses any rights under the agreement to a third party, the Company shall pay UTIF a stipulated percentage of a sub-license fee and sub-license royalty fee. The royalty, sub-license and sub-license royalty fees, if any, are to be paid quarterly. The agreement terminates on the expiration or invalidity of the last patent issued under the agreement. There were no sales of licensed products to March 31, 2010.

On April 1, 2005, the Company acquired the worldwide exclusive license to all human and industrial applications of the DispersinB® enzyme from the University of Medicine and Dentistry of New Jersey (UMDNJ) and paid a license initiation fee of $11,815 (USD $10,000). Under the terms of the agreement, the Company committed to: pay all costs of filing and maintaining the patents; pay a license initiation fee of USD $10,000 during the first year; and, additional negotiated milestone payments throughout the term of the agreement. The Company will also pay a royalty to UMDNJ of a stipulated percentage of the net sales of the licensed products. If the Company sub-licenses any rights under the agreement to a third party, the Company shall pay UMDNJ a stipulated percentage of a sub-license fee and sub-license royalty fee. The royalty, sub-license and sub-license royalty fees, if any, are to be paid quarterly. This agreement terminates on the expiration or invalidity of the last patent issued under the agreement. During fiscal 2006, the Company negotiated an expansion to the scope of the original license agreement with UMDNJ and, as a result, paid an additional fee of $8,735 (USD $7,500). During fiscal 2007, as a result of the issuance of a patent, a $10,000 milestone payment was incurred. The Company began paying an annual minimum royalty fee beginning on April 1, 2008, which was the third anniversary date of the agreement. There were no sales of licensed products to March 31, 2010.

7. Capital stock:

(a) Authorized:

The Company has authorized share capital of an unlimited number of common voting shares and an unlimited number of class A common voting shares.

(b) Shares issued and outstanding:

Shares issued and outstanding are as follows:

	Number of Common Shares	Amount
Balance, December 31, 2008	25,228,491	$ 5,548,574
Issued for cash, net of issue costs of $31,063 (1)	3,571,429	111,591
Issued for cash, net of issue costs of $81,764 (2)	4,335,500	297,809
Early exercise warrant incentive program, net of costs of $13,153 (3)	2,088,500	554,680
Exercise of warrants	1,730,165	279,962
Balance, December 31, 2009	36,954,085	6,792,616
Exercise of warrants	451,250	105,675
Balance, March 31, 2010	37,405,335	$ 6,898,291

7. Capital stock (continued):

(1) On May 14, 2009, the Company closed a private placement offering (the “Q2 2009 Offering”) of 3,571,429 units (a "Unit") at a price of $0.07 per share, for aggregate gross proceeds to the Company of $250,000. Each Unit was comprised of one Share and one half of one Warrant. Each whole Warrant entitled the holder to purchase one Share at a price of $0.10 per Share if exercised within six months from the date the Warrant is issued or $0.15 per Share if exercised after six months up to eighteen months from the closing date of the Q2 2009 Offering. The Warrants will expire on November 14, 2010. The fair value assigned to the Warrants upon issuance was $107,346.

Certain individuals and companies assisted the Company by introducing potential subscribers for the Q2 2009 Offering and received a finder’s fee in the amount of $12,350 calculated as eight 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 117,936 Compensation Warrants, equivalent to seven percent of the units subscribed for by subscribers introduced to the Company by each particular individual and company. Each Compensation Warrant entitled the holder to purchase one Share at a price of $0.07 per Share within one year of the closing date of the Q2 2009 Offering. The fair value of $6,492 assigned to the Compensation Warrants upon issuance is included in share issue costs of $31,063.

(2) On December 1, 2009, the Company closed a private placement offering (the “Q4 2009 Offering”) of 4,335,500 units (a "Unit") at a price of $0.13 per share, for aggregate gross proceeds to the Company of $563,615. Each Unit was comprised of one Share and one half of one Warrant. Each whole Warrant entitled the holder to purchase one Share at a price of $0.17 per Share if exercised within six months from the date the Warrant is issued or $0.25 per Share if exercised after six months up to eighteen months from the closing date of the Q4 2009 Offering. The Warrants will expire on June 1, 2011. The fair value assigned to the Warrants upon issuance was $184,042.

Certain individuals and companies assisted the Company by introducing potential subscribers for the Q4 2009 Offering and received a finder’s fee in the amount of $44,975 calculated as eight 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 244,980 Compensation Warrants, equivalent to seven percent of the units subscribed for by subscribers introduced to the Company by each particular individual and company. Each Compensation Warrant entitled the holder to purchase one Share at a price of $0.14 per Share within one year of the closing date of the Q4 2009 Offering. The fair value of $20,930 assigned to the Compensation Warrants upon issuance is included in share issue costs of $81,764.

(3) On August 6, 2009, the Company announced an early exercise warrant incentive program ("Warrant Incentive Program") under which existing holders of certain common share purchase warrants exercised an aggregate of 2,088,500 warrants at a price of $0.12 per unit for gross proceeds to the Company of $250,620. Existing warrant holders who exercised under the Warrant Incentive Program received one unit for each warrant exercised. Each unit was comprised of one common share and one half of one share purchase warrant (an "Incentive Warrant"). Each whole Incentive Warrant entitles the holder to purchase one Common Share at a price of $0.14 per Share if exercised within six months from the date the Incentive Warrant is issued or $0.22 per Share if exercised after six months up to eighteen months from the closing date of the Warrant Incentive Program. The Incentive Warrants will expire on March 28, 2011 and the fair value assigned upon issuance was $98,350. Under the Warrant Incentive Program, warrants previously issued with a fair value of $415,563 were exercised and accordingly were transferred from warrants to capital stock (Note 7(d)).

The Company set up a share subscription receivable of $17,500 at the closing of the Warrant Incentive Program. This amount is included in accounts receivable.

7. Capital stock (continued):

(c) Options:

The Company has a stock option plan which is administered by the Board of Directors of the Company with stock options granted to directors, management, employees, management company employees and consultants as a form of compensation. 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.

Changes in the number of options outstanding during the three months ended March 31, 2010 and 2009 are as follows:

	March 31, 2010		March 31, 2009	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Balance, beginning of period	1,432,500	$ 0.35	1,257,500	$ 0.44
Granted	175,000	0.15	-	-
Forfeited, cancelled or expired	-	-	(10,000)	0.42
Balance, end of period	1,607,500	$ 0.33	1,247,500	$ 0.44
Options exercisable, end of period	1,607,500		1,247,500	
Weighted average fair value per unit of option granted during the period		$ 0.13		$ -

Subsequent to March 31, 2010, 100,000 stock options with a strike price of $0.55 expired.

Options outstanding at March 31, 2010 consist of the following:

Range of exercise prices	Outstanding number	Weighted average remaining contractual life	Weighted average exercise price	Exercisable number
$0.15 - $0.56	1,607,500	2.75 years	$0.32	1,607,500

For the three months ended March 31, 2010, compensation expense of $22,704 (March 31, 2009 - nil) was recorded to recognize options granted. The compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

7. Capital stock (continued):

(c) Options (continued):

	March 31, 2010	March 31, 2009
Expected option life	5.0 years	-
Risk free interest rate	2.54%	-
Dividend yield	nil	-
Expected volatility	130.67	-

The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the measurement date is measured and recognized at that date. 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. The Company recognizes the effect of forfeitures on unvested options as they occur.

(d) Warrants:

Changes in the number of warrants outstanding during the three months ended March 31, 2010 and 2009 are as follows:

	March 31, 2010			March 31, 2009		
	Shares	Amount	Weighted average exercise price	Shares	Amount	Weighted average exercise price
Balance, beginning of period	3,630,465	$ 311,794	$ 0.19	4,216,100	$ 735,682	$ 0.43
Exercised (Note 7(b))	(451,250)	(42,499)	0.14	-	-	-
Expired (Note 7(f))	-	-	-	(1,116,100)	(118,853)	0.52
Balance, end of period	3,179,215	$ 269,295	0.20	3,100,000	$ 616,829	0.40
Weighted average remaining contractual life (years)		1.04	years		0.41	years

In 2009, the Company granted 1,785,714 Warrants together with common shares under the Q2 2009 Offering (Note 7(b)). Each whole Warrant entitles the holder to purchase one Share at a price of $0.10 per Share if exercised within six months from the date the Warrant was issued or $0.15 per Share if exercised after six months up to eighteen months from the closing date of the Q2 2009 Offering. Net proceeds were allocated to common shares and warrants based on their relative fair values using the Black-Scholes model. These warrants will expire November 14, 2010.

The Company granted 117,936 Compensation Warrants relating to the Q2 2009 Offering (Note 7(b)), entitling the holders to purchase one common share at a price of $0.07 for a period of one year commencing from the closing of the Q2 2009 Offering. Share issue costs of $6,492 were recorded in the 2009 fiscal year to reflect the value of these warrants. These warrants expired May 14, 2010.

7. Capital stock (continued):

(e) Warrants (continued):

In 2009, the Company granted 2,167,750 Warrants together with common shares under the Q4 2009 Offering (Note 7(b)). Each whole Warrant entitles the holder to purchase one Share at a price of $0.17 per Share if exercised within six months from the date the Warrant was issued or $0.25 per Share if exercised after six month up to eighteen months from the closing date of the Q4 2009 Offering. Net proceeds were allocated to common shares and warrants based on their relative fair values using the Black-Scholes model. These warrants will expire June 1, 2011.

The Company granted 244,980 Compensation Warrants relating to the Q4 2009 Offering (Note 7(b)), entitling the holders to purchase one common share at a price of $0.14 for a period of one year commencing from the closing of the Q4 2009 Offering. Share issue costs of $20,930 were recorded in the 2009 fiscal year to reflect the value of these warrants. These warrants will expire December 1, 2010.

In 2009, the Company granted 1,044,250 Warrants together with common shares under the Warrant Incentive Program (Note 7(b)), each whole Warrant entitles the holder to purchase one Share at a price of $0.14 per Share if exercised within six months from the date the Warrant is issued or $0.22 per Share if exercised after six months up to eighteen months of the closing date of the Warrant Incentive Program. Net proceeds were allocated to common shares and warrants based on their relative fair values using the Black-Scholes model. These warrants will expire March 28, 2011.

(f) Contributed surplus:

Changes in contributed surplus are as follows:

	March 31, 2010	March 31, 2009
Balance, beginning of period	$ 984,840	$ 623,177
Stock-based compensation	22,704	-
Expired warrants (Note 7(d))	-	118,853
Balance, end of period	$ 1,007,544	$ 742,030

(g) Per share amounts:

The weighted average number of common shares outstanding for the three months ended March 31, 2010 and 2009 was 36,969,127 and 25,228,491, respectively. The dilution created by options and warrants has not been reflected in the per share amounts as the effect would be anti-dilutive.

8. Commitments and contingencies:

(a) Commitments:

As at March 31, 2010 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 fiscal period ending December 31:

2010 - remaining	$	-
2011		10,000
2012		10,000
2012		10,000
2013		10,000
	$	40,000

The Company has a business and administration services agreement with Genesys Venture Inc. (Note 9). The Company is committed to pay $160,000 per annum. The agreement shall be automatically renewed for succeeding terms of one year on terms to be mutually agreed upon by the parties. The Company may terminate this agreement at any time upon 90 days written notice.

(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.

9. Related party transactions:

Related parties consist of certain officers and shareholders, and companies with significant influence. 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 related parties.

During the three months ended March 31, 2010, the Company paid GVI a total of $40,000 (March 31, 2009 - $40,000) for consulting fees in accordance with the above noted contractual obligation and $6,938 (March 31, 2009 - $6,938) under a sub-lease rental agreement in accordance with the above noted contractual obligation.

As of March 31, 2010, included in accounts payable and accrued liabilities is nil (December 31, 2009 - $917) owed to Genesys Venture Inc.

10. Government and other assistance:

During the three months ended March 31, 2010, the Company received $89,107 (March 31, 2009 - $14,638) in government and other assistance for the purpose of research. The funding has been recorded against the related research expenditures.

11. Capital risk management:

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern in order to pursue the development of its products and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable level; and
- To provide an adequate return to shareholders commensurate with the level of risk associated with a development stage biotechnology company.

The capital structure of the Company consists of equity comprising issued capital, contributed surplus, and warrants.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, granting of stock options, the issue of debt or by undertaking other activities as deemed appropriate under the specific circumstances. The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2009.

The Company is not subject to externally imposed capital requirements. In order to maximize ongoing research and development of its products, the Company does not pay out dividends.

12. Financial risk management:

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The audit committee of the board is responsible to review the Company's risk management policies.

(a) Credit Risk:

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable and cash and cash equivalents. The carrying amount of financial assets represents the maximum credit exposure.

The Company has investment policies to mitigate against the deterioration of principal and to enhance the Company's ability to meet its liquidity needs. Cash and cash equivalents are on deposit with a credit union and guaranteed by the Credit Union Deposit Guarantee Corporation of Manitoba.

12. Financial risk management (continued):

(b) Liquidity Risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due and to fund future operations. The Company manages its liquidity risk by forecasting its cash needs on a regular basis and seeking additional financing based on those forecasts.

As at March 31, 2010, the Company had financial assets held-for-trading of $568,253 (December 31, 2009 - $804,920), loans and receivables of $133,757 (December 31, 2009 - $104,373) and other financial liabilities of $69,927 (December 31, 2009 - $68,619). All of the Company's financial liabilities have contracted maturities of less than one year.

(c) Market Risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments.

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates primarily within Canada although a portion of its expenses are incurred in United States dollars ("US dollar"). The Company has not entered into foreign exchange derivative contracts. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations, financial position and cash flows.

As at March 31, 2010, the Company is exposed to currency risk through its cash and cash equivalents and accounts payable denominated in US dollars as follows:

	March 31, 2010	December 31, 2009
Cash and cash equivalents	$ 19,012	$ 19,266
Accounts receivable	9,908	23,495
Accounts payable	(15,836)	(22,701)
Net	$ 13,084	$ 20,060

Based on the above net exposures as at March 31, 2010, and assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the US dollar would not be significant.

The Company is subject to interest rate risk on its cash and cash equivalents. The Company believes that interest rate risk is low as the Company does not hold any term deposits and interest earned on cash equivalents is variable. A change of 1% in interest rates over the three months ended March 31, 2010 would not have been significant.

13. Subsequent event:

Subsequent to March 31, 2010, 48,566 Compensation Warrants relating to the Q2 2009 Offering (Note 7(b)) were exercised at a strike price of $0.07.