Interim Condensed Financial Statements
(Expressed in Canadian Dollars)

KANE BIOTECH INC.

Three Months ended March 31, 2011 and 2010
(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 ended March 31, 2011.

KANE BIOTECH INC.

Interim Condensed Statement of Financial Position
(unaudited)

	Note	March 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets:				
Cash		$ 96,106	$ 187,522	$ 804,919
Other receivables		10,848	37,149	104,373
Other current assets		11,923	33,537	11,331
Total current assets		118,877	258,208	920,623
Non-current assets:				
Property and equipment		31,868	33,596	44,536
Intangible assets	4	972,369	962,560	900,778
Total non-current assets		1,004,237	996,156	945,314
Total assets		**$ 1,123,114**	**$ 1,254,364**	**$ 1,865,937**
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	5	$ 206,550	$ 90,748	$ 68,618
Total current liabilities		206,550	90,748	68,618
Shareholders' equity:				
Share capital	6(b)	7,091,173	7,091,173	6,792,616
Contributed surplus		1,211,416	1,049,905	984,840
Warrants	6(d)	235,640	287,723	311,794
Deficit		(7,621,665)	(7,265,185)	(6,291,931)
Total equity		916,564	1,163,616	1,797,319
Total liabilities and equity		**$ 1,123,114**	**$ 1,254,364**	**$ 1,865,937**

The notes on pages 5 to 25 are an integral part of these interim condensed financial statements.

KANE BIOTECH INC.

Interim Condensed Statements of Comprehensive Income
(unaudited)

	Note	Three months ended March 31, 2011	Three months ended March 31, 2010
Expenses:			
General and administration		$ 141,368	$ 128,219
Research		213,366	150,842
Loss from operations		(354,734)	(279,061)
Finance income (costs):			
Finance income		520	3,031
Finance expense		(159)	(208)
Foreign exchange loss, net		(2,107)	(801)
Net finance (costs) income		(1,746)	2,022
Loss and comprehensive loss for the period		**$ (356,480)**	**$ (277,039)**
Basic and diluted loss per share for the period		**$ (0.01)**	**$ (0.01)**

The notes on pages 5 to 25 are an integral part of these interim condensed financial statements.

KANE BIOTECH INC.
Interim Condensed Statement of Changes in Equity
Three months ended March 31, 2011 and 2010
(unaudited)

	Note	Share Capital	Contributed Surplus	Warrants	Deficit	Total
Balance, December 31, 2009		$ 6,792,616	$ 984,840	$ 311,794	$ (6,291,931)	$ 1,797,319
Loss and comprehensive loss for the period		-	-	-	(277,039)	(277,039)
Transactions with owners, recorded directly in equity						
Share-based payments	6(c)	-	22,704	-	-	22,704
Warrants exercised	6(d)	105,675	-	(42,499)	-	63,176
Total transactions with owners		105,675	22,704	(42,499)	-	85,880
Balance, March 31, 2010		6,898,291	1,007,544	269,295	(6,568,970)	1,606,160

	Note	Share Capital	Contributed Surplus	Warrants	Deficit	Total
Balance, December 31, 2010		$ 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		-	52,083	(52,083)	-	-
Total contributions by owners		-	161,511	(52,083)	-	109,428
Balance, March 31, 2011		$ 7,091,173	$ 1,211,416	$ 235,640	$ (7,621,665)	$ 916,564

The notes on pages 5 to 25 are an integral part of these interim condensed financial statements.

KANE BIOTECH INC.

Interim Condensed Statement of Cash Flows
(unaudited)

	Three months ended March 31, 2011	Three months ended March 31, 2010
Cash provided by (used in):		
Operating activities:		
Loss and comprehensive loss for the period	$ (356,480)	$ (277,039)
Adjustments for:		
Depreciation of property and equipment	1,727	4,376
Amortization of patents	4,770	4,561
Derecognition of patents	-	11,612
Share-based compensation	109,428	22,704
Change in the following:		
Other receivables	26,300	(29,379)
Other current assets	21,614	(604)
Accounts payable and accrued liabilities	115,803	1,310
	(76,838)	(262,459)
Financing activities:		
Issuance of common shares, net of share issue costs	-	63,176
Investing activities:		
Patent and trademark costs	(14,578)	(37,380)
Decrease in cash	**(91,416)**	**(236,663)**
Cash, beginning of period	**187,522**	**804,920**
Cash, end of period	**$ 96,106**	**$ 568,257**

The notes on pages 5 to 25 are an integral part of these interim condensed financial statements.

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 5-1250 Waverley Street, Winnipeg, Manitoba, Canada. The Company is primarily involved in research and development.

2. Basis of preparation of financial statements:

(a) Statement of compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) which have been harmonized 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.* These are the Company's first financial statements prepared in accordance with IFRSs and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 13. This note includes reconciliations of equity and total comprehensive income for comparative periods and of the equity at the date of transition reported under the previous GAAP to those reported for those periods and at the date of transition under IFRSs.

The financial statements were authorized for issue by the Board of Directors on June 24, 2011.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- financial instruments at fair value through profit or loss are measured at fair value
- equity settled share-based payment awards are measured at fair value at grant date

The impact of seasonality on operations is not considered significant on the condensed consolidated interim financial statements.

(c) Going concern

The accompanying unaudited interim financial statements 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. The use of these principles may not be appropriate because at March 31, 2011 there was substantial doubt that the Company will be able to continue as a going concern as a result of the Company's operating losses and its working capital requirements at March 31, 2011.

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 outlicense assets, potential asset divestitures, winding up, dissolution or liquidation of the Company.

2. Basis of preparation of financial statements (continued):

(c) Going concern (continued)

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.

(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.

In preparing these condensed interim financial statements, the significant judgments made by management applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

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 11(b): Share-based compensation

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

3. Significant accounting policies (continued):

(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 loans and receivables and deposits 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 derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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 period ended March 31, 2011 or 2010 and no opening or closing balances for accumulated other comprehensive income or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise other receivables.

Cash and cash equivalents

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

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.

All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(ii) 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.

3. **Significant accounting policies (continued):**

(b) Financial instruments (continued)

(iii) 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 year-end and adjusted if appropriate.

(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.

3. Significant accounting policies (continued):

(d) Intangible assets (continued)

(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 of 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 carried at amortized cost. The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. 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 carried at amortized cost 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.

(f) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and 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 an 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.

3. Significant accounting policies (continued):

(ii) Share-based payment transactions

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.

Other government grants are recognized initially as deferred income at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognized in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognized. 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 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 not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. 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 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.

3. Significant accounting policies (continued):

(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.

(k) New standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards issued by the IASB or the International Financial Reporting Interpretations Committee (IFRIC) that are not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company is assessing the impact of these pronouncements on its consolidated results and financial position. The Company intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial asset. The completion of this project is expected over the course of 2011. The Company will quantify the effect, if any, in conjunction with the application of the other phases, when issued, to present a comprehensive picture.

IFRS 13 - Fair Value Measurement

In May 2011, the IASB published IFRS 13 Fair Value Measurement, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

4. Intangible assets:

The following is a summary of intangible assets as at March 31, 2011:

Cost	Patents	Trademarks	Technology Licenses	Total
Balance, December 31, 2009	$ 618,890	$ 16,161	$ 298,150	$ 933,201
Additions	118,599	4,860	-	123,459
Change due to derecognition	(50,514)	-	-	(50,514)
Balance, December 31, 2010	686,975	21,021	298,150	1,006,146
Additions	14,578	-	-	14,578
Balance, March 31, 2011	$ 701,553	$ 21,021	$ 298,150	$ 1,020,724

Accumulated amortization and derecognition	Patents	Trademarks	Technology Licenses	Total
Balance, December 31, 2009	$ 32,423	$ -	$ -	$ 32,423
Amortization	17,918	-	-	17,918
Change due to impairment	(6,755)	-	-	(6,755)
Balance, December 31, 2010	43,586	-	-	43,586
Amortization	4,769	-	-	4,769
Balance, March 31, 2011	$ 48,355	$ -	$ -	$ 48,355

Carrying amounts	Patents	Trademarks	Technology Licenses	Total
At December 31, 2009	$ 586,467	$ 16,161	$ 298,150	$ 900,778
At December 31, 2010	$ 643,389	$ 21,021	$ 298,150	$ 962,560
Balance, March 31, 2011	$ 653,198	$ 21,021	$ 298,150	$ 972,369

The Company has considered indicators of impairment as of January 1, 2010, December 31, 2010, and March 31, 2011 and no indicators were identified and therefore no impairment test was required. To March 31, 2011, the Company has recorded aggregate impairment losses of $262,182, primarily resulting from patent applications not pursued.

Amortization and derecognition expenses are recognized in research expense.

5. Accounts payable and accrued liabilities :

	March 31, 2011	December 31, 2010	January 1, 2010
Trade payables due to related parties	79,787	919	917
Other trade payables	87,991	50,931	40,048
Non-trade payables and accrued expenses	38,772	38,897	27,652
	206,550	90,747	68,617

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, December 31, 2009	36,954,085	$ 6,792,616
Issued for cash, net of issue costs of $15,429	3,166,000	186,809
Exercise of warrants	499,816	111,748
Balance, December 31, 2010	40,619,901	7,091,173
Balance, March 31, 2011	40,619,901	$ 7,091,173

On December 1, 2010, the Company closed a private placement offering (the “Q4 2010 Offering”) of 3,166,000 units (a "Unit") at a price of $0.08 per Unit, for aggregate gross proceeds to the Company of $253,280. Each Unit was comprised of one common share of the Company ("Share") and one warrant. Each whole warrant entitles the holder to purchase one Share at a price of $0.13 for a period of 12 months from the date the warrant is issued. The warrants are callable, at the option of the Company, in the event that the Shares trade at or above $0.20 per Share for any 20 out of 30 consecutive trading days. The fair value assigned to the warrants upon issuance was $51,042.

Certain individuals and companies assisted the Company by introducing potential subscribers for the Q4 2010 Offering and received a finder’s fee in the amount of $1,622 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 26,495 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 $0.10 per Share within one year of the closing date of the Q4 2010 Offering. The fair value of $556 assigned to the compensation warrants upon issuance is included in share issue costs of $15,429.

6. Share capital (continued):

(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, 2011, an aggregate maximum of 4,061,990 (December 31, 2010 - 4,061,990) common voting shares are available to be purchased under the Plan and 156,990 (December 31, 2010 - 2,484,490) 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 generally vest immediately. 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 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 three months ended March 31, 2011 and 2010 are as follows:

	March 31, 2011		March 31, 2010	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of period	1,577,500	$ 0.27	1,432,500	$ 0.35
Granted	2,350,000	0.17	175,000	0.15
Exercised	(22,500)	0.28	-	-
Forfeited, cancelled or expired	-	-	-	-
Balance, end of period	3,905,000	$ 0.21	1,607,500	$ 0.33
Options exercisable, end of period	2,214,164		1,607,500	
Weighted average fair value per unit of option granted during the period		$ 0.12		$ 0.15

Options outstanding at March 31, 2011 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	3,195,000	4.14 years	$0.16	1,514,164
$0.26 - $0.42	710,000	1.15 years	$0.41	700,000
$0.10 - $0.42	3,905,000	3.60 years	$0.21	2,214,164

6. **Share capital (continued):**

(c) **Stock option plan (continued)**

For the three months ended March 31, 2011, the Company recorded share option compensation expense of $109,428 (March 31, 2010 - $22,704) 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 11(b)) with the following weighted average assumptions:

	March 31, 2011	March 31, 2010
Expected option life	4.8 years	5.0 years
Risk free interest rate	2.47%	2.48%
Expected volatility	132.04%	122.35%

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 installment 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 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 three months ended March 31, 2011 and 2010 are as follows:

	March 31, 2011			**March 31, 2010**		
	Warrants	Amount	Weighted average exercise price	Warrants	Amount	Weighted average exercise price
Balance, beginning of period	5,913,245	$ 287,723	$ 0.17	3,630,465	$ -	$ 0.19
Granted, pursuant to private placements	-	-	-	-	2,000	-
Exercised	-	-	-	(451,250)	(42,499)	0.14
Expired	(553,000)	(52,083)	0.14	-	1,000	-
Balance, end of period	5,360,245	$ 235,640	$ 0.17	3,179,215	$ 269,295	$ 0.20
Weighted average remaining contractual life (years)		0.47 years			1.04 years	

6. Share capital (continued):

(e) Per share amounts

The weighted average number of common voting shares outstanding for the three months ended March 31, 2011 and 2010 was 40,619,901 and 36,969,127, 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, 2011 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:

2012		10,000
2013		10,000
2013		10,000
2014		10,000
	$	40,000

The annual lease payments are exclusive of maintenance, property taxes, insurance and other operating costs. The premises are leased from a company controlled by a director.

The Company has a business and administration services agreement with Genesys Venture Inc. (Note 9). The Company is committed to pay $104,000 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.

The Company has no planned capital commitments for the coming year.

(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 three months ended March 31, 2011, the Company received $5,000 (March 31, 2010 - $89,107) in government and other assistance for the purpose of research. Government and other assistance has been recorded as a reduction to research expenses.

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 to key management personnel:

	March 31, 2011	March 31, 2010
Salaries, fees and short-term employee benefits	$ 65,450	$ 64,000
Post-employment benefits	834	850
Share-based payments	64,881	22,704
	$ 131,165	$ 87,554

(b) Key management personnel and director transaction

Directors and key management personnel control six 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 Chairman of the Board of Directors, a total of $26,000 (March 31, 2010 - $40,000) for consulting fees and $6,938 (March 31, 2010 - $6,938) under a sub-lease rental agreement.

As of March 31, 2011, included in accounts payable and accrued liabilities is $816 (December 31, 2010 - $917) owed to GVI which is to be settled within six month of the reporting date and is unsecured.

10. Expenses by nature:

Expenses incurred for the three months ended March 31, 2011 and 2010 are as follows:

	March 31, 2011	March 31, 2010
Personnel expenses		
Wages and salaries	$ 111,488	$ 111,644
Short-term benefits and insurance premiums	7,909	2,629
Share-based payments	109,428	22,704
	228,825	136,977
Depreciation and derecognition	6,497	20,549
Science Consumables and contract research	54,467	126,833
Occupancy	8,413	9,063
Licence fees	9,759	10,178
Investor relations	38,644	50,714
Other	13,129	13,854
less: Government assistance	(5,000)	(89,107)
	$ 354,734	$ 279,061

11. 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.

(a) Intangible assets

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(b) 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.

12. Subsequent events:

On April 15, 2011, the Company closed a private placement offering (the "2011 Offering") with aggregate gross proceeds to the Company of $2,391,159 from the sale of 19,926,328 units ("Units") at a price of $0.12 per Unit. Each Unit is comprised of one common share of the Company (a "Share") and one Share purchase warrant (a "Warrant"). Each Warrant will expire 18 months from the date the Warrant is issued (the "Expiry Date") and will entitle the holder to purchase one Share at a price of $0.17 up to the Expiry Date.

Certain persons assisted the Company by introducing potential subscribers for the 2011 Offering and were paid a finder's fee of up to 8% of the total subscription proceeds received from subscribers introduced to the Company by each particular person. Additionally, these persons were issued compensation warrants ("Compensation Warrants") up to 8% of the total number of Units subscribed for by subscribers introduced to the Company by each particular person. 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 net proceeds of the Offering shall be used for research and development and working capital purposes.

13. Transition to IFRS:

As stated in Note 2, these are the Company's first interim financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the interim financial statements for the three months ended March 31, 2011, the comparative information presented and the preparation of an opening IFRS statements of financial position at January 1, 2010 (the Company's transition date).

(a) Transition elections

Share-based payment transaction exemption

The Company has elected to apply the share-based payment exemption. It applied IFRS 2 from January 1, 2010 to those options that were issued after November 7, 2002 but that have not vested by January 1, 2010.

13. Transition to IFRS (continued):

(a) Transition elections (continued)

Estimates

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS.

(b) Accounting policy elections

IFRS 2 is effective for the Company as of January 1, 2010 and is applicable to stock options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Share options prior to November 7, 2002 are not taken into account for IFRS 2; and
- From January 1, 2010, all share options and other share-based payments will be expensed in accordance with the policy stated in Note 3(f).

13. Transition to IFRS (continued):

(c) Reconciliation of Equity as Previously Reported Under Canadian GAAP to IFRS

As at January 1, 2010

	Ref	CDN GAAP	Transition Adjustments	Reclasses	IFRS
Assets					
Current assets:					
Cash		$ 804,919	$ -	$ -	$ 804,919
Other receivables		104,373	-	-	104,373
Other current assets		11,331	-	-	11,331
Total current assets		920,623	-	-	920,623
Non-current assets					
Property and equipment		44,536	-	-	44,536
Intangible assets		900,778	-	-	900,778
Total non-current assets		945,314	-	-	945,314
Total assets		$ 1,865,937	$ -	$ -	$ 1,865,937
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities		$ 68,618	$ -	$ -	$ 68,618
Total current liabilities		68,618	-	-	68,618
Shareholders' equity:					
Capital stock		6,792,616	-	-	6,792,616
Contributed surplus		984,840	-	-	984,840
Warrants		311,794	-	-	311,794
Deficit		(6,291,931)	-	-	(6,291,931)
Total equity		1,797,319	-	-	1,797,319
Total liabilities and equity		$ 1,865,937	$ -	$ -	$ 1,865,937

13. Transition to IFRS (continued):

(c) Reconciliation of Equity as Previously Reported Under Canadian GAAP to IFRS (continued)

As at March 31, 2010

	Ref	CDN GAAP	Transition Adjustments	Reclasses	IFRS
Assets					
Current assets:					
Cash		$ 568,253	$ -	$ -	$ 568,253
Other receivables		133,757	-	-	133,757
Other current assets		11,935	-	-	11,935
Total current assets		713,945	-	-	713,945
Non-current assets					
Property and equipment		40,159	-	-	40,159
Intangible assets		921,983	-	-	921,983
Total non-current assets		962,142	-	-	962,142
Total assets		$ 1,676,087	$ -	$ -	$ 1,676,087
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities		$ 69,927	$ -	$ -	$ 69,927
Total current liabilities		69,927	-	-	69,927
Shareholders' equity:					
Share capital		6,898,291	-	-	6,898,291
Contributed surplus		1,007,544	-	-	1,007,544
Warrants		269,295	-	-	269,295
Deficit		(6,568,970)	-	-	(6,568,970)
Total equity		1,606,160	-	-	1,606,160
Total liabilities and equity		$ 1,676,087	$ -	$ -	$ 1,676,087

13. Transition to IFRS (continued):

(c) Reconciliation of Equity as Previously Reported Under Canadian GAAP to IFRS (continued)

As at December 31, 2010

	Ref	CDN GAAP	Transition Adjustments	Reclasses	IFRS
Assets					
Current assets:					
Cash		$ 187,522	$ -	$ -	$ 187,522
Other receivables		37,149	-	-	37,149
Other current assets		33,537	-	-	33,537
Total current assets		258,208	-	-	258,208
Non-current assets					
Property and equipment		33,596	-	-	33,596
Intangible assets		962,560	-	-	962,560
Total non-current assets		996,156	-	-	996,156
Total assets		$ 1,254,364	$ -	$ -	$ 1,254,364
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities		$ 90,748	$ -	$ -	$ 90,748
Total current liabilities		90,748	-	-	90,748
Shareholders' equity:					
Share capital		7,091,173	-	-	7,091,173
Contributed surplus		287,723	-	-	287,723
Warrants		1,049,905	-	-	1,049,905
Deficit		(7,265,185)	-	-	(7,265,185)
Total equity		1,163,616	-	-	1,163,616
Total liabilities and equity		$ 1,254,364	$ -	$ -	$ 1,254,364

13. Transition to IFRS (continued):

(d) Reconciliation of Comprehensive Income as Previously Reported Under Canadian GAAP to IFRS

For the three months ended March 31, 2010

	Ref	CDN GAAP	Transition Adjustments	Reclasses	IFRS
Expenses:					
General and administration		102,139	-	26,075	128,214
Research		134,668	-	16,174	150,842
Depreciation		8,937	-	(8,937)	-
Write-down of patents and trademarks		11,612	-	(11,612)	-
Stock-based compensation					
General administration		22,704	-	(22,704)	-
Loss from operations		(280,060)	-	1,004	(279,056)
Finance income (costs):					
Interest and other income		3,021	-	-	3,021
Interest expense		-	-	(203)	(203)
Foreign exchange loss (gain), net		-	-	(801)	(801)
Net finance costs		3,021	-	(1,004)	2,017
Loss and comprehensive loss for the period		(277,039)	-	-	(277,039)
Basic and diluted loss per share for the period			(0.03)	-	-
(0.03)					

13. Transition to IFRS (continued):

(d) Reconciliation of Comprehensive Income as Previously Reported Under Canadian GAAP to IFRS

For the year ended December 31, 2010

	Ref	CDN GAAP	Transition Adjustments	Reclasses	IFRS
Expenses:					
General and administration		442,118	-	41,045	483,163
Research		423,754	-	68,432	492,186
Depreciation		28,965	-	(28,965)	-
Write-down of patents and trademarks		50,514	-	(50,514)	-
Stock-based compensation					
General administration		34,569	-	(34,569)	-
Loss from operations		(979,920)	-	4,571	(975,349)
Finance income (costs):					
Interest and other income		6,666	-	-	6,666
Interest expense		-	-	(446)	(446)
Foreign exchange loss (gain), net		-	-	(4,125)	(4,125)
Net finance costs		6,666	-	(4,571)	2,095
Loss and comprehensive loss for the period		(973,254)	-	-	(973,254)
Basic and diluted loss per share for the period		(0.03)	-	-	(0.03)

(e) Reconciliation of Statement of Cash Flows as Previously Reported Under Canadian GAAP to IFRS

There are no material differences between the statement of cashflows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

(f) Supplemental IFRS information for the year ended December 31, 2010

(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.

	December 31, 2010
Wages and salaries	$ 256,000
Short-term benefits and insurance premiums	3,371
Share-based payments	34,569
	$ 293,940

13. Transition to IFRS (continued):

(f) Supplemental IFRS information for the year ended December 31, 2010 (continued)

(b) Expenses by nature

		December 31, 2010
Personnel expenses		
Wages and salaries	$	445,692
Short-term benefits and insurance premiums		10,449
Share-based payments		34,569
		490,710
Depreciation, amortization and derecognition		79,478
Science Consumables and contract research		169,580
Occupancy		34,228
Licence fees		10,178
Investor relations		199,261
Other		81,021
less: Government assistance		(89,107)
	$	975,349

(c) Per share amounts

The weighted average number of common voting shares outstanding for the year ended December 31, 2010 was 37,589,131. The dilution created by options and warrants has not been reflected in the per share amounts as the effect would be anti-dilutive.