

Interim Condensed Financial Statements
(Expressed in Canadian Dollars)

KANE BIOTECH INC.

Three and Nine Months ended September 30, 2014 and 2013
(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 and nine months ended September 30, 2014.

KANE BIOTECH INC.

Interim Condensed Statement of Financial Position (unaudited)

	Note	September 30, 2014	December 31, 2013
Assets			
Current assets:			
Cash		\$ 219,611	\$ 634,442
Trade and other receivables	5	44,147	216,772
Inventory	6	25,860	-
Other current assets		17,806	35,796
Total current assets		307,424	887,010
Non-current assets:			
Property and equipment		39,763	42,238
Intangible assets	7	911,576	954,261
Total non-current assets		951,339	996,499
Total assets		\$ 1,258,763	\$ 1,883,509
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	8	256,464	187,063
Total current liabilities		256,464	187,063
Non-current liabilities:			
Convertible note	9	434,620	413,248
Total non-current liabilities		434,620	413,248
Shareholders' Equity			
Share capital	10(b)	9,923,509	9,431,781
Contributed surplus		3,127,852	2,737,335
Warrants	10(d)	43,579	480,783
Convertible note option	9	25,530	26,493
Deficit		(12,552,791)	(11,393,194)
Total		567,679	1,283,198
Total liabilities and equity		\$ 1,258,763	\$ 1,883,509

The notes on pages 5 to 17 are an integral part of these financial statements

KANE BIOTECH INC.

Interim Condensed Statements of Comprehensive Loss (unaudited)

	Note	Three months ended Sept 30, 2014	Three months ended Sept 30, 2013	Nine months ended Sept 30, 2014	Nine months ended Sept 30, 2013
Revenue		\$ 18,644	\$ -	\$ 18,644	\$ -
Cost of sales		7,291	-	7,291	-
Gross profit		11,353	-	11,353	-
Other revenue	4	-	-	-	-
Expenses					
General and administration		184,963	194,844	577,264	905,204
Research		143,830	136,430	529,168	425,246
Loss from operations		(317,440)	(331,274)	(1,095,079)	(1,330,450)
Finance costs (income):					
Finance income		(1,272)	(2,441)	(7,399)	(12,381)
Finance expense		25,644	268	74,741	641
Foreign exchange loss, net		181	449	(2,831)	1,294
Net finance costs		24,553	(1,724)	64,511	(10,446)
Gain (loss) on disposal of assets		-	(1,223)	(7)	(1,223)
Loss and comprehensive loss for the period		\$ (341,993)	\$ (330,773)	\$ (1,159,597)	\$ (1,321,227)
Basic and diluted loss per share for the period	8(e)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)

The notes on pages 5 to 17 are an integral part of these financial statements

KANE BIOTECH INC.

Interim Condensed Statement of Changes in Equity
 Nine months ended September 30, 2014 and 2013

	Note	Share Capital	Contributed Surplus	Warrants	Convertible Note Option	Deficit	Total
Balance December 31, 2012		\$ 9,373,205	\$ 1,796,405	\$ 1,124,293	\$ -	\$ (9,945,829)	\$ 2,348,074
Loss and comprehensive loss for the period						(1,321,227)	(1,321,227)
Transactions with owners, recorded directly in equity							
Share based payments	10(c)	-	273,244	-	-	-	273,244
Warrants exercised	10(c)	47,775	-	(17,167)	-	-	30,608
Warrants expired	10(d)	-	647,688	(647,688)	-	-	-
Total transactions with owners		47,775	920,932	(664,855)	-	-	303,852
Balance September 30, 2013		\$ 9,420,980	\$ 2,717,337	\$ 459,438	-	\$ (11,267,056)	\$ 1,330,699
	Note	Share Capital	Contributed Surplus	Warrants	Convertible Note Option	Deficit	Total
Balance December 31, 2013		\$ 9,431,781	\$ 2,737,335	\$ 480,783	\$ 26,493	\$ (11,393,194)	\$ 1,283,198
Loss and comprehensive loss for the period						(1,159,597)	(1,159,597)
Transactions with owners, recorded directly in equity							
Issue of common shares	10(b)	30,228	-	-	-	-	30,228
Share options issued	9	-	18,957	-	(963)	-	17,994
Warrants granted	10(d)	-	-	(1,644)	-	-	(1,644)
Warrants exercised	10(d)	461,500	-	(64,000)	-	-	397,500
Warrants expired	10(d)	-	371,560	(371,560)	-	-	-
Total transactions with owners		491,728	390,517	(437,204)	(963)	-	444,078
Balance September 30, 2014		\$ 9,923,509	\$ 3,127,852	\$ 43,579	\$ 25,530	\$ (12,552,791)	\$ 567,679

The notes on pages 5 to 17 are an integral part of these financial statements.

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

	Three months ended Sept 30, 2014	Three months ended Sept 30, 2013	Nine months ended Sept 30, 2014	Nine months ended Sept 30, 2013
Cash provided by (used in):				
Operating activities:				
Loss and comprehensive loss for the period	\$ (341,993)	\$ (330,773)	\$ (1,159,597)	\$ (1,321,227)
Adjustments for:				
Depreciation of property and equipment	2,391	2,420	7,065	7,419
Amortization of intangible assets	7,252	6,392	21,262	19,171
Write down of intangible assets	-	25,976	167,443	50,526
Accretion on convertible note	25,456	-	74,134	-
Share based compensation	-	-	18,957	273,244
Gain (loss) on disposal of assets	-	1,223	7	1,223
Change in the following:				
Trade and other receivables	(3,381)	(17,491)	172,625	77,549
Inventory	(25,860)	-	(25,860)	-
Other current assets	12,358	(711)	17,990	(21,647)
Accounts payable and accrued liabilities	193,300	56,046	69,401	(44,993)
	(130,477)	(256,918)	(636,573)	(958,735)
Financing activities:				
Share issuance costs		-	(7,057)	-
Convertible note issuance costs	(564)	-	(18,085)	-
Warrants exercised		30,608	397,500	30,608
	(564)	30,608	372,358	30,608
Investing activities:				
Purchase of property and equipment, net of proceeds on disposal	-	-	(4,597)	(10,253)
Patent and trademark costs	(88,540)	(78,600)	(146,019)	(109,179)
	(88,540)	(78,600)	(150,616)	(119,432)
Increase (decrease) in cash	(219,581)	(304,910)	(414,831)	(1,047,559)
Cash, beginning of period	439,192	672,366	634,442	1,415,015
Cash, end of period	\$ 219,611	\$ 367,456	\$ 219,611	\$ 367,456
Supplemental cash flow information:				
Non-cash financing activities:				
Shares issued in lieu of cash for interest payment	\$ 12,709	\$ -	\$ 37,848	\$ -

The notes on pages 5 to 17 are an integral part of these financial statements.

KANE BIOTECH INC.

Notes to the Interim Condensed Financial Statements
Nine months ended September 30, 2014 and 2013

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 November 6, 2014.

(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, revenue and expenses, and the statement of financial position 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.

KANE BIOTECH INC.

Notes to the Interim Condensed Financial Statements
Nine months ended September 30, 2014 and 2013

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, revenue 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(c)(iii) Convertible note
- 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 10(c) 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 2013 annual audited financial statements unless otherwise indicated.

(a) Revenue recognition

Revenue from the sales of goods is recognized when the company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the company will receive the previously agreed upon payment. These criteria are considered to be met when the goods are delivered to the buyer.

Licensing option revenue is recognized when contractually earned.

(b) 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.

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

The Company initially recognizes receivables and deposits on the date that they are originated.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

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 September 30, 2014 or 2013 and no opening or closing balances for accumulated other comprehensive income or loss.

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Notes to the Interim Condensed Financial Statements
Nine months ended September 30, 2014 and 2013

3. Significant accounting policies (continued):**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances.

(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) Convertible note

The proceeds received on the issuance of the Company's convertible redeemable note and detachable warrants are allocated into their liability and equity components. The amount initially attributed to the debt component is equal to the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert or detachable warrants. It is accounted for as a financial liability measured at amortized cost until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to an equity component. The value of the equity component is allocated between the conversion option and the detachable warrants using the fair value determined at the date of measurement using the Black Scholes option pricing model on a pro-rata basis. The conversion option is recognized in the "Convertible note option" within shareholders' equity, net of income tax effects and the detachable warrants are classified in "Warrants" within shareholders' equity, net of income tax effects. Incremental costs directly attributable to the issue of convertible debt are recognized as a deduction from the liability and equity components, net of any tax effects.

(iv) 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.

(d) Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour and other direct costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Obsolete, redundant and slow moving inventories are identified and written down to net realizable values.

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3. Significant accounting policies (continued):

(e) 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 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 and depreciation method 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%

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

(f) 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, 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.

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

(g) 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 carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(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, 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.

(h) 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

KANE BIOTECH INC.

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

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.

(i) 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.

(j) 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 accretion 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.

(k) 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 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. 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.

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.

(l) 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.

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Notes to the Interim Condensed Financial Statements
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4. Other revenue

Other revenue consists of licensing option income.

5. Trade and other receivables:

	September 30, 2014	December 31, 2013
Trade receivables	3,462	-
Other receivables	40,685	216,772
	\$ 44,147	\$ 216,772

6. Inventory

	September 30, 2014	December 31, 2013
Raw materials	15,633	-
Work-in-progress	-	-
Finished goods	10,227	-
	\$ 25,860	\$ -

Cost of sales represents the costs of inventories expensed during the year.

7. Intangible assets:

The following is a summary of intangible assets as at September 30, 2014:

Cost	Technology			Total
	Patents	Trademarks	Licenses	
Balance December 31, 2012	\$ 660,116	\$ 27,298	\$ 298,150	\$ 985,564
Additions	123,031	125	-	123,156
Change due to derecognition	(58,702)	-	-	(58,702)
Balance December 31, 2013	724,445	27,423	298,150	1,050,018
Additions	143,113	2,906	-	146,019
Change due to derecognition	(3,241)	-	(164,202)	(167,443)
Balance September 30, 2014	\$ 864,317	\$ 30,329	\$ 133,948	\$ 1,028,594

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Notes to the Interim Condensed Financial Statements
 Nine months ended September 30, 2014 and 2013

7. Intangible assets (continued):

	Patents	Trademarks	Technology Licenses	Total
Accumulated amortization and derecognition				
Balance December 31, 2012	\$ 70,194	\$ -	\$ -	\$ 70,194
Amortization	25,563	-	-	25,563
Change due to derecognition	-	-	-	-
Balance December 31, 2013	95,757	-	-	95,757
Amortization	21,261	-	-	21,261
Change due to derecognition	-	-	-	-
Balance September 30, 2014	\$ 117,018	\$ -	\$ -	\$ 117,018
Carrying amounts				
Balance December 31, 2012	\$ 589,922	\$ 27,298	\$ 298,150	\$ 915,370
Balance December 31, 2013	\$ 628,688	\$ 27,423	\$ 298,150	\$ 954,261
Balance September 30, 2014	\$ 747,299	\$ 30,329	\$ 133,948	\$ 911,576

The Company has considered indicators of impairment as of September 30, 2014. To September 30, 2014, the Company has recorded aggregate impairment losses of \$666,813, resulting from patent applications and technology licenses not pursued.

Amortization and write down expenses are recognized in research expense.

8. Accounts payable and accrued liabilities:

	September 30, 2014	December 31, 2013
Other trade payables	129,161	87,878
Non-trade payables and accrued expenses	127,303	99,185
	\$ 256,464	\$ 187,063

9. Convertible Note:

On December 18, 2013, the Company closed a private placement offering of a \$500,000 principal, 2 year, 10% convertible redeemable unsecured note (the "Note") and 4,000,000 share purchase warrants ("Warrants") for gross proceeds of \$500,000. The Note can be converted at any time into common shares at the holder's option at the rate of \$0.15 per share. The Note is also redeemable at any time at the option of the Company at an amount equal to the face value of the Note, plus all accrued and unpaid interest, subject to the right of the holder to convert the Note into common shares of the Company prior to redemption. The Company may elect to pay the interest on the Note or the redemption price of the Note in common shares, in lieu of cash, at the market price of the common shares on such interest payment or redemption due date.

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9. Convertible Note (continued):

Each Warrant entitles the holder to purchase one common voting share at a price of \$0.095 for a period of 2 years.

At the time of issuance the present value of the liability component of the convertible promissory note based on an estimated market interest rate of 18% was \$425,566.

The total cost of the offering of \$35,771 was allocated to the convertible note (\$30,446), conversion option (\$1,967) and warrants (\$3,358) on a pro rata basis.

The following is a summary of the convertible note as at September 30, 2014:

	Proceeds	Convertible Note	Conversion Option	Warrants
Note issued December 18, 2013	\$ 500,000	\$ 425,566	\$ 27,497	\$ 46,937
Issuance costs	(35,771)	(30,446)	(1,967)	(3,358)
Interest payment	-	(37,848)	-	-
Accretion	-	77,348	-	-
Balance September 30, 2014	464,229	434,620	25,530	43,579

10. 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, 2012	78,631,229	\$ 9,373,205
Exercise of options	-	-
Exercise of warrants	469,100	58,576
Balance, December 31, 2013	79,100,329	9,431,781
Issued in lieu of cash for interest, net of issue costs	522,078	30,228
Exercise of options	-	-
Exercise of warrants	2,650,000	461,500
Balance, September 30, 2014	82,272,407	\$ 9,923,509

During the nine months ended September the Company elected to issue, in lieu of cash, 522,078 common shares in payment of \$37,848 in interest owing on the Company's convertible note (Note 7). Also, 2,650,000 warrants from the 2012 private placement offering (the "2012 Offering") were exercised for common shares for gross proceeds of \$397,500.

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10. Share capital (continued):

During the year ended December 31, 2013 469,100 compensation warrants from the 2012 private placement offering (the "2012 Offering") were exercised for common shares for gross proceeds of \$37,528.

(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 September 30, 2014, an aggregate maximum of 8,227,241 (December 31, 2013 – 7,910,033) common voting shares are available to be purchased under the Plan and 2,489,741 (December 31, 2013 – 1,622,533) 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. 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 period ended September 30, 2014 and 2013 are as follows:

	September 30, 2014		September 30, 2013	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance , beginning of period	6,287,500	\$ 0.16	4,222,500	\$ 0.16
Granted	250,000	0.10	2,740,000	0.14
Exercised	-	-	-	-
Forfeited, cancelled or expired	(800,000)	0.16	(600,000)	0.13
Balance, end of period	5,737,500	\$ 0.16	6,362,500	\$ 0.16
Options exercisable, end of period	5,737,500		6,362,500	
Weighted average fair value per unit of option granted during the period		\$ 0.08		\$ 0.10

Options outstanding at September 30, 2014 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	5,737,500	2.47	\$ 0.16	5,737,500

KANE BIOTECH INC.

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10. Share capital (continued):

The Company records share option compensation expense with a corresponding credit to contributed surplus. The share option compensation expense for options issued to employees is determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model.

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 is 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 period ended September 30, 2014 and 2013 are as follows:

	September 30, 2014			September 30, 2013		
			Weighted average exercise price			Weighted average exercise price
	Warrants	Amount		Warrants	Amount	
Balance, beginning of period	22,035,000	\$ 480,783	\$ 0.14	38,876,128	\$ 1,124,293	\$ 0.16
Issued, pursuant to private placements	-	(1,644)	-	-	-	-
Issued, pursuant to finder's fee	-	-	-	-	-	-
Exercised	(2,650,000)	(64,000)	0.15	(382,600)	(17,167)	0.08
Expired	(15,385,000)	(371,560)	0.15	(19,926,328)	(647,688)	0.17
Balance, end of period	4,000,000	\$ 43,579	\$ 0.10	18,567,200	\$ 459,438	\$ 0.15
Weighted average remaining contractual life (years)			1.216 years			0.21 years

(e) Per share amounts

The weighted average number of common voting shares outstanding for the period ended September 30, 2014 and 2013 was 81,657,300 and 78,702,140, respectively. The dilution created by options and warrants has not been reflected in the per share amounts as the effect would be anti-dilutive.

KANE BIOTECH INC.

Notes to the Interim Condensed Financial Statements
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11. Commitments and contingencies:

(a) Commitments

As at September 30, 2014 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 September 30:

2014	18,812
2015	33,583
2016	10,000
2017	10,000
2018	10,000
	\$ 82,396

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

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 2014 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 a 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.

12. Government and other assistance:

During the period ended September 30, 2014, the Company received \$28,835 (September 30, 2013 - \$35,836) in government and other assistance for the purpose of research. Government and other assistance has been recorded as a reduction to research expenses, property and equipment and intangible assets.

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13. 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 10(c)). The following table details the compensation paid to key management personnel:

	September 30, 2014	September 30, 2013
Salaries, fees and short-term employee benefits	\$ 247,638	\$ 267,400
Post-employment benefits	3,571	3,516
Share-based payments	18,957	189,455
	\$ 270,166	\$ 460,371

(b) Key management personnel and director transactions

Directors and key management personnel control seven percent of the voting shares of the Company.

During the nine months ended September 30, 2014 522,078 common shares were issued, in lieu of cash, to a Director for payment of \$37,848 in interest owing on the convertible note.

During the year ended December 31, 2013, a Director purchased a convertible note for gross proceeds of \$500,000 (Note 9). The Director received \$15,000 for the related issue costs on the transaction. The Company also paid \$7,329 for the period ended September 30, 2013 for services to a legal firm in which a Director is a partner.

14. 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.