

Interim Condensed Financial Statements  
(Expressed in Canadian Dollars)

## **KANE BIOTECH INC.**

Three months ended March 31, 2016 and 2015  
(Unaudited)

In accordance with National Instruments 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the three months ended March 31, 2016.

# KANE BIOTECH INC.

## Interim Condensed Statement of Financial Position (unaudited)

	Note	March 31, 2016	December 31, 2015
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 264,677	\$ 116,310
Trade and other receivables	4	53,338	134,827
Inventory	5	138,119	63,727
Other current assets		26,757	29,432
<b>Total current assets</b>		<b>482,891</b>	<b>344,296</b>
Non-current assets:			
Property and equipment		47,244	39,764
Intangible assets	6	890,916	789,049
<b>Total non-current assets</b>		<b>938,160</b>	<b>828,813</b>
<b>Total assets</b>		<b>\$ 1,421,051</b>	<b>\$ 1,173,109</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	7	\$ 426,394	\$ 254,214
Promissory note	8	250,000	-
<b>Total current liabilities</b>		<b>676,394</b>	<b>254,214</b>
Non-current liabilities:			
Convertible note	9	463,046	438,649
<b>Total non-current liabilities</b>		<b>463,046</b>	<b>438,649</b>
<b>Shareholders' Equity</b>			
Share capital	10(b)	12,020,851	11,708,244
Contributed surplus		3,395,460	3,305,213
Warrants	10(d)	134,786	154,918
Convertible note option	9	29,970	29,970
Deficit		(15,299,456)	(14,718,099)
<b>Total</b>		<b>281,611</b>	<b>480,246</b>
<b>Total liabilities and equity</b>		<b>\$ 1,421,051</b>	<b>\$ 1,173,109</b>

The notes on pages 5 to 18 are an integral part of these financial statements

# KANE BIOTECH INC.

## Interim Condensed Statements of Comprehensive Loss (unaudited)

	Note	Three months ended March 31, 2016	Three months ended March 31, 2015
<b>Revenue</b>			
Sale of goods		\$ 37,017	\$ 32,569
Cost of sales		19,688	10,049
<b>Gross profit</b>		<b>17,329</b>	<b>22,520</b>
<b>Other revenue</b>			
License option income		70,488	-
<b>Expenses</b>			
General and administration		520,194	372,039
Research		96,929	113,918
		<b>617,123</b>	<b>485,957</b>
Loss from operations		<b>(529,306)</b>	<b>(463,437)</b>
<b>Finance costs (income):</b>			
Finance income		(160)	(4,092)
Finance costs		48,582	27,256
Foreign exchange gain, net		3,629	526
Net finance costs (income)		<b>52,051</b>	<b>23,690</b>
Loss on disposal of assets		-	-
<b>Loss and comprehensive loss for the period</b>		<b>\$ (581,357)</b>	<b>\$ (487,127)</b>
<b>Basic and diluted loss per share for the period</b>	<b>10(e)</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>

The notes on pages 5 to 18 are an integral part of these financial statements

## KANE BIOTECH INC.

### Interim Condensed Statement of Changes in Equity Three months ended March 31, 2016 and 2015

	Note	Share Capital	Contributed Surplus	Warrants	Convertible Note Option	Deficit	Total
Balance December 31, 2014		\$ 10,894,627	\$3,132,521	\$ 280,343	\$ 25,530	\$ (13,008,102)	\$ 1,324,919
Loss and comprehensive loss for the period						(487,127)	(487,127)
Transactions with owners, recorded directly in equity							
Issue of common shares	10(b)	11,868	-	-	-	-	11,868
Share options issued	10(c)	-	102,136	-	-	-	102,136
Total transactions with owners		11,868	102,136	-	-	-	114,004
Balance March 31, 2015		\$ 10,906,495	\$3,234,657	\$ 280,343	\$ 25,530	\$ (13,495,229)	\$ 951,796
Balance December 31, 2015		\$ 11,708,244	\$3,305,213	\$ 154,918	\$ 29,970	\$ (14,718,099)	\$ 480,246
Loss and comprehensive loss for the period						(581,357)	(581,357)
Transactions with owners, recorded directly in equity							
Share options issued	10(c)	-	90,247	-	-	-	90,247
Purchase warrants	10(d)	-	-	23,038	-	-	23,038
Warrants exercised	10(d)	312,607	-	(43,170)	-	-	269,437
Total transactions with owners		312,607	90,247	(20,132)	-	-	382,722
<b>Balance March 31, 2016</b>		<b>\$ 12,020,851</b>	<b>\$3,395,460</b>	<b>\$ 134,786</b>	<b>\$ 29,970</b>	<b>\$ (15,299,456)</b>	<b>\$ 281,611</b>

The notes on pages 5 to 18 are an integral part of these financial statements.

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Loss and comprehensive loss for the year	\$ (581,357)	\$ (487,127)
Adjustments for:		
Depreciation of property and equipment	3,098	2,090
Amortization of intangible assets	8,389	7,693
Write down of intangible assets	-	1,571
Accretion on convertible note	24,397	26,918
Share based compensation	90,247	102,136
Finance expense	23,038	-
Change in the following:		
Trade and other receivables	81,489	(26,432)
Inventory	(74,392)	(34,413)
Other current assets	2,675	30,485
Accounts payable and accrued liabilities	172,180	(18,767)
	<b>(250,236)</b>	<b>(395,846)</b>
<b>Financing activities:</b>		
Share issuance costs	-	(563)
Promissory note issued	250,000	
Warrants exercised	269,437	-
	<b>519,437</b>	<b>(563)</b>
<b>Investing activities:</b>		
Purchase of property and equipment, net of proceeds on disposal	(10,578)	-
Additions to intangible assets	(110,256)	(12,684)
	<b>(120,834)</b>	<b>(12,684)</b>
<b>Increase (decrease) in cash</b>	<b>148,367</b>	<b>(409,093)</b>
<b>Cash, beginning of year</b>	<b>116,310</b>	<b>966,166</b>
<b>Cash, end of year</b>	<b>\$ 264,677</b>	<b>\$ 557,073</b>
Supplemental cash flow information:		
Non-cash financing activities:		
Shares issued in lieu of cash for interest payment	\$ -	\$ 12,430

The notes on pages 5 to 18 are an integral part of these financial statements.

# KANE BIOTECH INC.

## Notes to the Financial Statements

Three months ended March 31, 2016 and 2015

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### 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 of animal and human health products.

### 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).

The financial statements were authorized for issue by the Board of Directors on May 17, 2016.

#### (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 Financial Statements  
Three months ended March 31, 2016 and 2015

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## 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(f)(i) Research and development costs
- Note 3(f)(ii) Patents and trademarks
- Note 3(f)(iii) Technology licenses
- Note 3(h)(ii) and Note 14 Share-based compensation
- Note 3(g)(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 2015 annual audited financial statements unless otherwise indicated.

### (a) Revenue recognition

Revenue from the sale 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.

### (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 March 31, 2016 or 2015 and no opening or closing balances for accumulated other comprehensive income or loss.

# KANE BIOTECH INC.

Notes to the Financial Statements  
Three months ended March 31, 2016 and 2015

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### 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 realizable 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 realizable 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.

#### (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.



# KANE BIOTECH INC.

Notes to the Financial Statements  
Three months ended March 31, 2016 and 2015

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

#### (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 and office equipment	Diminishing balance	20-30%
Scientific 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.

##### (iii) Technology licenses

Technology licenses are recorded at cost less accumulated impairment losses. 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.

# KANE BIOTECH INC.

Notes to the Financial Statements  
Three months ended March 31, 2016 and 2015

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

#### (iv) Subsequent expenditure

Subsequent expenditures are 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 for differences between expected and actual outcomes.

# KANE BIOTECH INC.

Notes to the Financial Statements  
Three months ended March 31, 2016 and 2015

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

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

A conditionally repayable government grant related to general and administrative activities is recognized in profit or loss as a deduction from the related expenditure when the grant becomes receivable. In the event that the conditions are met the grant repayable is recognized in profit or loss as an addition to the related expenditure. 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.

## KANE BIOTECH INC.

Notes to the Financial Statements  
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### 4. Trade and other receivables:

	March 31, 2016	December 31, 2015
Trade receivables	\$ 34,232	\$ 53,231
Other receivables	19,106	81,596
	<b>\$ 53,338</b>	<b>\$ 134,827</b>

### 5. Inventory:

	March 31, 2016	December 31, 2015
Raw materials	\$ 31,572	\$ 9,741
Work-in-progress	14,074	292
Finished goods	92,473	53,694
	<b>\$ 138,119</b>	<b>\$ 63,727</b>

### 6. Intangible assets:

The following is a summary of intangible assets as at March 31, 2016:

Cost	Technology			Total
	Patents	Trademarks	Licenses	
Balance December 31, 2013	\$ 724,445	\$ 27,423	\$ 298,150	\$ 1,050,018
Additions	173,735	6,885	-	180,620
Change due to derecognition	(82,879)	-	(250,928)	(333,807)
Balance December 31, 2014	815,301	34,308	47,222	896,831
Additions	88,969	9,396	-	98,365
Change due to derecognition	(69,853)	-	(16,671)	(86,524)
Balance December 31, 2015	834,417	43,704	30,551	908,672
Additions	104,217	6,039	-	110,256
Balance March 31, 2016	<b>\$ 938,634</b>	<b>\$ 49,743</b>	<b>\$ 30,551</b>	<b>\$ 1,018,928</b>

**KANE BIOTECH INC.**  
**Notes to the Financial Statements**  
**Three months ended March 31, 2016 and 2015**

**6. Intangible assets (continued):**

Accumulated amortization and derecognition	Patents	Trademarks	Technology		Total
			Licenses		
Balance December 31, 2013	\$ 95,757	\$ -	\$ -		\$ 95,757
Amortization	29,551	-	-		29,551
Change due to derecognition	(21,017)	-	-		(21,017)
Balance December 31, 2014	104,291	-	-		104,291
Amortization	32,527	-	-		32,527
Change due to derecognition	(17,195)	-	-		(17,195)
Balance December 31, 2015	\$ 119,623	\$ -	\$ -		\$ 119,623
Amortization	8,389	-	-		8,389
Balance March 31, 2016	\$ 128,012	\$ -	\$ -		\$ 128,012

Carrying amounts	Patents	Trademarks	Technology		Total
			Licenses		
Balance December 31, 2013	\$ 628,688	\$ 27,423	\$ 298,150		\$ 954,261
Balance December 31, 2014	\$ 711,010	\$ 34,308	\$ 47,222		\$ 792,540
Balance December 31, 2015	\$ 714,794	\$ 43,704	\$ 30,551		\$ 789,049
Balance March 31, 2016	\$ 810,622	\$ 49,743	\$ 30,551		\$ 890,916

The Company has considered indicators of impairment as of March 31, 2016. To March 31, 2016, the Company has recorded aggregate impairment losses of \$881,489, primarily resulting from patent applications not pursued.

Amortization and write down expenses are recognized in research expense.

**7. Accounts payable and accrued liabilities:**

	March 31, 2016	December 31, 2015
Trade payables	\$ 303,016	\$ 110,844
Non-trade payables and accrued expenses	123,378	143,370
	\$ 426,394	\$ 254,214

## KANE BIOTECH INC.

Notes to the Financial Statements  
Three months ended March 31, 2016 and 2015

### 8. Promissory Note:

On March 29, 2016 the Company entered into a short-term promissory note payable for \$250,000 from a related party. The note bears an interest rate of 10% per annum and payable on demand. At the time of the advance 1,250,000 warrants to purchase common shares were issued. The present value of the warrants was determined using the Black-Scholes option pricing model and \$23,038 was expensed during the period.

### 9. Convertible Note:

On December 18, 2015 the Company entered into an agreement to (a) extend the maturity date from December 18, 2015 to June 18, 2017 and (b) change the price at which such Note may be convertible into common shares of the Company from \$0.15 per common share to \$0.10 per common share. All other terms of the Note remain the same. The Company also entered in an agreement to extend the time during which the 4,000,000 of its previously issued Warrants to purchase common shares may be exercised from December 18, 2015 to June 18, 2017. All of other terms of the Warrants remain the same, including the exercise price of \$0.095 per common share.

At the time of issuance of the new note the present value of the liability component of the convertible promissory note based on a market interest rate of 18% was \$443,830.

The following is a summary of the convertible note as at March 31, 2016:

	Proceeds	Convertible Note	Conversion Option	Warrants
Balance December 31, 2013	\$ 481,750	\$ 413,248	\$ 26,493	\$ 45,224
Issuance costs	(17,521)	(14,913)	(963)	(1,645)
Interest payment	-	(50,417)	-	-
Accretion	-	100,587	-	-
Balance December 31, 2014	464,229	448,505	25,530	43,579
Interest payment	-	(50,418)	-	-
Accretion	-	101,913	-	-
Balance December 18, 2015	464,229	500,000	25,530	43,579
Note expiration December 18, 2015	(464,229)	(500,000)	(25,530)	(43,579)
Note extension issued December 18, 2015	500,000	443,830	30,553	25,617
Issuance costs	(9,543)	(8,471)	(583)	(489)
Accretion	-	3,290	-	-
Balance December 31, 2015	490,457	438,649	29,970	25,128
Accretion	-	24,397	-	-
Balance March 31, 2016	\$ 490,457	\$ 463,046	\$ 29,970	\$ 25,128

### 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.

**KANE BIOTECH INC.**  
**Notes to the Financial Statements**  
**Three months ended March 31, 2016 and 2015**

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

**(b) Shares issued and outstanding**

Shares issued and outstanding are as follows:

	Number of Common Voting Shares	Amount
Balance, December 31, 2013	79,100,329	\$ 9,431,781
Issued for cash, net of issue costs of \$ 24,531	24,500,000	959,111
Issued in lieu of cash for interest, net of issue costs of \$ 8,182	773,470	42,235
Exercise of options	-	-
Exercise of warrants	2,650,000	461,500
Balance December 31, 2014	107,023,799	10,894,627
Issued in lieu of cash for interest, net of issue costs \$ 1,577	1,008,353	48,841
Exercise of warrants	11,000,000	764,776
Balance December 31, 2015	119,032,152	\$ 11,708,244
Exercise of warrants	4,500,000	312,607
Balance March 31, 2016	123,532,152	\$ 12,020,851

During the period ended March 31, 2016 4,500,000 warrants from the 2014 private placement offering (the "2014 Offering") were exercised for common shares.

During the year ended December 31, 2015 the Company elected to issue, in lieu of cash, 1,008,353 common shares in payment of \$ 50,418 in interest owing on the Company's convertible note (Note 9).

Also, during the year ended December 31, 2015 11,000,000 warrants from the 2014 private placement offering (the "2014 Offering") were exercised for common shares for proceeds of \$659,249.

**(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, 2016, an aggregate maximum of 12,353,215 (December 31, 2015 – 11,903,215) common voting shares are available to be purchased under the Plan and 3,455,718 (December 31, 2015 – 4,380,715) 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.

## KANE BIOTECH INC.

Notes to the Financial Statements  
Three months ended March 31, 2016 and 2015

### 10. Share capital (continued):

Changes in the number of options outstanding during the period ended March 31, 2016 and 2015 are as follows:

	March 31, 2016		March 31, 2015	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance , beginning of period	7,522,500	\$ 0.11	4,912,500	\$ 0.15
Granted	2,825,000	0.08	3,865,000	0.07
Forfeited, cancelled or expired	(1,450,000)	0.16	(490,000)	0.15
Balance, end of period	8,897,500	\$ 0.09	8,287,500	\$ 0.11
Options exercisable, end of period	8,897,500		8,287,500	
Weighted average fair value per unit of option				
granted during the period		\$ 0.03		\$ 0.03

Options outstanding at March 31, 2016 consist of the following:

Range of exercise prices	Outstanding number	Weighted average remaining contractual life	Weighted average exercise price	Exercisable number
\$0.05-\$0.25	8,897,500	3.521	\$ 0.09	8,897,500

For the period ended March 31, 2016, the Company recorded share option compensation expense of \$90,247 (March 31, 2015 \$102,136) 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.

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

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

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



## KANE BIOTECH INC.

Notes to the Financial Statements  
Three months ended March 31, 2016 and 2015

### 10. Share capital (continued):

#### (d) Warrants

Changes in the number of warrants outstanding during the period ended March 31, 2016 and 2015 are as follows:

	March 31, 2016			March 31, 2015		
	Warrants	Amount	Weighted average exercise price	Warrants	Amount	Weighted average exercise price
Balance, beginning of year	17,500,000	\$ 154,918	\$ 0.07	28,660,000	\$ 280,343	\$ 0.06
Issued, pursuant to promissory note	1,250,000	23,038	0.05	-	-	-
Exercised	(4,500,000)	(43,170)	0.06	-	-	-
Balance, end of period	14,250,000	\$ 134,786	\$ 0.07	28,660,000	\$ 280,343	\$ 0.06
Weighted average remaining contractual life			0.551			1.125 years

The relative fair value of warrants was determined at the date of measurement using the Black Scholes option pricing model.

#### (e) Per share amounts

The weighted average number of common voting shares outstanding for the period ended March 31, 2016 and 2015 was 119,745,731 and 107,059,709, respectively. The dilution created by options and warrants has not been reflected in the per share amounts as the effect would be anti-dilutive.

### 11. Commitments and contingencies:

#### (a) Commitments

As at March 31, 2016 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 March 31:

2016	\$	53,109
2017		10,000
2018		10,000
2019		10,000
2020		10,000
	\$	93,109

## **KANE BIOTECH INC.**

**Notes to the Financial Statements**

**Three months ended March 31, 2016 and 2015**

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### **11. Commitments and contingencies (continued):**

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 fees. The Company does not expect to make royalty payments under this agreement in fiscal 2016 and cannot predict when such royalties will become payable, if at all.

Also, the Company holds a worldwide exclusive license to DispersinB<sup>®</sup> 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 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 March 31, 2016, the Company received \$63,278 (March 31, 2015 - \$50,941) in government and other assistance for the purpose of research and product market development. Government and other assistance has been recorded as a reduction to research and general and administrative expenses. No grants repayable have been recorded to date.

### **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 and President & CEO are key management personnel.

**KANE BIOTECH INC.**  
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**13. Related parties (continued):**

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:

	<b>March 31, 2016</b>	March 31, 2015
Salaries, fees and short-term employee benefits	<b>\$ 68,250</b>	\$ 62,250
Post-employment benefits	<b>1,236</b>	888
Share-based payments	<b>44,724</b>	50,209
	<b>\$ 114,210</b>	\$ 113,347

**(b) Key management personnel and director transactions**

Directors and key management personnel control twenty-six percent of the voting shares of the Company.

**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.

**15. Subsequent events:**

On April 7, 2016 Kane Biotech elected to issue in lieu of cash 254,369 common shares of the Corporation in payment of \$12,718.45 in interest owing on the Corporation's \$500,000 2 year 10% convertible redeemable unsecured note as at March 18, 2016.

On May 4, 2016 the Company announced the closing of its Rights Offering originally announced on March 29, 2016. The Company issued 81,074,389 common shares of the Company for aggregate gross proceeds of \$2,432,231.67. Pursuant to the Rights Offering, the Company issued 74,191,277 Common Shares under the basic subscription privilege and 6,883,112 Common Shares under the additional subscription privilege. Following completion of the Rights Offering there are now 204,860,910 Common Shares issued and outstanding.