

Interim Condensed Financial Statements  
(Expressed in Canadian Dollars)

## **KANE BIOTECH INC.**

Three and Six Months ended June 30, 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 and six ended June 30, 2011.

# KANE BIOTECH INC.

## Interim Condensed Statement of Financial Position (unaudited)

	Note	June 30, 2011	December 31, 2010
<b>Assets</b>			
Current assets:			
Cash		\$ 1,903,674	\$ 187,522
Other receivables		20,697	37,149
Other current assets		6,515	33,537
<b>Total current assets</b>		<b>1,930,886</b>	<b>258,208</b>
Non-current assets:			
Property and equipment		30,141	33,596
Intangible assets	4	989,557	962,560
<b>Total non-current assets</b>		<b>1,019,698</b>	<b>996,156</b>
<b>Total assets</b>		<b>\$ 2,950,584</b>	<b>\$ 1,254,364</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	5	\$ 35,807	\$ 90,748
<b>Total current liabilities</b>		<b>35,807</b>	<b>90,748</b>
Shareholders' equity:			
Share capital	6(b)	8,505,643	7,091,173
Contributed surplus		1,426,220	1,049,905
Warrants	6(d)	828,901	287,723
Deficit		(7,845,987)	(7,265,185)
<b>Total</b>		<b>2,914,777</b>	<b>1,163,616</b>
<b>Total liabilities and equity</b>		<b>\$ 2,950,584</b>	<b>\$ 1,254,364</b>

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

# KANE BIOTECH INC.

## Interim Condensed Statements of Comprehensive Loss (unaudited)

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
<b>Expenses:</b>				
General and administration	136,032	120,830	277,400	249,049
Research	92,678	115,586	306,044	266,428
Loss before the undernoted	(228,710)	(236,416)	(583,444)	(515,477)
<b>Other</b>				
Interest and other income	4,232	2,044	4,752	5,064
Interest expense	(110)	(54)	(269)	(256)
Foreign exchange loss (gain), net	266	(1,841)	(1,841)	(2,642)
<b>Loss and comprehensive loss for the period</b>	<b>\$ (224,322)</b>	<b>\$ (236,267)</b>	<b>\$ (580,802)</b>	<b>\$ (513,311)</b>
<b>Basic and diluted loss per share for the period</b>	<b>\$ -</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>

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

## KANE BIOTECH INC.

Interim Condensed Statement of Changes in Equity  
Six months ended June 30, 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		-	-	-	(513,311)	(513,311)
Transactions with owners, recorded directly in equity						
Share-based payments	6(c)	-	22,704	-	-	22,704
Warrants expired	6(d)	-	3,781	(3,781)	-	-
Warrants exercised	6(d)	111,748	-	(45,172)	-	66,576
Total transactions with owners		111,748	26,485	(48,953)	-	89,280
Balance, June 30, 2010		6,904,364	1,011,325	262,841	(6,805,242)	1,373,288

	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		-	-	-	(580,802)	(580,802)
Transactions with owners, recorded directly in equity						
Issue of common shares	6(b)	1,406,090	-	-	-	1,406,090
Share-based payments	6(c)	-	143,570	-	-	143,570
Stock options exercised	6(c)	8,380	(3,380)	-	-	5,000
Warrants granted	6(d)	-	-	777,303	-	777,303
Warrants expired	6(d)	-	236,125	(236,125)	-	-
Total contributions by owners		1,414,470	376,315	541,178	-	2,331,963
Balance, June 30, 2011		\$ 8,505,643	\$ 1,426,220	\$ 828,901	\$ (7,845,987)	\$ 2,914,777

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

# KANE BIOTECH INC.

## Interim Condensed Statement of Cash Flows (unaudited)

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Loss and comprehensive loss for the period	\$ (224,322)	\$ (236,267)	\$ (580,802)	\$ (513,311)
Adjustments for:				
Depreciation of property and equipment	1,728	2,312	3,455	6,688
Amortization of patents	4,280	4,369	9,050	8,930
Write-down of patents	-	26,990	-	38,603
Stock-based compensation	34,142	-	143,570	22,704
Change in the following:				
Accounts receivable	(9,849)	100,174	16,452	70,795
Prepaid expenses	5,408	5,030	27,022	4,425
Accounts payable and accrued liabilities	(170,743)	(26,826)	(54,941)	(25,515)
	(359,356)	(124,218)	(436,194)	(386,681)
<b>Financing activities:</b>				
Issuance of common shares and warrants, net of share issue costs	2,188,393	3,400	2,188,393	66,575
	2,188,393	3,400	2,188,393	66,575
<b>Investing activities:</b>				
Purchase of property and equipment, net of proceeds on disposal	-	(107)	-	(107)
Patent and trademark costs	(21,469)	(27,376)	(36,047)	(64,756)
	(21,469)	(27,483)	(36,047)	(64,863)
<b>Increase (decrease) in cash</b>	<b>1,807,568</b>	<b>(148,301)</b>	<b>1,716,152</b>	<b>(384,969)</b>
<b>Cash, beginning of period</b>	<b>96,106</b>	<b>568,251</b>	<b>187,522</b>	<b>804,919</b>
<b>Cash, end of period</b>	<b>\$ 1,903,674</b>	<b>\$ 419,950</b>	<b>\$ 1,903,674</b>	<b>\$ 419,950</b>
Supplemental cash flow information:				
Non-cash financing activities:				
Warrants issued as share issue costs	\$ 129,616	\$ -	\$ 129,616	\$ -

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

**KANE BIOTECH INC.**

Notes to the Interim Condensed Financial Statements  
Six months ended June 30, 2011 and 2010  
(unaudited)

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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 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*. The condensed interim financial statements do not include all of the information required for full annual financial statements.

In June 2011, the Company filed its interim condensed financial statements for the three months ended March 31, 2011, which represent the initial presentation of its results and financial position under IFRS. These interim condensed financial statements for the period ended June 30, 2011 should be read in conjunction with the Company's interim condensed financial statements for the period ended March 31, 2011. As the Company's interim financial statements were previously prepared in accordance with previous GAAP, disclosure of the transition from previous GAAP to IFRS is included in Note 12.

The financial statements were authorized for issue by the Board of Directors on August 28, 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 June 30, 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 June 30, 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.

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**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 to the March 31, 2011 financial statements:

- 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. 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.

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**3. New standards and interpretations not yet adopted (continued)****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.



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#### 4. Intangible assets:

The following is a summary of intangible assets as at June 30, 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	32,770	3,277	-	36,047
Balance, June 30, 2011	\$ 719,745	\$ 24,298	\$ 298,150	\$ 1,042,193

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	9,050	-	-	9,050
Balance, June 30, 2011	\$ 52,636	\$ -	\$ -	\$ 52,636

Carrying amounts	Patents	Trademarks	Technology Licenses	Total
At January 1, 2010	\$ 586,467	\$ 16,161	\$ 298,150	\$ 900,778
At December 31, 2010	\$ 643,389	\$ 21,021	\$ 298,150	\$ 962,560
Balance, June 30, 2011	\$ 667,109	\$ 24,298	\$ 298,150	\$ 989,557

The Company has considered indicators of impairment as of January 1, 2010, December 31, 2010, and June 30, 2011 and no indicators were identified and therefore no impairment test was required. To June 30, 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.

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### 5. Accounts payable and accrued liabilities :

	June 30, 2011	December 31, 2010
Trade payables due to related parties	409	919
Other trade payables	17,941	50,931
Non-trade payables and accrued expenses	17,457	38,898
	35,807	90,748

### 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
Issued for cash, net of issue costs of \$230,984	19,926,328	1,406,090
Exercise of stock options	50,000	8,380
Balance, June 30, 2011	60,596,229	\$ 8,505,643

On April 15, 2011, the Company closed a private placement offering (the "2011 Offering") of 19,926,328 units (a "Unit") at a price of \$0.12 per Unit, for aggregate gross proceeds to the Company of \$2,391,159 from the sale. Each Unit was comprised of one common share of the Company (a "Share") and one Share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder to purchase one Share at a price of \$0.17 for a period of 18 months from the date the warrant was issued. The gross proceeds have been prorated to share capital and warrants based on the relative fair value of each component as follows: share capital - \$1,637,074 and warrants - \$754,085.

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

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## 6. Share capital (continued):

### (b) Shares issued and outstanding (continued)

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 Share purchase 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 was 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 entitles 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.

### (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 June 30, 2011, an aggregate maximum of 6,059,623 (December 31, 2010 - 4,061,990) common voting shares are available to be purchased under the Plan and 2,219,623 (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 six months ended June 30, 2011 and 2010 are as follows:

	June 30, 2011		June 30, 2010	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of period	1,577,500	\$ 0.26	1,432,500	\$ 0.35
Granted	2,350,000	0.17	175,000	0.15
Exercised	(50,000)	0.10	-	-
Forfeited, cancelled or expired	(37,500)	0.31	(100,000)	0.55
Balance, end of period	3,840,000	\$ 0.21	1,507,500	\$ 0.31
Options exercisable, end of period	2,224,164		1,507,500	
Weighted average fair value per unit of option granted during the period		\$ 0.12		\$ 0.13

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### 6. Share capital (continued):

#### (c) Stock option plan (continued)

Options outstanding at June 30, 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	3,145,000	3.89 years	\$0.16	1,529,164
\$0.26 - \$0.42	695,000	0.91 years	\$0.41	695,000
\$0.10 - \$0.42	3,840,000	3.35 years	\$0.21	2,224,164

For the six months ended June 30, 2011, the Company recorded share option compensation expense of \$143,570 (June 30, 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:

	June 30, 2011	June 30, 2010
Expected option life	4.8 years	5.0 years
Risk free interest rate	2.47%	2.54%
Expected volatility	132.04%	130.67%

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.

Subsequent to June 30, 2011, the Company issued 280,000 stock options to the four independent directors of the Company at an exercise price of \$0.175 per common share.

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### 6. Share capital (continued):

#### (d) Warrants

Changes in the number of warrants outstanding during the six months ended June 30, 2011 and 2010 are as follows:

	June 30, 2011			June 30, 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	\$ 311,794	\$ 0.19
Granted, pursuant to private placements	21,458,435	777,303	0.17	-	-	-
Exercised	-	-	-	(499,816)	(45,173)	0.13
Expired	(2,720,750)	(236,125)	0.21	(68,670)	(3,780)	0.07
Balance, end of period	24,650,930	\$ 828,901	\$ 0.16	3,061,979	\$ 262,841	\$ 0.20
Weighted average remaining contractual life (years)	1.18 years			0.83 years		

The fair value of warrants was determined at the date of measurement using the Black Scholes option pricing model with the following weighted average assumptions:

	June 30, 2011	June 30, 2010
Expected life	1.5 years	nil
Risk free interest rate	1.74%	nil
Expected volatility	100.47%	nil

#### (e) Per share amounts

The weighted average number of common voting shares outstanding for the six months ended June 30, 2011 and 2010 was 49,112,869 and 37,201,852, respectively. The dilution created by options and warrants has not been reflected in the per share amounts as the effect would be anti-dilutive.

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### 7. Commitments and contingencies:

#### (a) Commitments

As at June 30, 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
2014	10,000
2015	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 now former 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 six months ended June 30, 2011, the Company received \$36,193 (June 30, 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.

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### 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:

	June 30, 2011	June 30, 2010
Salaries, fees and short-term employee benefits	\$ 130,900	\$ 128,000
Post-employment benefits	2,264	2,283
Share-based payments	85,284	22,704
	<b>\$ 218,448</b>	<b>\$ 152,987</b>

#### (b) Key management personnel and director transaction

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

During the six months ended June 30, 2011, the Company paid GVI, a company controlled by the now former Chairman of the Board of Directors, a total of \$52,000 (June 30, 2010 - \$80,000) for consulting fees and \$13,875 (June 30, 2010 - \$13,875) under a sub-lease rental agreement.

As of June 30, 2011, included in accounts payable and accrued liabilities is nil (December 31, 2010 - \$919) 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 six months ended June 30, 2011 and 2010 are as follows:

	June 30, 2011	June 30, 2010
Personnel expenses		
Wages and salaries	\$ 222,571	\$ 223,661
Short-term benefits and insurance premiums	15,405	5,271
Share-based payments	143,570	22,704
	<b>381,546</b>	<b>251,636</b>
Depreciation and derecognition	12,504	54,220
Science Consumables and contract research	70,499	128,962
Occupancy	16,483	17,201
Licence fees	9,759	10,178
Investor relations	92,526	102,249
Other	36,320	40,138
less: Government assistance	(36,193)	(89,107)
	<b>\$ 583,444</b>	<b>\$ 515,477</b>

**KANE BIOTECH INC.**

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**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. Transition to IFRS:**

These interim condensed financial statements for the period ending June 30, 2011 are prepared in accordance with IFRS. As such, these financial statements have been prepared in accordance with IFRS 1, as well as the accounting policies as described in Note 3 of the Company's interim condensed financial statements for the three months ended March 31, 2011.

**(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.

**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 .



# KANE BIOTECH INC.

Notes to the Interim Condensed Financial Statements  
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## 12. Transition to IFRS (continued):

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

As at June 30, 2010

	Ref	CDN GAAP	Transition Adjustments	Reclasses	IFRS
<b>Assets</b>					
Current assets:					
Cash	\$	419,950	\$ -	\$ -	\$ 419,950
Other receivables		33,578	-	-	33,578
Other current assets		6,906	-	-	6,906
<b>Total current assets</b>		<b>460,434</b>	<b>-</b>	<b>-</b>	<b>460,434</b>
Non-current assets					
Property and equipment		37,954	-	-	37,954
Intangible assets		918,001	-	-	918,001
<b>Total non-current assets</b>		<b>955,955</b>	<b>-</b>	<b>-</b>	<b>955,955</b>
<b>Total assets</b>	<b>\$</b>	<b>1,416,389</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,416,389</b>
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Accounts payable and accrued liabilities	\$	43,101	\$ -	\$ -	\$ 43,101
<b>Total current liabilities</b>		<b>43,101</b>	<b>-</b>	<b>-</b>	<b>43,101</b>
Shareholders' equity:					
Share capital		6,904,364	-	-	6,904,364
Contributed surplus		262,841	-	-	262,841
Warrants		1,011,325	-	-	1,011,325
Deficit		(6,805,242)	-	-	(6,805,242)
<b>Total equity</b>		<b>1,373,288</b>	<b>-</b>	<b>-</b>	<b>1,373,288</b>
<b>Total liabilities and equity</b>	<b>\$</b>	<b>1,416,389</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,416,389</b>

## KANE BIOTECH INC.

Notes to the Interim Condensed Financial Statements  
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### 12. Transition to IFRS (continued):

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

For the six months ended June 30, 2010

	Ref	CDN GAAP	Transition Adjustments	Reclasses	IFRS
<b>Expenses:</b>					
General and administration		222,556	-	26,493	249,049
Research		218,895	-	47,533	266,428
Depreciation		15,617	-	(15,617)	-
Write-down of patents and trademarks		38,603	-	(38,603)	-
Stock-based compensation					
General administration		22,704	-	(22,704)	-
Loss from operations		(518,375)	-	2,898	(515,477)
<b>Finance income (costs):</b>					
Interest and other income		5,064	-	-	5,064
Interest expense		-	-	(256)	(256)
Foreign exchange loss (gain), net		-	-	(2,642)	(2,642)
Net finance costs		5,064	-	(2,898)	2,166
<b>Loss and comprehensive loss for the period</b>		<b>(513,311)</b>	<b>-</b>	<b>-</b>	<b>(513,311)</b>
<b>Basic and diluted loss per share for the period</b>		<b>(0.01)</b>	<b>-</b>	<b>-</b>	<b>(0.01)</b>

## KANE BIOTECH INC.

Notes to the Interim Condensed Financial Statements  
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### 12. Transition to IFRS (continued):

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

For the three months ended June 30, 2010

	Ref	CDN GAAP	Transition Adjustments	Reclasses	IFRS
<b>Expenses:</b>					
General and administration		120,413	-	417	120,830
Research		84,227	-	31,359	115,586
Depreciation		6,681	-	(6,681)	-
Write-down of patents and trademarks		26,990	-	(26,990)	-
Stock-based compensation					
Loss from operations		(238,311)	-	1,895	(236,416)
<b>Finance income (costs):</b>					
Interest and other income		2,044	-	-	2,044
Interest expense		-	-	(54)	(54)
Foreign exchange loss (gain), net		-	-	(1,841)	(1,841)
Net finance costs		2,044	-	(1,895)	149
<b>Loss and comprehensive loss for the period</b>		<b>(236,267)</b>	<b>-</b>	<b>-</b>	<b>(236,267)</b>
<b>Basic and diluted loss per share for the period</b>		<b>(0.01)</b>	<b>-</b>	<b>-</b>	<b>(0.01)</b>