ANTIBE THERAPEUTICS INC.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2013

ZEIFMANS
LLP
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Antibe Therapeutics Inc.

We have audited the accompanying consolidated financial statements of Antibe Therapeutics Inc., which comprise the consolidated statements of financial position as at March 31, 2013 and March 31, 2012, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Antibe Therapeutics Inc. as at March 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(c) of the consolidated financial statements which describe conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Zeifmans LLP

Toronto, Ontario
July 22, 2013

Chartered Accountants
Licensed Public Accountants

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ANTIBE THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(expressed in Canadian dollars)

ASSETS

	March 31, 2013	March 31, 2012
CURRENT		
Cash	$ **194,301**	$ 93,386
Harmonized sales tax recoverable	**130,767**	-
Prepaid expenses	**46,125**	3,390
Due from Antibe Holdings Inc. (note 5)	**85,941**	18,072
	457,134	114,848
OTHER		
Deferred share issuance costs	**280,891**	56,000
TOTAL ASSETS	$ **738,025**	$ 170,848

LIABILITIES

	March 31, 2013	March 31, 2012
CURRENT		
Accounts payable and accrued liabilities	$ **536,988**	$ 136,034
Payable to Schmed Enterprises Inc. (note 5)	**-**	130,650
Payable to AltaPharm International Ltd. (note 5)	**-**	129,920
Convertible debentures (note 6)	**761,876**	-
	1,298,864	396,604
LONG-TERM		
Payable to Schmed Enterprises Inc. (note 5)	**162,550**	-
Payable to AltaPharm International Ltd. (note 5)	**283,490**	-
	446,040	-
TOTAL LIABILITIES	**1,744,904**	396,604

SHAREHOLDERS' DEFICIENCY

	March 31, 2013	March 31, 2012
SHARE CAPITAL (note 7)	**1,372,233**	1,320,345
COMMON SHARE PURCHASE WARRANTS (note 7)	**449,067**	415,955
CONTRIBUTED SURPLUS	**1,065,739**	886,759
ACCUMULATED DEFICIT	**(3,893,918)**	(2,848,815)
TOTAL SHAREHOLDERS' DEFICIENCY	**(1,006,879)**	(225,756)
	$ **738,025**	$ 170,848

COMMITMENTS (note 14)

Approved and authorized for issue by the Company's Board of Directors on July 22, 2013.

(Signed) Daniel Legault Daniel Legault, Director
(Signed) John Wallace John Wallace, Director

STATEMENT 1
See accompanying notes to the financial statements

ANTIBE THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
FOR THE YEARS ENDED MARCH 31, 2013 AND 2012
(expressed in Canadian dollars)

	Number of common shares	Share capital	Common share purchase warrants	Contributed surplus	Deficit	Total
Balance, March 31, 2011	16,575,000	$ 362,862	$ 162,188	$ 886,759	$ (1,906,677)	$ (494,868)
Shares and warrants issued (note 7)	987,000	282,502	128,748	-	-	411,250
Debt for equity swap (notes 5 and 7)	1,920,000	674,981	125,019	-	-	800,000
Net loss and comprehensive loss	-	-	-	-	(942,138)	(942,138)
Balance, March 31, 2012	19,482,000	1,320,345	415,955	886,759	(2,848,815)	(225,756)
Shares and warrants issued (note 7)	204,000	57,074	27,926	-	-	85,000
Equity component of convertible debentures (note 6)	-	-	-	54,483	-	54,483
Effect of modification (note 7)	-	(5,186)	5,186	-	-	-
Stock-based compensation	-	-	-	124,497	-	124,497
Net loss and comprehensive loss	-	-	-	-	(1,045,103)	(1,045,103)
Balance, March 31, 2013	**19,686,000**	**$ 1,372,233**	**$ 449,067**	**$ 1,065,739**	**$ (3,893,918)**	**$ (1,006,879)**

See accompanying notes to the financial statements

ZEIFMANS LLP
CHARTERED ACCOUNTANTS

ANTIBE THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED MARCH 31, 2013 AND 2012
(expressed in Canadian dollars)

	2013	2012
REVENUE	**$ -**	$ -
EXPENSES		
Research and development (notes 4 and 5)	**262,817**	214,135
Consulting fees (notes 5 and 10)	**247,613**	575,650
Professional fees	**221,144**	99,854
Stock-based compensation (note 7)	**124,497**	-
Salaries (note 5)	**70,371**	-
Rent (note 14)	**36,000**	3,000
Interest accretion (note 6)	**26,359**	-
Office and sundry (note 5)	**24,053**	13,700
Travel	**17,230**	25,763
Telephone	**10,461**	10,036
Insurance	**4,558**	-
	1,045,103	942,138
NET LOSS AND COMPREHENSIVE LOSS	**$ (1,045,103)**	$ (942,138)
Loss per share (note 8):		
Basic and diluted	**$ (0.05)**	$ (0.06)
Weighted average number of common shares outstanding (note 8):		
Basic and diluted	**19,677,551**	16,975,077

See accompanying notes to the financial statements

ANTIBE THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2013 AND 2012
(expressed in Canadian dollars)

	2013	2012
CASH FLOWS FROM OPERATIONS		
Net loss for the year	$ (1,045,103)	$ (942,138)
Items not affecting cash:		
Accretion expense and accrued interest not paid	26,359	-
Stock-based compensation	124,497	-
Net changes in non-cash working capital items:		
Harmonized sales tax recoverable	(130,767)	-
Accounts payable and accrued liabilities	586,424	720,076
Prepaid expenses	(42,735)	(3,390)
	(481,325)	(225,452)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advance to Antibe Holdings Inc.	(106,564)	(18,072)
Receipt from Antibe Holdings Inc.	38,695	-
Repayment to Antibe Holdings Inc.	-	(22,553)
Proceeds on issuance of shares and warrants	85,000	411,250
Proceeds on issuance of convertible debentures	790,000	-
Deferred share issuance costs	(224,891)	(56,000)
	582,240	314,625
NET INCREASE IN CASH FOR THE YEAR	100,915	89,173
CASH, BEGINNING OF THE YEAR	93,386	4,213
CASH, END OF THE YEAR	$ 194,301	$ 93,386

See accompanying notes to the financial statements

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1. NATURE OF OPERATIONS

Antibe Therapeutics Inc. (the "Company") was incorporated on May 5, 2009 under the Business Corporations Act (Ontario). The Company was originally established under the legal name 2205405 Ontario Inc.. On December 16, 2009, the Company changed its name to Antibe Therapeutics Inc.. The Company is engaged in the development of patents and out-licensing of improved compounds of existing drugs to large pharmaceutical and biotechnology companies. The address of the Company's registered office and principal place of business is 15 Prince Arthur Avenue, Toronto, Ontario, Canada, M5R 1B2.

Antibe Holdings Inc. ("AHI") is the Company's parent company.

Effective March 1, 2013, the Company completed a stock split by issuance of three new shares for one outstanding share of the Company's common stock (note 7). Unless otherwise noted, all references herein to number of shares, price per share or weighted average number of shares outstanding have been adjusted to reflect this stock split on a retroactive basis.

Certain comparative amounts have been reclassified to conform with presentation adopted in the current year.

2. BASIS OF PRESENTATION

(a) Consolidation -

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Antibe Terapiya Rus LLC, which was incorporated by the Company on April 24, 2012. All significant intercompany accounts and transactions have been eliminated on consolidation.

(b) General -

The Company adopted International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) upon incorporation on May 5, 2009.

(c) Going concern -

The financial statements have been prepared assuming that the Company will continue as a going concern. As at March 31, 2013, the Company had a working capital deficiency of $841,730 (2012 - $281,756), for the period then ended incurred a loss of $1,045,103 (2012 - $942,138), and had negative cash flow from operations of $481,325 (2012 - $225,452).

All of the factors above raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans to address these issues involve actively seeking capital investment and to generate revenue and profit from the commercialization of its products. The Company’s ability to continue as a going concern is subject to management’s ability to successfully implement this plan. Failure to implement this plan could have a material adverse effect on the Company’s financial condition and financial performance.

Until such time as the Company’s products are patented and approved for sale, the Company’s liquidity requirements are dependent on its ability to raise additional capital by selling additional equity, from proceeds from the exercise of stock options and common share warrants or by obtaining credit facilities. The Company’s future capital requirements will depend on many factors, including, but not limited to, the market acceptance of its products and services. No assurance can be given that any such additional funding will be available or that, if available, it can be obtained on terms favourable to the Company.

If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses, and the classifications used in the statement of financial position. The financial statements do not include adjustments that would be necessary if the going concern assumption was not appropriate.

(d) **Basis of measurement -**

These consolidated financial statements are prepared on a historical cost basis, except for certain financial instruments and stock-based compensation that are measured on a fair value basis.

(e) **Use of estimates -**

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the consolidated financial statements, and the reported amount of revenue and expenses during the year. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which such adjustments become known. Significant estimates in these consolidated financial statements include deferred income tax valuations, valuation of convertible debentures, determination of eligible expenditures for investment tax credits ("ITC") purposes and inputs related to the calculation of fair value of stock-based compensation and warrants.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Related party transactions -**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(b) **Income taxes -**

Income taxes are accounted for using the liability method. Deferred tax assets and liabilities are recognized based on the temporary differences between the assets and liabilities for accounting purposes and the amounts used for tax purposes and the benefit of unutilized tax losses for which it is probable they will be realized and carried forward to future years to reduce income taxes. A valuation allowance is provided for the portion of the deferred tax assets that is probable to remain unrealized. Deferred tax assets and liabilities are measured using tax rates enacted by tax law or substantially enacted for the years in which deferred future income tax assets are likely to be realized or deferred income tax liabilities settled. The effect of a change in tax rates on deferred income tax assets and liabilities is included in loss and comprehensive loss in the period when the change is substantially enacted.

(c) **Government grants and investment tax credit -**

Amounts received or receivable resulting from government assistance programs are recognized where there is reasonable assurance that the amount of government assistance will be received and all attached conditions will be complied with. When the amount relates to an expense item, it is recognized into income as reduction to the costs that it is intended to compensate. When the amount relates to an asset, it reduces the carrying amount of the asset and is then recognized as income over the useful life of the depreciable asset by way of a reduced depreciation charge.

ITC receivable are amounts recoverable from the Canadian federal and provincial government under the Scientific Research & Experimental Development ("SRED") incentive program. The amounts claimed under the program represent the amounts submitted by management based on research and development costs paid during the period and included a number of estimates and assumptions made by management in determining the eligible expenditures. ITCs are recorded when there is reasonable assurance that the Company will realize the ITCs. Recorded ITCs are subject to review and approval by tax authorities and therefore, could be different from the amounts recorded.

(d) **Deferred share issuance costs -**

These costs relate directly to the proposed issuance of shares by the Company pursuant to a planned initial public offering. Upon completion of the initial public offering, the costs will be charged against share capital. Such costs will be recognized as an expense in the event that it is determined that this transaction will not be completed.

(e) **Revenue recognition -**

Revenue from license fees is recognized based on the terms of the license agreement, when there is persuasive evidence of an arrangement, delivery or performance has occurred, the fee is fixed or determinable, and when collection is reasonably assured. The licensing arrangements may include multiple elements, which are reviewed in order to determine whether the multiple elements can be divided into separate units of accounting, if certain criteria are met. If separable, the consideration received is allocated among the separate units of accounting based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. If not separable, the applicable revenue recognition criteria are applied to combined elements as a single unit of accounting

(f) **Loss per share -**

Basic loss per share is calculated on the basis of loss attributable to the holders of common shares divided by the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options and common share purchase warrants are used to repurchase common shares at the prevailing market rate. Diluted loss per share is equal to basic loss per share when the effect of otherwise dilutive securities is anti-dilutive.

(g) **Share-based payments -**

The Company accounts for options and warrants using the fair value-based method of accounting for stock-based compensation. Fair values are determined using the Black-Scholes option-pricing model. Management exercises judgment in determining the underlying share price volatility, expected forfeitures and other parameters of the calculations. Compensation costs are recognized over the vesting period as an increase to stock-based compensation expense and contributed surplus. If and when stock options and warrants are ultimately exercised, the applicable amounts of contributed surplus and common share purchase warrants are transferred to share capital.

(h) **Research and development costs -**

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless development costs meet certain criteria for capitalization. No development costs have been capitalized to date.

(i) **Measurement of financial instruments -**

Financial instruments are classified into one of five categories: fair value through profit or loss ("FVTPL"); held-to-maturity ("HTM"); loans and receivables; available for sale ("AFS"); or other financial liabilities.

The classification is determined at initial recognition and depends on the nature and purpose of the financial instruments.

(i) FVTPL financial instruments -

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future; it is part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument. Financial assets classified as FVTPL are initially measured at fair value with any subsequent gain or loss recognized in other income. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

The Company classifies cash as a FVTPL financial asset.

(ii) HTM financial instruments -

HTM financial instruments having a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial instrument to maturity, are classified as HTM and measured at amortized cost using the effective interest rate method. Any gains or losses arising from the sale of HTM financial instruments are included in other income. Currently the Company has no HTM financial instruments.

(iii) Loans and receivables -

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are included in other income. The Company has classified due from AHI as loans and receivables.

(iv) AFS financial instrument -

AFS financial assets are those financial assets that are not classified as FVTPL, held-to-maturity, or loans and receivables, and are carried at fair value. Any gains or losses arising from the change in the fair value are recorded as other comprehensive income. AFS financial instruments are written down to fair value through the income statement whenever it is necessary to reflect other-than-temporary impairment. Cumulative gains and losses arising upon the sale of the instrument are included in the income statement. Currently the Company has no AFS financial instruments.

(v) Other financial liabilities -

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The Company has classified accounts payable and accrued liabilities, convertible debentures, payable to Schmed Enterprises Inc. ("Schmed") and payable to AltaPharm International Ltd. ("AltaPharm") as other financial liabilities.

(j) **New IFRS standards and interpretations not yet applied -**

(i) Financial instruments -

The IASB intends to replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), in its entirety with IFRS 9, Financial Instruments: Classification and Measurement, ("IFRS 9"), in three main phases. IFRS 9 will then be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as FVTPL, financial guarantees and certain other exceptions. In response to delays to the completion of the remaining phases of the project, on December 16, 2011, the IASB issued amendments to IFRS 9 which deferred the mandatory effective date of IFRS 9 from January 1, 2013, to annual periods beginning on or after January 1, 2015. The amendments also provided relief from the requirement to restate comparative financial statements for the effects of applying IFRS 9.

Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning April 1, 2015 and has not yet considered the potential impact of the adoption of IFRS 9.

(ii) Consolidation -

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"), which supersedes SIC 12, Consolidation - Special Purpose Entities, and the requirements relating to consolidated financial statements in IAS 27, Consolidated and Separate Financial Statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 10 establishes control as the basis for an investor to consolidate its investees and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee.

The Company does not anticipate the application of IFRS 10 to have a significant impact on its financial statements.

(iii) Joint arrangements -

In May 2011, the IASB issued IFRS 11, Joint Arrangements ("IFRS 11"), which supersedes IAS 31, Interests in Joint Ventures and SIC 13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. Under IFRS 11, joint arrangements are classified as joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint venturers") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venture recognizes its investment in a joint arrangement using the equity method. The Company does not anticipate the application of IFRS 11 to have a significant impact on its financial statements.

(iv) Fair value measurement -

In May 2011, as a result of the convergence project undertaken by the IASB with the United States Financial Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13, Fair Value Measurement ("IFRS 13"). IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRS that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized. The Company does not anticipate the application of IFRS 13 to have a significant impact on its financial statements.

(v) Financial statement presentation -

In June 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements ("IAS 1"), that require an entity to group items presented in the statement of other comprehensive income on the basis of whether they may be reclassified to profit or loss subsequent to initial recognition. For those items presented before tax, the amendments to IAS 1 also require that the tax related to the two separate groups be presented separately. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. The Company does not anticipate this amendment to have a significant impact on its financial statements.

(vi) Disclosure of interests in other entities -

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), which establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013. The Company does not anticipate this amendment to have a significant impact on its financial statements

(vii) Asset and liability offsetting -

In December 2011, the IASB amended IAS 32- Financial Instruments: Presentation, to clarify certain requirements for offsetting financial assets and liabilities. This amendment is required for accounting periods beginning on or after January 1, 2014. The Company does not anticipate this amendment to have a significant impact on its financial statements

(viii) Transaction costs -

In May 2012, the IASB amended IAS 32- Financial Instruments: Presentation, to clarify the treatment of income tax relating to distributions and transaction costs. This amendment is required for accounting periods beginning on or after January 1, 2013. The Company does not anticipate this amendment to have a significant impact on its financial statements

4. **PRODUCT UNDER LICENSE AND DEVELOPMENT**

There are several products currently under license and development:

(i) ATB-346: Acute and Chronic Joint Pain: is a product that is designed to improve upon existing treatments for acute and chronic joint pain with a reduction in the occurrence of undesired gastrointestinal and cardiovascular effects.

(ii) ATB-344: Gout: is a product that is designed to improve upon existing treatments for the pain associated with gout.

Since inception, the cumulative research and development costs that have been incurred in developing the products have total of $957,907.

5. **RELATED PARTIES**

(a) **Transactions and balances with related parties** -

(i) The Company uses AltaPharm, a company controlled by the Company's Chief Scientific Officer ("CSO"), for research and development and bookkeeping services pursuant to a CSO agreement. During the year, the Company incurred costs of $260,000 included in research and development expenses (2012 - $203,400) and $2,500 included in office and sundry expenses (2012 - $nil) related to these services and at March 31, 2013, $283,490 (2012 - $129,920) was outstanding.

The Company uses Schmed, a company controlled by the Company's Chief Executive Officer ("CEO"), for consulting services pursuant to a CEO agreement. During the year, the Company incurred costs of $260,000 (2012 - $203,400) related to these services and as at March 31, 2013, $162,550 (2012 - $130,650) was outstanding.

The balances bear no interest. Prior to March 26, 2013 (the "Effective Date"), the balances were payable on demand and subsequent to the Effective Date, the balances were payable in accordance with the terms of a forbearance agreement (note 5(a)(ii)).

(ii) On the Effective Date, the Company entered into forbearance agreements with Schmed and AltaPharm whereby the related parties agreed not to enforce, for a period of 24 months from the date thereof, its right to receive earned but unpaid compensation of $283,490 in the case of AltaPharm and $162,550 in the case of Schmed pursuant to the terms of its consulting agreement with the Company. The forbearance agreements will terminate in the event that the Company completes a debt or equity financing for gross proceeds of not less than $5,000,000.

(iii) During the year, the Company advanced $106,564 (2012 - $18,072) to AHI and in turn, received $38,695 (2012 - $nil) from AHI. As at March 31, 2013, $85,941 was receivable (2012 - $18,072). These balances bear no interest and are payable on demand.

(iv) The aggregate compensation of officers of the Company for the year-ended March 31, 2013 was $70,371 (2012 - $nil).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

(b) **Debt for equity swap -**

On February 29, 2012, the Company reached an agreement with AltaPharm and Schmed (the "Subscribers") to convert an aggregate amount of $400,000 owed by the Company to the Subscribers in respect of outstanding amounts originating in the years 2010 through 2012 into units at a price of $1.25 per unit. Pursuant to the agreement and the Board of Directors' (the "Board") approval, a total of 960,000 common shares and 480,000 common share purchase warrants (the "warrant") were issued to the Subscribers in settlement of the debt owing to them. Each warrant entitles the holder to purchase one common share at an exercise price of $0.83 per common share, on or before June 1, 2019. The settled amount was prorated to common shares and warrants based on the relative fair value of each component, as follows: common shares - $274,981; warrants - $125,019.

(c) **Economic dependence -**

The Company has been reliant on Schmed and AltaPharm to provide consulting and research and development services to assist with the operations of the business.

6. CONVERTIBLE DEBENTURES

During the period from November 13, 2012 to February 27, 2013, the Company issued unsecured convertible debentures totaling $790,000. The debentures bear interest at 8% per annum and mature one year from the date of issue. The debentures are convertible into common shares of the Company at a one-third discount upon a liquidity event. The liquidity event is defined as the completion of a public offering of common shares by the Company and listing of same on a Canadian or US stock exchange; the sale for cash proceeds of all of the issued and outstanding shares in the capital stock of the Company or the amalgamation or any other corporate transaction involving the Company with or into another entity pursuant to which the common shares of the resulting issuer from such transaction are listed on a Canadian or US stock exchange (see note 15).

The convertible debentures contain both a liability and an equity element represented by the option to convert to common shares. As a result, these two elements were split and classified separately as debt and equity. The Company allocated the amount relating to the issuance of the convertible debentures to those elements based on the residual method. The fair value of the liability component was estimated by calculating the present value of the debentures at a discount rate of 16%, which represents the estimated borrowing rate available for the Company for similar debentures having no conversion rights. The residual value was allocated to the equity component.

The allocation of the $790,000 convertible debentures based on the residual method resulted in an allocation of $735,517 to convertible debentures and $54,483 to equity. The carrying value of the convertible debentures is accreted over their life through interest charges to the statement of loss and comprehensive loss being amortized on the effective yield basis using a discount rate of 16% so that the carrying value of the debt instrument at maturity will equal the face value of the outstanding convertible debentures plus accrued and unpaid interest.

The following is a summary of changes in the Company's convertible debentures for the year:

	2013	2012
Balance, beginning of the year	$ **-**	$ -
Issuance of convertible debenture at face value	**790,000**	-
Less: Equity component of convertible debentures	**(54,483)**	-
Add: Accretion	**12,203**	-
Add: Accrued interest	**14,156**	-
Balance, end of the year	**$ 761,876**	**$ -**

7. **SHARE CAPITAL**

(a) **Authorized -**

The Company has an unlimited number of authorized common shares.

(b) **Common shares -**

On February 7, 2013, the Company extended the expiry date of the common share purchase warrants issued in 2010 from December 1, 2016 to December 1, 2017. As a result of the modification, the allocation of the gross proceeds between the common shares and the warrants based on the relative fair value of each component was adjusted by $5,186.

During the period from April 11, 2012 to May 16, 2012, the Company issued 204,000 common shares at a price of $0.42 per unit for total proceeds of $85,000. Each unit was comprised of one common share and one-half warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $0.83 per common share, on or before June 1, 2019. The gross proceeds have been prorated to common shares and warrants based on the relative fair value of each component as follows: common shares - $57,074; warrants - $27,926.

On February 29, 2012, the Company issued a total of 960,000 common shares to related parties in settlement of the debt owing to them in the amount of $400,000. For further details see note 5(b). Similarly, on March 30, 2012, the Company reached an agreement with Bloom Burton & Co. ("Bloom") to convert an aggregate amount of $400,000 owed by the Company to Bloom in respect of advisory services rendered in 2012 into common shares at a price of $0.42 per common share. Pursuant to the agreement and the Board's approval, a total of 960,000 common shares were issued to Bloom in settlement of the debt owing to them.

During the period from January 17, 2012 to March 1, 2012, the Company issued 651,000 units at a price of $0.42 per unit for gross proceeds of $271,250. Each unit was comprised of one common share and one-half warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $0.83 per common share, on or before June 1, 2019. The gross proceeds have been prorated to common shares and warrants based on the relative fair value of each component as follows: common shares - $186,359 warrants - $84,891.

During the period from April 5, 2011 to November 30, 2011, the Company issued 336,000 units at a price of $0.42 per unit for gross proceeds of $140,000. Each unit was comprised of one common share and one-half warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $0.83 per common share, on or before December 1, 2018. The gross proceeds have been prorated to common shares and warrants based on the relative fair value of each component as follows: common shares - $96,143; warrants - $43,857.

(c) **Stock options -**

The Company has established a stock option plan which provides a limited issuance of options, capped at 5,914,224 common shares. The plan is to encourage ownership of common shares by its directors, senior officers, subsidiaries and consultants. The fair value of the options is measured as of the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period. The fair value is recognized as an expense with a corresponding increase in contributed surplus. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

On December 1, 2012, the Company granted options on 300,000 common shares with an exercise price of $0.42 per share to its Chief Financial Officer. The estimated fair value of these options calculated using the Black-Scholes pricing model, $124,497, was expensed during the year and included in contributed surplus.

Option pricing models require the input of highly-subjective assumptions, particularly as to the expected price volatility of the stock and the expected life of the option. Changes in the subjective input assumptions can materially affect the fair value estimate. There is no cash cost to the Company related to these options.

	March 31, 2013		March 31, 2012	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Balance, beginning of the year	**2,700,000**	**$ 0.33**	2,700,000	$ 0.33
Granted during the year	**300,000**	**0.42**	-	-
Balance, end of the year	**3,000,000**	**$ 0.34**	2,700,000	$ 0.33

Number of options	**Exercise Price**	**Expiry date**
2,700,000	$0.33	January 25, 2020
300,000	$0.42	December 1, 2022
3,000,000		

(d) **Common share purchase warrants -**

The following is a summary of warrants to purchase common shares that are outstanding at March 31, 2013 as well as details on exercise prices and expiry dates:

	March 31, 2013		March 31, 2012	
	Warrants	**Weighted average exercise price**	Warrants	Weighted average exercise price
Balance, beginning of the year	**1,761,000**	**$ 0.76**	787,500	$ 0.67
Issued during the year	**102,000**	**0.83**	973,500	0.83
Balance, end of the year	**1,863,000**	**$ 0.76**	1,761,000	$ 0.76

Number of warrants	**Exercise Price**	**Expiry date (see note 7(b))**
787,500	$0.67	December 1, 2017
168,000	$0.83	December 1, 2018
907,500	$0.83	June 1, 2019
1,863,000		

The following assumptions were used in the Black-Scholes option pricing model to determine the fair value of the share-based compensation expense relating to stock options and the fair value of warrants in the period:

	2013	2012
Risk free interest rate	**1.67%-1.86%**	1.32%-3.22%
Expected volatility	**180%**	135%
Expected dividend yield	**0.0%**	0.0%
Expected life of warrants and stock options	**7-10 years**	5-7 years

The Company has determined the forfeiture rate to be nil and volatility was determined in reference to other similar listed entities.

8. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. All unexercised share options and warrants were excluded from calculating diluted loss per share as the effect on the loss per would be anti-dilutive.

The following securities could potentially dilute basic earnings per share in the future but have not been included in diluted earnings per share because their effect was anti-dilutive:

	2013	2012
Stock options	**3,000,000**	2,700,000
Warrants	**1,863,000**	1,761,000

In addition, the conversion of the $790,000 convertible debentures could also potentially dilute basic earnings per share in the future.

9. INCOME TAXES

(a) **Income tax expense -**

The difference between the amount of the provision for income taxes and the amount computed by multiplying profit before income taxes by the statutory Canadian federal and provincial rate is reconciled as follows:

	2013	2012
Statutory Canadian tax rate	**15.50%**	15.50%
Income tax recovery at statutory rate	**$ (161,991)**	$ (146,031)
Differences in income taxes resulting from:		
Non-deductible expenses	**20,138**	-
Benefit of losses carried forward	**141,853**	146,031
	$ -	$ -

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(b) **Deferred taxes -**

The unrecognized deductible temporary differences and unused tax losses are attributable to the following:

	2013	2012
Amount related to tax loss carry forwards	**$ 423,306**	$ 281,453
Amount related to eligible capital property	**14,939**	16,064
Less: Valuation allowance	**(438,245)**	(297,517)
Deferred income tax asset	**$ -**	$ -

(c) **Tax losses -**

The Company has income tax losses available to be applied against taxable income of future years as follows:

In the year ending March 31, 2030	**$ 258,166**
2031	**607,722**
2032	**949,939**
2033	**915,181**

10. GOVERNMENT GRANT

During the year, the Company applied for the Market Intelligence Services program, which provides start-ups in Ontario access to premium market intelligence resources and services at no cost. The Company was successful in its application and received a grant from MaRS Discovery District of $22,600, which was netted against consulting fees. The grant is non-repayable and there are no unfulfilled conditions or contingencies attached to this grant.

11. FINANCIAL INSTRUMENTS

The carrying values of cash, due from AHI, and accounts payable and accrued liabilities approximate fair values due to the relatively short term maturities of these instruments.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data.

Financial instruments classified as Level 1 include cash. At the current time, the Company does not have financial instruments classified in Level 2 or Level 3

12. CAPITAL RISK MANAGEMENT

The Company's primary objective with respective to its capital management is to ensure that it has sufficient cash resources to fund the research, development and patent of drugs. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity.

The Company includes the following in its definition of capital: convertible debentures, common shares, common share purchase warrants, contributed surplus and accumulated deficit, which has a negative balance of $245,003. The Company is not subject to externally imposed capital requirements.

13. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including interest rate risk), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by the officers of the Company as discussed with the Board. The officers of the Company are charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the expectation of the Board as follows:

(a) **Credit risk -**

Certain of the Company's financial assets are exposed to a degree of credit risk. The Company endeavours to mitigate credit risk by holding its cash with major commercial banks.

Credit risk relating to due from AHI arise from the possibility that AHI fails to perform. The Company does not feel there is significant risk that could have an impact on the fair value of due from AHI.

(b) **Liquidity risk -**

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Company manages its liquidity risk by forecasting cash flows and anticipated investing and financing activities. Officers of the Company are actively involved in the review and approval of planned expenditures. As at March 31, 2013, the Company has accounts payable and accrued liabilities of $536,988 (2012 - $136,034) due within 12 months and has cash of $194,301 (2012 - $93,386) to meet its current obligation.

(c) **Market risk -**

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting similar financial instruments traded in the market. The Company is currently not exposed to market risk.

(d) **Interest rate risk -**

Interest risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company is currently not exposed to interest rate risk.

14. **COMMITMENTS**

(a) **Royalty and milestone commitment -**

On December 22, 2009, the Company entered into a license agreement with AHI that provided for the exclusive right and license to research, develop, and commercialize various patents. Pursuant to the agreement, the Company paid an upfront non-refundable license fee of $157,500 to obtain exclusive right to the patents. The agreement requires the Company to pay royalties of 4% of all net sales upon the first commercial sale or if the Company sublicenses the patents, the Company will pay a 15% royalty on royalty revenue earned. Additionally, the Company is required to make milestone payments to AHI at various stages of development, namely the greater of a $150,000 payment upon enrolment of the first patient in Phase I clinical trial or 10% of any milestone payment received from sublicense relation thereto; the greater of a $150,000 payment upon enrolment of the first patient in the first Phase II clinical trial or 10% of any milestone payment received from sublicense relation thereto; the greater of a $150,000 payment upon enrolment of the first patient in the first Phase III clinical trial or 10% of any milestone payment received from sublicense relation thereto; the greater of a $250,000 payment upon the first filing of a new drug application or 10% of any milestone payment received from sublicense relation thereto; and the greater of a $750,000 payment upon receipt of the first regulatory approval from any relevant registration authority or 10% of any milestone payment received from sublicense relation thereto. To date, no royalties or milestone payments have been incurred or paid to AHI.

(b) **Lease commitment -**

The Company entered into an office lease agreement on March 1, 2012 with Fifteen Prince Arthur Corp. and is committed to monthly gross rent payments of $3,000 until February 28, 2013. The gross rent payment includes taxes, maintenance and insurance.

The lease was renewed for an additional term of one year subject to the same conditions as the original lease agreement.

15. **SUBSEQUENT EVENTS**

(a) On May 21, 2013, the CSO and CEO agreements were amended, which required that, upon the completion of an IPO, the annual fees to AltaPharm and Schmed be individually reduced by $116,000 per annum until the Company raises aggregate gross proceeds of $2,500,000 (inclusive of the proceeds of the IPO), at which time the reduction shall be decreased by one-fifth for every additional $100,000 raised. The reduction shall remain in effect until the earlier of (i) the date the Company completes all of the relevant pre-clinical studies and (ii) the date the Company successfully completes a financing, the proceeds of which, when aggregated with the proceeds of the IPO and any arm’s length post-IPO financings, total not less than $3,000,000, at which time the annual fees shall be $260,000.

(b) On June 18, 2013 (the "Closing Date"), the Company successfully completed its initial public offering ("IPO") of common shares and listed such shares on the TSX Venture Exchange. Pursuant to the offering, the Company issued 3,868,000 common shares at a price of $0.55 per common share, for gross proceeds of $2,127,400.

In addition, the Company completed a private placement to two investors pursuant to which it issued an aggregate of 282,000 common shares, at a price of $0.55 per common share, for gross proceeds of $155,100. The shares issued pursuant to the private placement are subject to a hold period that expires on October 19, 2013.

Burgeonvest Bick Securities Limited and Euro Pacific Canada Inc. (together the "Agents") acted as the Company's agents during the offering process. The Company incurred and paid $222,750 in agent fees pursuant to this offering and granted to the Agents an aggregate of 405,000 options entitling the holder to purchase one common share, at offering price, with an expiry period of 24 months from the Closing Date. In addition, the Agents were granted an over-allotment option to purchase up to an additional number of common shares equal to 15% of the number of common shares sold under the IPO. The exercise price of such options is equal to the offering price and the options expire within 30 days from the closing of the offering. The Agents did not purchase additional shares under the over-allotment option.

(c) Immediately following the closing date of the IPO, which meets the definition of an liquidity event, all of the convertible debentures together with $22,300 in accrued but unpaid interest were converted to common shares at a one-third discount. The conversion resulted in the issuance of 2,215,339 common shares and an increase in share capital of $777,041.