

ANTIBE THERAPEUTICS INC.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2013 AND 2012
(unaudited)
(expressed in Canadian dollars)

NOTE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Antibe Therapeutics Inc. for the three and nine months ended December 31, 2013 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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

A S S E T S

| | December 31, 2013 | March 31, 2013 |
|--|------------------------------|---------------------------|
| <u>CURRENT</u> | | |
| Cash | 1,499,424 | 194,301 |
| Due from Shareholders (note 3) | 102,877 | 85,941 |
| Harmonized sales tax recoverable | 249,492 | 130,767 |
| Prepaid expenses | 130,494 | 46,125 |
| | 1,982,287 | 457,134 |
| <u>OTHER</u> | | |
| Property, Plant & Equipment | 265 | - |
| Deferred share issuance costs (note 5) | - | 280,891 |
| | 265 | 280,891 |
| TOTAL ASSETS | 1,982,551 | 738,025 |

L I A B I L I T I E S

| | | |
|--|----------------|------------------|
| <u>CURRENT</u> | | |
| Accounts payable and accrued liabilities | 524,764 | 536,987 |
| <u>OTHER</u> | | |
| Convertible debentures (note 4) | - | 761,876 |
| <u>LONG TERM</u> | | |
| Due to Schmed Enterprises Inc. (note 3) | 150,888 | 162,550 |
| Due to AltaPharm International Ltd. (note 3) | 263,152 | 283,490 |
| | 414,040 | 446,040 |
| TOTAL LIABILITIES | 938,804 | 1,744,903 |

S H A R E H O L D E R S ' E Q U I T Y / D E F I C I E N C Y

| | | |
|--|--------------------|--------------------|
| SHARE CAPITAL (notes 4 and 5) | 4,562,715 | 1,372,233 |
| COMMON SHARE PURCHASE WARRANTS (note 5) | 879,955 | 449,067 |
| CONTRIBUTED SURPLUS (notes 4 and 5) | 1,299,004 | 1,065,739 |
| ACCUMULATED DEFICIT | (5,697,927) | (3,893,916) |
| TOTAL SHAREHOLDERS' EQUITY / DEFICIENCY | 1,043,747 | (1,006,877) |
| | 1,982,551 | 738,025 |

COMMITMENTS (note 7)

Approved and authorized for issue by the Company's Board of Directors on February 11, 2014

(Signed) Daniel Legault

Daniel Legault,
Director
John Wallace,
Director

(Signed) John Wallace

See accompanying notes to condensed interim consolidated financial statements.

ANTIBE THERAPEUTICS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2013 AND 2012
(expressed in Canadian dollars)
(UNAUDITED)

| | For the Three months ended Dec 31, 2013 | For the Three months ended Dec 31, 2012 | For the Nine months ended Dec 31, 2013 | For the Nine months ended Dec 31, 2012 |
|--|--|--|---|---|
| REVENUES | - | - | - | - |
| EXPENSES | | | | |
| Research and development (note 3) | 553,643 | 65,000 | 803,070 | 195,000 |
| Salaries (note 3) | 146,802 | - | 281,547 | - |
| Professional Fees | 77,932 | 74,452 | 186,107 | 204,960 |
| Consulting fees (note 3) | 70,500 | 66,313 | 308,355 | 173,713 |
| Stock-based compensation (note 5(f)) | 39,740 | 124,497 | 39,740 | 124,497 |
| Office and sundry | 26,294 | 1,092 | 79,756 | 16,134 |
| Travel | 15,188 | 4,797 | 41,276 | 10,865 |
| Rent (note 7) | 14,500 | 9,000 | 35,700 | 27,319 |
| Telephone | 2,288 | 2,061 | 7,838 | 7,420 |
| Insurance | 2,157 | 1,161 | 5,457 | 3,483 |
| Interest / accretion (note 4) | - | 5,263 | 15,165 | 5,263 |
| | 949,044 | 353,635 | 1,804,011 | 768,654 |
| NET LOSS AND COMPREHENSIVE LOSS | (949,044) | (353,635) | (1,804,011) | (768,654) |
| Loss per share: | | | | |
| Basic and diluted | (0.03) | (0.02) | (0.07) | (0.04) |
| Weighted average number of common shares outstanding: | | | | |
| Basic and diluted | 27,655,855 | 19,686,000 | 24,928,971 | 19,675,489 |

See accompanying notes to condensed interim consolidated financial statements.
ANTIBE THERAPEUTICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2013 AND 2012

(expressed in Canadian dollars)

(UNAUDITED)

| | For the Three months ended | For the Three months ended | For the Nine months ended | For the Nine months ended |
|---|---------------------------------------|-------------------------------|--------------------------------------|---------------------------------|
| | Dec 31, 2013 | Dec 31, 2012 | Dec 31, 2013 | Dec 31, 2012 |
| <u>CASH FLOWS FROM OPERATIONS</u> | | | | |
| Net loss for the period | (949,044) | (353,635) | (1,804,011) | (768,654) |
| Items not affecting cash: | | | | |
| Accretion expense (note 4) | - | 2,436 | 7,021 | 2,436 |
| Accrued interest not paid (note 4) | - | 2,826 | (14,156) | 2,826 |
| Interest not paid on CD's retired (note 4) | - | (2,436) | (7,021) | (2,436) |
| Net changes in non-cash working capital items: | | | | |
| Prepaid expenses | (108,839) | (27,074) | (84,633) | (32,786) |
| Harmonized sales tax recoverable | (13,082) | (42,305) | (118,725) | (87,213) |
| Accounts payable and accrued liabilities | 314,964 | 133,211 | (12,222) | 385,792 |
| | <u>(756,000)</u> | <u>(286,976)</u> | <u>(2,033,748)</u> | <u>(500,035)</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | | |
| Net changes to Due from Shareholders (note 3) | 6,068 | (30,000) | (16,936) | 8,695 |
| Net changes to Long Term liabilities. (note 3) | (26,000) | - | (32,000) | - |
| Proceeds on issuance of shares and warrants net of agents' fees (note 5) | 822,750 | - | 3,665,090 | |
| Contributed Surplus (note 5) | 39,740 | 124,497 | 287,748 | 124,497 |
| Share issuance costs (note 5) | (57,345) | 298,517 | (565,031) | 383,517 |
| | - | | | |
| | <u>785,212</u> | <u>393,015</u> | <u>3,338,870</u> | <u>516,710</u> |
| NET INCREASE IN CASH FOR THE PERIOD | 29,211 | 106,038 | 1,305,122 | 16,675 |
| CASH, BEGINNING OF THE PERIOD | 1,470,212 | 4,023 | 194,301 | 93,386 |
| CASH, END OF THE PERIOD | 1,499,424 | 110,061 | 1,499,424 | 110,061 |

See accompanying notes to condensed interim consolidated financial statements.

ANTIBE THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FISCAL YTD PERIODS ENDED DECEMBER 31, 2013 AND 2012

(expressed in Canadian dollars)

(UNAUDITED)

| | Number of common shares | Share capital | Common share purchase warrants | Contributed surplus | Deficit | Total |
|---|--|--------------------------|---|--------------------------------|--------------------|--------------------|
| Balance, March 31, 2012 | 19,482,000 | 1,320,345 | 415,955 | 886,759 | (2,848,813) | (225,754) |
| Shares and warrants issued | 204,000 | 57,074 | 27,926 | | | 85,000 |
| Stock Based Compensation | | | | 124,497 | | 124,497 |
| Equity Component of convertible debentures | | | | 22,414 | | 22,414 |
| Net loss and comprehensive loss | | | | | (768,654) | (768,654) |
| Balance, December 31, 2012 | 19,686,000 | 1,377,419 | 443,881 | 1,033,670 | (3,617,467) | (762,497) |
| Balance, March 31, 2013 | 19,686,000 | 1,372,233 | 449,067 | 1,065,739 | (3,893,916) | (1,006,877) |
| IPO and PP Proceeds (note 5) | 7,371,899 | 4,054,545 | | | | 4,054,545 |
| Agents' and Q3 2014 Options (note 5(f)) | | (287,748) | | 287,748 | | 0 |
| Finder and Investor PP1 Warrants (note 5(e)) | | (430,888) | 372,043 | 58,845 | | 0 |
| Debentures and Accumulated Interest Conversion (note 4) | 2,215,339 | 831,524 | | (54,483) | | 777,041 |
| Issuance Costs including agents' fees (note 5) | | (976,951) | | | | (976,951) |
| Net loss and comprehensive loss | | | | | (1,804,011) | (1,804,011) |
| Balance, December 31, 2013 | 29,273,238 | 4,562,716 | 821,110 | 1,357,849 | (5,697,927) | 1,043,748 |

See accompanying notes to condensed interim consolidated financial statements.

ANTIBE THERAPEUTICS INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013 AND 2012
(expressed in Canadian dollars)
(UNAUDITED)

1. **NATURE OF OPERATIONS**

Antibe Therapeutics Inc. (the "Company") was incorporated on May 5, 2009 under the Business Corporation 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.

On August 27, 2013, the Company's board of directors appointed Walt Macnee to the position of Chairman of the Board of Directors of the Company.

On September 30, 2013, the Company's shareholders re-elected all members of the Company's board of directors and re-appointed the Company's auditors, Zeifmans LLP, at the Company's Annual General Meeting.

2. **BASIS OF PRESENTATION**

(a) **Consolidation -**

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Antibe Terapiya RUS LLP, 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. These condensed interim consolidated financial statements were prepared in accordance with IAS 34, "Interim Financial Reporting". The accounting policies used in these condensed interim consolidated financial statements are the same policies that were adopted in the most recent annual financial statements. The notes presented in these condensed interim consolidated financial statements include only significant changes and transactions occurring since the Company's last year-end and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the year ended March 31, 2013.

(c) **Going concern -**

The condensed interim consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As at December 31, 2013, the Company had a working capital surplus of \$1,457,523. The Company incurred losses of \$949,044 and \$1,804,011 for the three months and nine months ended December 31, 2013 respectively, and had negative cash flow from operations of \$756,000 and \$2,033,748 for the same periods.

The Company's ability to continue as a going concern is dependent on its ability to continue to meet its projected development milestones and its related ability to continue to raise capital. Management plans to continue to actively seek 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 or debt, or from proceeds from the exercise of stock options and common share warrants, or by entering into business development agreements with third parties, or by obtaining credit facilities. The Company's future capital requirements will depend on many factors, including, but not limited to, the cost of developing its products. 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 condensed interim consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses, and the classifications used in the statement of financial position. The condensed interim consolidated financial statements do not include adjustments that would be necessary if the going concern assumption was not appropriate.

(d) Basis of measurement –

These condensed interim 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 condensed interim 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 condensed interim consolidated financial statements, and the reported amount of revenue and expenses during the period. 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 condensed interim 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.

(f) New IFRS standards and interpretations not 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 that 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) **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.

(g) **Cash and Cash Equivalents –**

All references to cash and cash equivalents in these condensed interim consolidated financial statements refer to the Canadian dollar equivalents of any unrestricted bank account balances and any unrestricted funds invested in short term investment vehicles including but not limited to Guaranteed Investment Certificates. As at December 31, 2013, the Company held \$1,375,000 in Guaranteed Investment Certificates with no redemption restrictions.

(h) **Rounding –**

All figures within these notes and within the financial statements appended hereto, which are expressed in non-decimal formats, have been rounded to the nearest whole number for presentation purposes. Figures that represent the result of calculations, typically addition or subtraction, are similarly presented in their rounded formats. However, all calculations are performed using unrounded figures where possible. Using unrounded figures in calculations ensures the accuracy of those calculations but may result in what appear to be minor deviations in the presented figures.

3. **RELATED PARTIES**

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

- (i) The Company uses AltaPharm International Inc. (“AltaPharm”), a company controlled by the Company's Chief Scientific Officer (“CSO”), for research and development pursuant to a CSO agreement, and for bookkeeping services. During the three and nine months ended December 31, 2013, the Company incurred costs of \$65,000 and \$195,000 plus HST related to research and development respectively (\$65,000 and \$195,000 during the three and nine months ended December 31, 2012 respectively), and \$4,500 and \$14,500 plus HST related to bookkeeping (\$nil and \$nil during the three and nine months ended December 31, 2012), through AltaPharm. As at December 31, 2013, \$263,152 was outstanding (\$283,490 as at March 31, 2013). This balance bears no interest. Prior to March 26, 2013 (the “Effective Date” of a Forbearance Agreement entered into by the Company and AltaPharm), this balance was payable on demand. Subsequent to the Effective Date, the balance is payable in accordance with the terms of Forbearance Agreement. See note 3(a)(ii) below.

Until August 31, 2013, the Company used Schmed Enterprises Inc. (“Schmed”), a company controlled by the Company's Chief Executive Officer (“CEO”), for consulting services pursuant to a CEO agreement. During the three and nine months ended December 31, 2013, the Company incurred costs of \$0 and \$108,333 plus HST related to these services respectively (\$65,000 and \$195,000 during the three and nine months ended December 31, 2012 respectively). As at December 31, 2013, \$150,888 was outstanding (\$162,550 as at March 31, 2013). This balance bears no interest. Prior to March 26, 2013 (the “Effective Date” of a Forbearance Agreement entered into by the Company and Schmed), this balance was payable on demand. Subsequent to the Effective Date, the balance is payable in accordance with the terms of Forbearance Agreement. See note 3(a)(ii) below.

On September 1, 2013, the Company terminated its consulting agreement with Schmed and entered into an employment agreement with Dan Legault. The terms and conditions of the employment agreement reflect, where applicable, the terms and conditions of the terminated consulting agreement. This change was undertaken to make the CEO an employee of the

Company.

- (ii) On March 26, 2013, 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, their rights to receive earned but unpaid compensation of \$162,550 in the case of Schmed and \$283,490 in the case of AltaPharm, pursuant to the terms of their consulting agreements 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. On August 27, 2013, the Company's board of directors approved management to pay outstanding accounts payable, which are subject to the Forbearance Agreements, of up to a maximum of \$10,000 per month, to be allocated between Schmed and AltaPharm based on the amounts subject to their respective Forbearance Agreements. During Q3 and in accordance with this decision, the Company reduced its liability to AltaPharm and Schmed subject to the Forbearance Agreements by \$26,000.

On May 21, 2013, the CSO and CEO agreements were amended such that, upon the completion of the Initial Public Offering, (the "IPO"), the annual fees to AltaPharm and Schmed be individually reduced by \$116,000 per annum until the Company raises aggregate gross proceeds (inclusive of the proceeds of the IPO) of \$2,500,000, at which time the reduction shall be decreased by 1/5 for each additional \$100,000 raised. This reduction was to remain in effect until the earlier of (i) the date of the Company completed all of the relevant pre-clinical studies and (ii) the date the Company successfully completed a financing, the gross proceeds of which, when aggregated with the proceeds of the IPO and any arm's length post-IPO financings, totaled not less than \$3,000,000, at which time the annual fees would be \$260,000. On August 27, 2013, as the requirement under (ii) above had been satisfied, the Company's board of directors passed a motion that the senior management salary and consulting fee reductions be reversed and that any salary and consulting fee shortfalls experienced by senior management during the reduction period be remedied.

- (iii) During the three and nine months ended December 31, 2013, the Company advanced a net of \$3,932 and \$16,936 to AHI respectively (during the three and nine months ended December 31, 2012, the Company advanced a net of \$30,000 to AHI, and AHI advanced a net of \$8,695 to the Company respectively). As at December 31, 2013, \$102,877 was receivable from AHI (\$85,941 as at March 31, 2013). This balance bears no interest and is payable on demand.
- (iv) In association with the initial IPO offering, on June 18, 2013 two private placement offerings totaling gross proceeds of \$155,100 were closed. One of these private placements totaling gross proceeds of \$100,100 and the issuance of 182,000 shares was made to a company beneficially owned by one of the Company's directors, Jonathan Goodman. The shares issued are subject to all of the conditions typically applied to common shares issued under a private placement including a four month hold period on their trading.
- (v) The aggregate compensation of the directors and officers of the Company for the three and nine months ended December 31, 2013 was \$146,802 and \$281,547 respectively (\$nil and \$nil during the three and nine months ended December 31, 2012).
- (vi) On August 20, 2013, the Company expensed \$10,000 for promotional activities which one of the Company's board members subsequently offered to pay. As at September 30, 2013, this amount was included on the Company's balance sheet as Due from Shareholders and as at December 31, 2013 this amount had been reimbursed.

(b) **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. On September 1, 2013, under the terms of the employment agreement entered into with Dan Legault, the Company's reliance on Schmed was terminated.

4. CONVERTIBLE DEBENTURES

During the period from November 11, 2012 to February 27, 2013, the Company issued unsecured convertible debentures (for \$760,000 cash and in exchange for retiring \$30,000 of accounts receivable debt) totaling \$790,000. The debentures were to bear interest at 8% per annum and to mature one year from the date of their issue, and automatically convert upon a liquidity event 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. As a result of the Company's successful IPO, on June 18, 2013 the debentures automatically converted into common shares of the Company at a one-third discount to \$0.55 offering price, i.e. at \$0.3667 per share

The convertible debentures contained both a liability component and an equity component (represented by the option to convert to common shares). As a result, the fair value of the convertible debentures was allocated to debt and equity components using 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 was the estimated borrowing rate available for the Company for similar debentures having no conversion rights. The remaining value was allocated to the equity component.

The allocation of the \$790,000 convertible debentures based on the residual method resulted in \$735,517 being booked to convertible debentures and \$54,483 being booked to equity. The carrying value of the convertible debentures was accreted over its 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 would 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 period:

| | Nine months ended Dec 31, 2013 | Twelve months ended March 31, 2013 |
|--|---|---|
| Balance, Beginning of the Period | \$ 761,876 | \$ - |
| Issuance of convertible debenture at face value | - | 790,000 |
| Less: Equity component of convertible debentures | - | (54,483) |
| Add: Accretion | 7,021 | 12,203 |
| Add: Accrued interest | 8,144 | 14,156 |
| Balance at June 18, 2013 | 777,041 | - |
| Conversion | (777,041) | - |
| Balance, End of the Period | \$ - | \$ 761,876 |

On the closing date of the IPO, June 18, 2013, the face value of the convertible debentures plus the accrued but unpaid interest (\$790,000 face value plus \$22,300 accrued unpaid interest totaling \$812,300) was converted into 2,215,339 common shares. This amount plus accrued accretion expenses to June 18, 2013 of \$19,224, totaling \$831,524, was converted to share capital as part of the convertible debenture conversion. As a result, \$54,583, recorded at the inception of the convertible debentures as an equity component, was reclassified from contributed surplus to share capital. The overall impact on shareholders' equity of the conversion of the convertible debentures was therefore an increase of \$777,041.

5. SHARE CAPITAL

(a) **Authorized -**

The Company has an unlimited number of authorized common shares.

(b) **Initial public offering -**

On June 18, 2013 (the “Closing Date”), the Company successfully completed an initial public offering (the “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, on the Closing Date the company completed private placements with 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 this private placement were subject to a hold period that expired October 19, 2013.

Thus the total gross proceeds from the IPO and private placements totaled \$2,282,500 and resulted in the issuance of 4,150,000 common shares.

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 \$225,500 in agent fees pursuant to the offering and private placements and granted the Agents an aggregate of 405,000 options entitling them to purchase common shares, at the Offering Price of \$0.55 per common share, 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 was equal to the offering price and the options expired 30 days after the closing of the offering. The Agents did not purchase additional shares under this over-allotment option.

Agent’s fees of \$225,500 were deducted from the gross proceeds resulting in net proceeds to the Company of \$2,057,000. Issuance costs up to the Closing Date totaled \$707,923 (\$280,891 as at March 31, 2013) made up of agent related expenses (including the calculated value of the Agent’s options, plus Agent’s disbursements and Agent’s legal fees) of \$386,298 (\$68,122 as at March 31, 2013), legal fees of \$209,534 (\$165,075 as at March 31, 2013), audit fees of \$48,250 (\$25,000 as at March 31, 2013), and regulatory related expenses of \$63,841 (\$22,694 as at March 31, 2013). \$234,200 of the agent related expenses were non-cash; \$473,723 of all issuance costs deducted from the net proceeds were cash related. All issuance costs were offset against share capital at the closing date.

Immediately following the closing of the IPO, all outstanding convertible debentures totaling \$790,000 together with accrued but unpaid interest totaling \$22,300, were converted into common shares at a one-third discount to the offering price of \$0.55 per common share. The conversion calculation was performed at the individual debenture holder level and resulted in the issuance of 2,215,339 common shares.

(c) **Second and Third Closings -**

On August 14, 2013 (the “Second Closing Date”), the Company successfully completed a second closing of its IPO, the “Second Closing”. Pursuant to the Second Closing, the Company issued 1,096,000 common shares at a price of \$0.55 per common share, resulting in gross proceeds of \$602,800. After the company incurred and paid \$60,280 in agent fees, the net proceeds of the Second Closing were \$542,520. Issuance expenses incurred for the Second Closing totaled \$68,727. All issuance expenses were offset against share capital at the Second Closing Date. \$48,224 of the agent related expenses were non-cash. The proceeds, net of cash costs, of the Second Closing were \$522,017.

Pursuant to the Second Closing, the Agents were granted 109,600 options entitling them to purchase common shares, at the Offering Price of \$0.55 per common share, with an expiry period of 24 months from the Second Closing Date.

On August 22, 2013 (the “Third Closing Date”), the Company successfully completed a third closing of its IPO, the “Third Closing”. Pursuant to the Third Closing, the Company issued 490,545 common shares at a price of \$0.55 per common share, resulting in gross proceeds of \$269,800. After the company incurred and paid \$26,980 in agent fees, the net proceeds of the Third Closing were \$242,820. Issuance expenses incurred for the Third Closing totaled \$41,248. All issuance expenses were offset against share capital at the Third Closing Date. \$21,584 of the agent related expenses were non-cash. The proceeds, net of cash costs, of the Third Closing were \$223,156.

Pursuant to Third Closing, the Agents were granted 49,055 options entitling them to purchase common shares, at the Offering Price of \$0.55 per common share, with an expiry period of 24 months from the Third Closing Date.

As at the Third Closing Date, the gross proceeds of the Company's IPO offering, including the Second and Third Closings, totaled the maximum allowed under the filed final prospectus, \$3,000,000.

(d) **Private Placement 1 -**

On December 30, 2013 (the "PP1 Closing Date"), the Company successfully completed a private placement (the "PP1"). Pursuant to the PP1, the Company sold 1,635,354 units (the "Units") at a price of \$0.55 per Unit wherein each Unit comprised one common share and one-half common share purchase warrant. Each full common share purchase warrant ("PP1 Warrants") entitles the bearer to purchase one common share for a price of \$0.80 and expires three years from the date of issuance, i.e. the PP1 Warrants expire on December 30, 2016. The PP1 resulted in gross proceeds of \$899,445. After the company incurred and paid \$76,695 in finder fees, the net proceeds of the PP1 were \$822,750.

The \$899,445 gross proceeds were allocated into share capital and PP1 Warrants using the residual method. The PP1 Warrants were valued using the Black-Scholes Options Pricing Model ("BSOPM") which resulted in allocating \$372,043 to PP1 Warrants and \$527,402 to share capital. Issuance expenses incurred for the PP1 (including the \$76,695 of finders' fees) totaled \$136,290. All issuance expenses were offset against share capital at the PP1 Closing Date. \$58,845 of the expenses were non-cash. The proceeds of the PP1 net of cash costs totaled \$822,000.

In connection with the PP1, the Company granted 139,445 common share purchase warrants to finders (the "PP1 Finder Warrants"). Each PP1 Finder Warrant entitles the bearer to purchase one common share for a price of \$0.55 and expires two years from the date of issuance, i.e. the PP1 Finder Warrants expire on December 30, 2015. Using the BSOPM, these PP1 Finder Warrants were valued at \$58,845, recognized as share issuance costs in the current fiscal quarter (Q3 2014), and netted against share capital.

(e) **Stock options -**

In connection with its proposed IPO and Exchange Listing, on February 27, 2013, the Company adopted a New Option Plan in accordance with the rules and policies of the Exchange. Pursuant to the New Option Plan, the Company has authorized, subject to any regulatory approvals, the reservation of twenty percent (20%) of the Company's estimated issued and outstanding Common Shares immediately following the completion of the IPO and the conversion of the Debentures, for the grant of Options from time to time. Under the New Option Plan, the Board may from time to time grant to Eligible Persons Options to purchase from the Company such number of its Common Shares as the Board shall designate. The Board grants such options for a term of up to ten years, with vesting periods and prices determined at its sole discretion. The fair value of the options is measured as of the grant date, using the BSOPM, 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 June 18, 2013, in connection with the IPO, the Company granted the Agent 405,000 options to purchase common shares with an exercise price of \$0.55 and an expiry date of June 18, 2015. The fair value of the options was assessed to be, as at the grant date using the BSOPM, \$178,200. These options were recognized as share issuance costs in the first quarter of the Company's current fiscal year, and netted against share capital.

On August 14, 2013, in connection with the Second Closing, the Company granted the Agent 109,600 options to purchase common shares with an exercise price of \$0.55 and an expiry date of August 14, 2015. The fair value of the options was assessed to be, as at the grant date using the BSOPM, \$48,224. These options were recognized as share issuance costs in the second quarter of the Company's current fiscal year, and netted against share capital.

On August 22, 2013, in connection with the Third Closing, the Company granted the Agent 49,055 options to purchase common shares with an exercise price of \$0.55 and an expiry date of August 22, 2015. The fair value of the options was assessed to be, as at the grant date using the BSOPM, \$21,584. These options were recognized as share issuance costs in the second quarter of the Company's current fiscal year, and netted against share capital.

On October 22, 2013, the Company (i) granted its independent directors options to purchase a total of 225,000 common shares of Antibe pursuant to the Company's stock option plan; (ii) appointed Jeremy Grushcow, Ph.D., J.D. to the part-time role of VP Legal and Strategy; and (iii) pursuant to Dr. Grushcow's appointment, granted him 25,000 options pursuant to the Company's stock option plan. The 250,000 options granted per (i) and (ii) above (the "Q3 2014 Options") bear an exercise price of \$0.55 being the closing price of Antibe shares on October 21, 2013, and an expiry date of October 21, 2023. The fair value of the Q3 2014 Options was assessed to be, as at the grant date and using the BSOPM, \$136,250. These options will be expensed to stock-based compensation as they vest. Twenty-five percent of the Q3 2014 Options vested on the grant date and 1/36th of the remaining Q3 2014 Options will vest in each of the subsequent 36 months. In Q3 2014, Q3 2014 Options valued at \$39,740 vested.

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.

| | Nine Months ended December 31, 2013 | | Twelve Months ended March 31, 2013 | |
|----------------------------------|--|--|---|--|
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| Balance, beginning of the period | 3,000,000 | \$ 0.34 | 2,700,000 | \$ 0.33 |
| Granted during the period | 813,655 | 0.55 | 300,000 | 0.42 |
| Balance, end of the period | 3,813,655 | \$ 0.38 | 3,000,000 | \$ 0.34 |

| Number of options | Exercise Price | Expiry date |
|------------------------------|---------------------------|--------------------|
| 2,700,000 | \$0.33 | January 25, 2020 |
| 300,000 | \$0.42 | December 1, 2022 |
| 405,000 | \$0.55 | June 18, 2015 |
| 109,600 | \$0.55 | August 14, 2015 |
| 49,055 | \$0.55 | August 22, 2015 |
| 250,000 | \$0.55 | October 21, 2023 |
| 3,813,655 | | |

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

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

| | December 31, 2013 | | March 31, 2013 | |
|----------------------------------|--------------------------|--|-----------------------|--|
| | Warrants | Weighted average exercise price | Options | Weighted average exercise price |
| Balance, beginning of the period | 1,863,000 | \$ 0.76 | 1,761,000 | \$ 0.76 |
| Issued during the period | 957,121 | 0.76 | 102,000 | 0.83 |
| Balance, end of the period | 2,820,121 | \$ 0.76 | 1,863,000 | \$ 0.76 |

| Number of warrants | Exercise Price | Expiry date |
|---------------------------|-----------------------|--------------------|
| 817,676 | \$0.80 | December 30, 2016 |
| 139,445 | \$0.55 | December 30, 2015 |
| 787,500 | \$0.67 | December 1, 2016 |
| 168,000 | \$0.83 | December 1, 2018 |
| 907,500 | \$0.83 | June 1, 2019 |
| 2,820,121 | | |

(g) **BSOPM assumptions -**

The following assumptions were used in the BSOPM to determine the fair value of the Q3 2014 Options, PP1 Finders Warrants, and PP1 Warrants issued or granted in the current fiscal quarter.

**For the three months ended
December 31,
2013**

| | |
|---|---|
| Risk free interest rate | 1.76% |
| Expected volatility | 180% |
| Expected dividend yield | 0.0% |
| Expected life of warrants and stock options | 2 years, 3 years, and 10 years[~] |

[~] for the PP1 Finders Warrants, PP1 Warrants, and Q3 2014 Options respectively

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

6. **DEBT**

On October 11, 2013, the Company requested and was issued a corporate credit card for the purpose of streamlining the process for the payment of recurring expenses. The card has a credit limit of \$5,000 and will be paid in full by the company at each month end.

7. **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, other than the upfront non-refundable license fee, no royalties or milestone payments have been incurred or paid to AHI.

(b) **Office lease commitment -**

The Company entered into an office lease agreement on March 1, 2012 with Fifteen Prince Arthur Corp. This lease was renewed on March 1, 2013 committing the Company to monthly gross rent payments of \$4,500 plus HST until February 28, 2014. The gross rent payment includes utilities, taxes, maintenance and insurance.

(c) **Laboratory lease commitment –**

The Company entered into a laboratory lease agreement commencing December 1, 2013 with MaRS Discovery District. This lease commits the Company to monthly gross rent payments of approximately \$2,028 plus HST until, November 30, 2014. The gross rent payment includes utilities, taxes, and maintenance. Liability insurance on the laboratory space was covered by an expansion of the Company's existing liability policy. The Company plans to conduct multiple research projects related to its business in the space, and enter into collaborations with various researchers. The operating costs of the lab will be covered by existing and future research grants.

7. **SUBSEQUENT EVENTS UP TO FEBRUARY, 2014**

(a) **Private Placement 1b -**

On January 28, 2014 (the "PP1b Closing Date"), the Company successfully completed the second closing (the "PP1b") of the non-brokered private placement that first closed on December 30, 2013 (the "PP1"). Pursuant to the PP1b, the Company sold 632,689 units (the "PP1b Units") at a price of \$0.55 per PP1b Unit wherein each PP1b Unit comprised one common share and one-half common share purchase warrant. Each full common share purchase warrant ("PP1b Warrants") entitles the bearer to purchase one common share for a price of \$0.80 and expires three years from the date of issuance, i.e. the PP1b Warrants expire on January 27, 2017. The PP1b resulted in gross proceeds of \$347,979. After the company incurred and paid \$25,795 in finder fees, the net proceeds of the PP1b were \$322,184.

In connection with the PP1, the Company granted 316,345 common share purchase warrants to finders (the "PP1b Finder Warrants"). Each PP1b Finder Warrant entitles the bearer to purchase one common share for a price of \$0.55 and expires two years from the date of issuance, i.e. the PP1b Finder Warrants expire on January 27, 2016.

(b) **Corporate credit card -**

In January 2014, the Company requested and was approved to raise the credit limit on its corporate credit card to \$25,000. The increase was requested to enable the purchase of one-time pre-approved expenses previously being expensed to the credit cards of the Company's senior managers. The Company's bank will hold \$25,000 of funds in-trust as collateral. The Company will continue its practice of paying all outstanding balances in full at each month end.

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

In December 2013, the Company's board of directors approved management to pay outstanding accounts payable totalling \$50,000, which are subject to the Forbearance Agreements, to be allocated between Schmed and AltaPharm based on the amounts subject to their respective Forbearance Agreements. The funds were allocated and paid on January 6, 2014.