

ANTIBE THERAPEUTICS INC.  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2014  
(expressed in Canadian dollars)  
(UNAUDITED)

**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, 2014 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)

	<b><u>A S S E T S</u></b>	
	<b>December</b>	<b>March</b>
	<b>31, 2014</b>	<b>31, 2014</b>
<b><u>CURRENT</u></b>		
Cash and cash equivalents	906,190	3,754,862
Harmonized sales tax recoverable	57,776	330,344
Due from Antibe Holdings Inc. (note 3b)	190,606	142,752
Prepaid expenses	44,319	123,548
	<u>1,198,891</u>	<u>4,351,506</u>
<b><u>OTHER</u></b>		
Deferred share issuance	42,564	-
<b>TOTAL ASSETS</b>	<u><u>1,241,455</u></u>	<u><u>4,351,506</u></u>
<b><u>L I A B I L I T I E S</u></b>		
<b><u>CURRENT</u></b>		
Accounts payable and accrued liabilities	297,366	473,826
Deposit received	-	225,000
Payable to Schmed (note 3a)	-	121,734
Payable to AltaPharm (note 3a)	-	212,306
<b>TOTAL LIABILITIES</b>	<u>297,366</u>	<u>1,032,866</u>
<b><u>S H A R E H O L D E R S ' E Q U I T Y</u></b>		
<b>SHARE CAPITAL</b> (note 5b)	8,237,721	7,205,614
<b>COMMON SHARE PURCHASE WARRANTS</b> (note 5d)	826,148	826,148
<b>CONTRIBUTED SURPLUS</b>	2,206,576	1,860,857
<b>ACCUMULATED DEFICIT</b>	(10,326,354)	(6,573,979)
<b>TOTAL SHAREHOLDERS' EQUITY / DEFICIENCY</b>	<u>944,090</u>	<u>3,318,640</u>
	<u><u>1,241,455</u></u>	<u><u>4,351,506</u></u>

**COMMITMENTS** (note 7)

Approved and authorized for issue by the Company's Board of Directors on February 24, 2015

\_\_\_\_\_ Daniel Legault, Director

\_\_\_\_\_ John Wallace, Director

**ANTIBE THERAPEUTICS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2014 AND 2013**  
**(expressed in Canadian dollars)**  
**(UNAUDITED)**

	For the Three months ended Dec 31, <u>2014</u>	For the Three months ended Dec 31, <u>2013</u>	For the Nine months ended Dec 31, <u>2014</u>	For the Nine months ended Dec 31, <u>2013</u>
<b>EXPENSES</b>				
Research and development	282,271	553,643	2,024,356	803,070
Salaries and wages (note 3c)	163,129	108,748	473,985	245,828
Stock-based compensation (note 5c)	65,484	39,740	249,997	39,740
Consulting fees	50,400	48,000	161,548	244,605
Professional fees	122,701	106,432	289,989	267,857
Office and sundry	35,892	10,632	85,076	26,110
Dues and subscriptions	41,230	8,386	73,816	16,039
Advertising and promotion	47,167	41,800	94,573	58,913
Rent	15,750	14,500	47,250	35,700
Insurance	2,356	2,157	19,615	5,457
Travel	50,477	15,188	88,149	41,276
Telephone	3,912	2,288	11,260	7,838
Licensing fees (note 3b)	-	-	150,000	-
Interest / accretion on debentures	-	-	-	15,165
	<u>880,768</u>	<u>951,514</u>	<u>3,769,615</u>	<u>1,807,597</u>
<b>LOSS FROM OPERATIONS</b>	<b>(880,768)</b>	<b>(951,514)</b>	<b>(3,769,615)</b>	<b>(1,807,597)</b>
<b>INTEREST INCOME</b>	<b>4,034</b>	<b>2,470</b>	<b>17,239</b>	<b>3,586</b>
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(876,734)</b>	<b>(949,044)</b>	<b>(3,752,376)</b>	<b>(1,804,011)</b>
<b>Loss per share:</b>				
Basic and diluted	<u>(0.02)</u>	<u>(0.03)</u>	<u>(0.10)</u>	<u>(0.07)</u>
<b>Weighted average number of common shares outstanding:</b>				
Basic and diluted	<u>37,005,858</u>	<u>27,655,660</u>	<u>36,910,473</u>	<u>25,016,353</u>

See accompanying notes to the condensed interim consolidated financial statements.

**ANTIBE THERAPEUTICS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2014 AND 2013**

(expressed in Canadian dollars)  
(UNAUDITED)

	<b>For the Three months ended Dec 31, 2014</b>	<b>For the Three months ended Dec 31, 2013</b>	<b>For the Nine months ended Dec 31, 2014</b>	<b>For the Nine months ended Dec 31, 2013</b>
<b>CASH FLOWS FROM OPERATIONS</b>				
<b>Net loss and comprehensive loss</b>	<b>(876,734)</b>	(949,044)	<b>(3,752,376)</b>	(1,804,011)
<b>Income statement items not affecting cash:</b>				
Stock-based compensation (note 5c)	65,484	39,740	249,997	39,740
Accretion of debentures exp. (note 4)	-	-	-	7,021
Interest on debentures exp. (note 4)	-	-	-	(21,177)
	<u>(811,250)</u>	<u>(909,304)</u>	<u>(3,502,379)</u>	<u>(1,778,427)</u>
<b>Net changes in non-cash working capital items:</b>				
Net changes to prepaid expenses	81,199	(108,839)	79,230	(84,633)
Net changes to harmonized sales tax recoverable	58,984	(13,082)	272,568	(118,725)
Net changes to A/P and accrued liabilities	(364,618)	314,964	(510,500)	(12,222)
	<u>(224,435)</u>	<u>193,043</u>	<u>(158,702)</u>	<u>(215,580)</u>
Cash flows from operating activities	<u>(1,035,685)</u>	<u>(716,261)</u>	<u>(3,661,081)</u>	<u>(1,994,007)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net changes to Due from Antibe Holdings Inc.	(30,557)	6,068	(47,854)	(16,936)
Net changes to long term liabilities	-	(26,000)	-	(32,000)
Issuances:				
Gross proceeds from shares / warrants (note 5b)	-	899,445	1,019,560	4,054,545
Finder fees	-	(76,695)	(113,856)	(389,454)
Other cash issuance expenses	-	(57,345)	(2,876)	(597,916)
Deferred expenses	(22,150)	-	(42,564)	280,891
Prepaid proceeds	-	-	-	-
Cash flows from financing activities	<u>(52,707)</u>	<u>745,473</u>	<u>812,410</u>	<u>3,299,130</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE PERIOD</b>	<b>(1,088,392)</b>	29,211	<b>(2,848,671)</b>	1,305,122
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD</b>	<b>1,994,584</b>	1,470,212	<b>3,754,862</b>	194,301
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<b>906,191</b>	1,499,424	<b>906,191</b>	1,499,424
CASH CONSISTS OF:				
Cash	881,191	1,499,424		
Term deposits	25,000	-		
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>906,191</b>	<b>1,499,424</b>		

See accompanying notes to the condensed interim consolidated financial statements.

**ANTIBE THERAPEUTICS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE NINE MONTHS ENDED DECEMBER 31, 2014 AND 2013**  
(expressed in Canadian dollars)  
(UNAUDITED)

	<u>Number of common shares</u>	<u>Share capital</u>	<u>Common share purchase warrants</u>	<u>Contributed surplus</u>	<u>Deficit</u>	<u>Total</u>
<b>Balance, March 31, 2013</b>	<b>19,686,000</b>	<b>1,372,233</b>	<b>449,067</b>	<b>1,065,739</b>	<b>(3,893,916)</b>	<b>(1,006,877)</b>
Shares issued from IPO	7,371,899	4,054,545	-	-	-	4,054,545
Agents' options issued	-	(287,748)	-	287,748	-	-
Share issuance costs from IPO	-	(976,951)	-	-	-	(976,951)
Finder and investor PP warrants		(430,888)	372,043	58,845		-
Conversion of debentures	2,215,339	831,524	-	(54,483)	-	777,041
Net loss and comprehensive loss	-	-	-	-	(1,804,011)	(1,804,011)
<b>Balance, December 31, 2013</b>	<b><u>29,273,238</u></b>	<b><u>4,562,716</u></b>	<b><u>821,110</u></b>	<b><u>1,357,849</u></b>	<b><u>(5,697,927)</u></b>	<b><u>1,043,748</u></b>
<b>Balance, March 31, 2014</b>	<b><u>34,931,591</u></b>	<b><u>7,205,614</u></b>	<b><u>826,148</u></b>	<b><u>1,860,857</u></b>	<b><u>(6,573,979)</u></b>	<b><u>3,318,640</u></b>
Shares and warrants issued from private placements	2,074,267	1,244,560	-	-	-	1,244,560
Share issuance costs from private placements	-	(212,453)	-	95,721	-	(116,732)
Stock-based compensation	-	-	-	249,997	-	250,357
Net loss and comprehensive loss	-	-	-	-	(3,752,376)	(3,752,376)
<b>Balance, December 31, 2014</b>	<b><u>37,005,858</u></b>	<b><u>8,237,721</u></b>	<b><u>826,148</u></b>	<b><u>2,206,576</u></b>	<b><u>(10,326,354)</u></b>	<b><u>944,090</u></b>

See accompanying notes to the condensed interim consolidated financial statements.

**ANTIBE THERAPEUTICS INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2014**

(expressed in Canadian dollars)

(UNAUDITED)

1. **NATURE OF OPERATIONS**

Antibe Therapeutics Inc. (the "Company") was incorporated under the Business Corporation Act (Ontario) on May 5, 2009 as a private company. 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. On June 18, 2013, the Company completed its initial public offering ("IPO") and was listed on the TSX Venture Exchange.

The Company originates, develops, and out-licenses patent-protected new pharmaceuticals that are improved versions of existing drugs. Antibe's lead compound, ATB-346, combines hydrogen sulfide with naproxen, an approved, marketed and off-patent non-steroidal anti-inflammatory drug. The Company's main objective is to develop ATB-346 to the end of Phase II, a possible strategic exit point, by satisfying the requirements of the relevant drug regulatory authorities and of potential regional commercial licensors and global partners. The Company has established a development plan for its lead compound through to the end of Phase III development for regulatory discussion purposes and intends to move through this development program quickly and efficiently. Additionally, the Company continues to investigate other assets in its pipeline as well as additional development opportunities that it accesses while not losing sight of its main objective.

The address of the Company's registered office and principal place of business is 15 Prince Arthur Avenue, Toronto, Ontario, Canada, M5R 1B2.

Approximately 41% of the Company's common shares are held by Antibe Holdings Inc. ("AHI").

2. **BASIS OF PRESENTATION**

(a) **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, 2014.

(b) **Consolidation -**

These condensed interim 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.

(c) **Going concern -**

These condensed interim consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As at December 31, 2014, the Company had a working capital surplus of \$901,525 (\$1,457,523 as at December 31, 2013). The Company incurred a loss of \$876,734 for the three months and \$3,752,376 for the nine months ended December 31, 2014 and had negative cash flows from operations of \$1,035,685 and \$3,661,081 for the same respective periods.

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 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. These 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.

The 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 the fair value of stock-based compensation and warrants.

(f) **Cash and Cash Equivalents -**

All references to cash and cash equivalents in these 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, with terms to maturity of 90 days or less when acquired.

(g) **New IFRS standards and interpretations not applied -**

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.

In February 2014, the mandatory effective date of IFRS 9 was tentatively amended from January 1, 2015 to annual periods beginning on or after January 1, 2018.

Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning April 1, 2018 and has not yet considered the potential impact of the adoption of IFRS 9.

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.

### 3. **RELATED PARTIES**

#### **Transactions and balances with related parties -**

- (a) On March 26, 2013, (the "Effective Date"), the Company entered into a Forbearance Agreement with AltaPharm International Ltd. ("AltaPharm") whereby AltaPharm agreed not to enforce, for a period of 24 months from the date thereof, its right to receive earned but unpaid compensation pursuant to the terms of its "CSO Agreement" with the Company. The Forbearance Agreement was terminated on March 30, 2014 as the Company triggered a termination clause by completing equity financing yielding cumulative gross proceeds of greater than \$5,000,000. On April 10, 2014, the balance of AltaPharm's accounts payable was retired.

On March 1, 2014, the Company terminated its CSO Agreement with AltaPharm and entered into an employment agreement with Dr. John Wallace. The terms and conditions of the employment agreement reflect, where applicable, the terms and conditions of the terminated CSO Agreement. This change was undertaken to make Dr. Wallace an employee of the Company.

On the Effective Date, the Company entered into a Forbearance Agreement with Schmed Enterprises Inc. ("Schmed") whereby Schmed agreed not to enforce, for a period of 24 months from the date thereof, its right to receive earned but unpaid compensation pursuant to the terms of its "CEO Agreement" with the Company. The Forbearance Agreement was terminated on March 30, 2014 as the Company triggered a termination clause by completing equity financing yielding cumulative gross proceeds of greater than \$5,000,000. On April 10, 2014, the balance of Schmed's accounts payable was retired.

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

- (b) On June 26, 2014, with the enrolment of the first patient in a Phase I clinical trial, the Company triggered a milestone payment of \$150,000 to AHI as detailed in a Licensing Agreement between the two companies entered into on December 22, 2009 (see Note 7a).

During the three and nine months ended December 31, 2014, excluding the above mentioned milestone payment, the Company advanced a net of \$30,557 and \$205,354 respectively to AHI (\$3,932 and \$16,935 respectively during the three and nine months ended December 31, 2013). As at December 31, 2014, \$190,606 was receivable from AHI (\$142,752 receivable from AHI as at March 31, 2014). This

balance bears no interest and is payable on demand.

- (c) The aggregate compensation of the directors and officers of the Company paid directly or indirectly for the three and nine months ended December 31, 2014 was \$276,900 and \$817,263 respectively (\$230,083 and \$672,683 during the three and six months ended December 31, 2013 respectively).

#### 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%, the estimated borrowing rate available to 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:

	<u>Three months ended December 31, 2014</u>	<u>Year ended March 31, 2014</u>
<b>Balance, Beginning of the Period</b>	\$ -	\$ 761,876
Issuance of convertible debenture at face value	-	-
Less: Equity component of convertible debentures	-	-
Add: Accretion	-	7,021
Add: Accrued interest	-	8,144
Conversion	-	(777,041)
<b>Balance, End of the Period</b>	<u>\$ -</u>	<u>\$ -</u>

On the closing date of the IPO, the outstanding convertible debentures plus the accrued but unpaid interest of \$22,300 were converted into 2,215,339 common shares (see note 5). This amount plus accrued accretion expense to June 18, 2013 of \$19,224, totaling \$831,524, was converted to share capital pursuant to the terms of the debenture agreement.

## 5. SHARE CAPITAL

### (a) **Authorized -**

The Company has an unlimited number of authorized common shares.

### (b) **Common shares -**

#### (i) **Summary of common shares outstanding -**

	<u>Nine months ended December 30, 2014</u>	<u>Year ended March 31, 2014</u>
	<u>Common Shares</u>	<u>Common Shares</u>
Balance, beginning of the period	34,931,591	19,686,000
Conversion of convertible debentures		2,215,339
Issued during the period	<u>2,074,267</u>	<u>13,030,252</u>
Balance, end of the period	<u>37,005,858</u>	<u>34,931,591</u>

#### (ii) **Summary of share capital issued during the nine months ended December 31, 2014 -**

<u>Raise</u>	<u>Date</u>	<u># of Shares</u>	<u>Gross Proceeds</u>	<u>Finder Fees</u>	<u>Net Proceeds</u>	<u>Agent Options / Finder Warrants</u>
PP2b	April 7, 2014	1,516,600	\$ 909,960	\$ 81,396	\$ 828,564	135,660
PP2c	April 28, 2014	557,667	\$ 334,600	\$ 32,460	\$ 302,140	54,100
<b>Q3 2015 Total</b>		<b>2,074,267</b>	<b>\$ 1,244,560</b>	<b>\$ 113,856</b>	<b>\$ 1,130,704</b>	<b>189,760</b>

#### (iii) **Non-brokered private placements -**

On April 7, 2014 (the "PP2b Closing Date"), the Company successfully completed the second closing (the "PP2b") of the non-brokered private placement that first closed on March 31, 2014. Pursuant to the PP2b, the Company sold 1,516,600 Common Shares of the Corporation resulting in raising gross proceeds of \$909,960. After the Company incurred and paid \$81,396 in finder fees, the net proceeds of PP2b were \$828,564.

On April 28, 2014 (the "PP2c Closing Date"), the Company successfully completed the second closing (the "PP2c") of the non-brokered private placement that first closed on March 31, 2014. Pursuant to the PP2c, the Company sold 557,667 Common Shares of the Corporation resulting in raising gross proceeds of \$334,600. As at March 31, 2014, \$225,000 of these proceeds were held in escrow pending the successful closing of PP2c. After the Company incurred and paid \$32,460 in finder fees, the net proceeds of PP2b were \$302,140.

Issuance expenses incurred for PP2b and PP2c (including \$113,856 of finders' fees) totaled \$212,453 of which \$95,721 was a non-cash expense resulting from the issuance of finder warrants. All issuance expenses were offset against share capital at the PP2b and PP2c Closing Dates.

### (c) **Stock options -**

The Company has established a stock option plan that provides a limited issuance of options, capped at 5,527,576 common shares. The plan is to encourage ownership of common shares by its directors,

senior officers, other employees, and consultants. The fair value of the options is measured as of the grant date, using the Black-Scholes-Merton Options Pricing Model (BSM), and is recognized over the vesting period. The fair value is recognized as an expense or netted against share capital with a corresponding increase in contributed surplus. The amount recognized as expense reflects the number of share options that vest or are expected to vest in each period.

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.

**(i) Employee options granted in nine months ended December 31, 2014-**

On May 12, 2014, the Company granted a new director and a member of its senior management team options to purchase a total of 100,000 common shares pursuant to the Company's stock option plan. These options, the "ESO Grant 5", bear an exercise price of \$0.54 being the closing price of the Company's shares on May 11, 2014, and an expiry date of May 9, 2024. The fair value of ESO Grant 5 was assessed to be, as at the grant date and using the BSM, \$53,788. These options will be expensed to stock-based compensation as they vest. Twenty-five percent of ESO Grant 5 vested on the grant date and 1/36<sup>th</sup> of the remainder will vest in each of the subsequent 36 months.

On July 17, 2014, the Company granted a member of its senior management team options to purchase a total of 150,000 common shares pursuant to the Company's stock option plan. These options, the "ESO Grant 6", bear an exercise price of \$0.59 being the closing price of the Company's shares on July 16, 2014, and an expiry date of July 16, 2024. The fair value of ESO Grant 6 was assessed to be, as at the grant date and using the BSM, \$88,154. These options will be expensed to stock-based compensation as they vest. Twenty-five percent of ESO Grant 6 vested on the grant date and 1/36<sup>th</sup> of the remainder will vest in each of the subsequent 36 months.

On December 16, 2014, the Company entered into an investor relations consulting agreement with Stonegate Capital Partners Inc. ("Stonegate") wherein Stonegate is to provide the Company with investor relations services focused on the US investment market for a six month period starting the date of the execution of the contract. As per the terms of the agreement, the Company granted Stonegate options to purchase a total of 24,000 common shares pursuant to the Company's stock option plan. These options, the "ESO Grant 7", bear an exercise price of \$0.52 being the closing price of the Company's shares on December 15, 2014, and an expiry date of October 31, 2017. The fair value of ESO Grant 7 was assessed to be, as at the grant date and using the BSM, \$11,049. These options were expensed to stock-based compensation on the grant date. Twenty-five percent of ESO Grant 7 vested on the grant date and 1/3<sup>rd</sup> of the remainder will vest in each of the subsequent 3 quarters.

**(ii) Summary of options outstanding -**

The changes to the number of options granted by the Company during nine months ended December 31, 2014 and year ended March 31, 2014, and their weighted average exercise price are as follows:

	<b>Nine months ended December 30, 2014</b>		<b>Year ended March 31, 2014</b>	
	<b>Options</b>	<b>Weighted average exercise price</b>	<b>Options</b>	<b>Weighted average exercise price</b>
Balance, beginning of the period	4,838,654	\$ 0.44	3,000,000	\$ 0.34
Granted during the period	274,000	0.57	1,838,654	0.61
Balance, end of the period	5,112,654	\$ 0.45	4,838,654	\$ 0.44

**(iii) Details of options issued and outstanding as at December 31, 2014 –**

<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiry date</b>
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
49,054	\$0.55	August 22, 2015
250,000	\$0.55	October 22, 2023
1,025,000	\$0.66	March 4, 2024
100,000	\$0.54	May 9, 2024
150,000	\$0.59	July 16, 2024
24,000	\$0.52	October 31, 2017
<b>5,112,654</b>	<b>\$0.45</b>	

**(iv) BSM assumptions – options**

The assumptions used in the BSM to determine the fair value of options are summarized in the table below.

	<b><u>3 months</u></b> <b><u>ended</u></b> <b><u>Dec 31, 2014</u></b>	<b><u>3 months</u></b> <b><u>ended</u></b> <b><u>Dec 31, 2013</u></b>	<b><u>9 months</u></b> <b><u>ended</u></b> <b><u>Dec 31, 2014</u></b>	<b><u>9 months</u></b> <b><u>ended</u></b> <b><u>Dec 31, 2013</u></b>
Risk free interest rate	2.49%	1.76%	2.49%	1.76%
Expected volatility	180%	180%	180%	180%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%
Expected life of stock options	10 years	2-10 years	10 years	2-10 years

The Company has determined the forfeiture rate to be nil. The expected volatility was determined in reference to other similar listed entities. The Government of Canada's zero coupon bond yield was used as the risk free interest rate.

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

**(i) Warrants issued in connection with non-brokered private placements -**

In connection with PP2b, the Company granted 135,660 Common Share purchase warrants to the finders. Each of the PP2b finder warrants entitles the bearer to purchase one common share for a price of \$0.60 and expires two years from the date of issuance. Using the Black-Scholes-Merton Option Pricing Model ("BSM"), the PP2b finder warrants were valued at \$70,179, recognized as a share issuance cost, and charged to contributed surplus.

In connection with PP2c, the Company granted 54,100 Common Share purchase warrants to the finders. Each of the PP2c finder warrants entitles the bearer to purchase one common share for a price of \$0.60 and expires two years from the date of issuance. Using the BSM, the PP2c finder warrants were valued at \$25,543, recognized as a share issuance cost, and charged to 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 warrants.

The following is a summary of the common share purchase warrants outstanding as at December 31, 2014 as well as details on exercise prices and expiry dates:

**(ii) Summary of common share purchase warrants outstanding –**

The changes to the number of warrants granted by the Company during nine months ended December 31, 2014 and year ended March 31, 2014, and their weighted average exercise price are as follows:

	<u>Nine months ended December 31, 2014</u>		<u>Year ended March 31, 2014</u>	
	<u>Warrants</u>	<u>Weighted average exercise price</u>	<u>Warrants</u>	<u>Weighted average exercise price</u>
Balance, beginning of the period	3,682,479	\$ 0.74	1,863,000	\$ 0.76
Issued during the period	189,760	0.60	1,819,479	0.72
Balance, end of the period	3,872,239	\$ 0.73	3,682,479	\$ 0.74

**(iii) Details of common share purchase warrants issued and outstanding as at December 31, 2014**

<u>Number of warrants</u>	<u>Exercise Price</u>	<u>Expiry date</u>
1,761,000	\$0.76	
102,000	\$0.83	
817,676	\$0.80	December 30, 2016
139,444	\$0.55	December 30, 2015
316,344	\$0.80	January 28, 2017
51,450	\$0.55	January 28, 2016
494,565	\$0.60	March 31, 2016
135,660	\$0.60	April 4, 2016
54,100	\$0.60	April 28, 2016
<b>3,872,239</b>	<b>\$0.73</b>	

**(iv) BSM assumptions - warrants**

The assumptions used in the BSM to determine the fair value of finder warrants are summarized in the table below.

	<u>3 months ended Dec 31, 2014</u>	<u>3 months ended Dec 31, 2013</u>	<u>9 months ended Dec 31, 2014</u>	<u>9 months ended Dec 31, 2013</u>
Risk free interest rate	N/A	N/A	1.97%	1.76%
Expected volatility	N/A	N/A	180%	180%
Expected dividend yield	N/A	N/A	0.00%	0.00%
Expected life of warrants	N/A	N/A	2 years	2-3 years

The Company has determined the forfeiture rate to be nil. The expected volatility was determined in reference to other similar listed entities. The Government of Canada's zero coupon bond yield was used as the risk free interest rate.

**6. BANK FACILITY**

The Company holds a corporate credit card facility, administered by the Royal Bank. The facility has a \$25,000 limit and the bank holds \$25,000 of funds in-trust as collateral. The Company will continue its practice of paying all outstanding balances on the corporate credit card in full monthly.

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 a Phase I clinical trial or 10% of any milestone payment received from a 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 a 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 a 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 a 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 a sublicense relation thereto.

(b) **Office lease commitment –**

The Company renewed its office lease agreement with 15 Prince Arthur Corp. on March 1, 2014 committing the Company to monthly rent payments of \$5,250 until February 28, 2015. The 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 committed the Company to monthly rent payments of approximately \$2,017 until November 30, 2014. The 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 extended the lease on a month-by-month basis and terminated the lease effective January 31, 2015.

8. **SUBSEQUENT EVENTS UP TO FEBRUARY 24, 2015**

- (a) On January 16, 2015, the Company announced that it had suspended development of its lead drug, ATB-346, due to safety concerns encountered in its Phase I clinical trial. Safety concerns centred on the finding of significant liver enzyme elevations in one subject in the highest dose cohort. Additional liver enzyme elevations were observed in other subjects in the higher dose cohorts. The Company is concerned that, when assessed together, these liver enzyme elevations are indicative of potential hepatotoxicity. Pre-clinical studies on ATB-346 had provided no indication of potential hepatotoxicity. The company continues to collect and assess data and will report back to the scientific community and the market with further details on its data review and corporate strategy as appropriate.