

# **Portage Biotech Inc.**

(Formerly known as Bontan Corporation Inc.)

## **Consolidated Interim Financial Statements**

(Representing financials of the Accounting Acquirer)

**For the three and six months ended September 30, 2013**

**Unaudited – Prepared by Management**

**(US Dollars)**

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## **NOTICE TO READER OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The interim consolidated financial statements for Portage Biotech Inc. (formerly known as Bontan Corporation Inc.), comprised of the interim consolidated statements of financial position as at September 30, 2013 and for the year ended March 31, 2013, and the interim consolidated statement of operations, statement of changes in equity and cash flows for the three and six month period ending September 30, 2013 and are the responsibility of the Company's management.

These interim consolidated financial statements incorporate the acquisition of Portage Pharma Limited on June 6, 2013 as a reverse takeover and hence include the financial statements of Portage Pharma Limited as an accounting acquirer, as further explained in Note 2.

The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these interim consolidated financial statements in accordance with International Financial Reporting Standards.

The interim consolidated financial statements have not been reviewed by the Company's independent external auditors, Schwartz Levitsky Feldman LLP.

"signed"  
Kam Shah C.A., Director

"signed"  
Declan Doogan, Director

November 21, 2013

# Portage Biotech Inc.

(Formerly known as Bontan Corporation Inc.)

## Interim Consolidated Statements of Financial Position

(Acquisition accounted for as reverse takeover (Note 2))

(US Dollars)

(Unaudited – see Notice to Reader dated November 21, 2013)

As at,	Note	September 30, 2013	March 31, 2013
<b>Assets</b>			
<b>Current</b>			
Cash		\$3,282,851	\$190,960
Other receivable		59,851	295,441
		<b>\$3,342,702</b>	<b>\$486,401</b>
<b>Long-term assets</b>			
Office equipment and furniture		4,837	-
<b>Total assets</b>		<b>\$3,347,539</b>	<b>\$486,401</b>
<b>Liabilities and Shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		99,671	12,392
		<b>\$99,671</b>	<b>\$12,392</b>
<b>Shareholders' Equity</b>			
Capital stock	5	6,515,715	503,495
Warrants	7	1,108,402	
Deficit		(4,376,249)	(29,486)
<b>Total Shareholders' equity</b>		<b>\$3,247,868</b>	<b>\$474,009</b>
<b>Total liabilities and Shareholders' equity</b>		<b>\$3,347,539</b>	<b>\$486,401</b>
<b>Commitments and Contingent Liabilities (Note 9)</b>			
<b>Related Party Transactions (Note 10)</b>			

On behalf of the Board                     "Kam Shah"                     Director                     "Declan Doogan"                     Director  
(signed) (signed)

The accompanying notes are an integral part of these consolidated financial statements.

# Portage Biotech Inc.

(Formerly known as Bontan Corporation Inc.)

## Interim Consolidated Statements of Operations

(Acquisition accounted for as reverse takeover (Note 2))

(US Dollars)

(Unaudited – see Notice to Reader dated November 21, 2013)

	Note	Three months ended September 30		Six months ended September 30	
		2013	2012 *	2013	2012*
<b>Expenses</b>					
Acquisition related costs		-	-	3,826,325	-
Research and development		195,965	-	288,743	-
Professional fees		64,425	-	110,080	-
Consulting fees	9,10(ii)	43,955	-	65,277	-
Office and general		11,151	-	16,207	-
Shareholders' information		7,823	-	11,609	-
Payroll		10,772	-	14,398	-
Travel, meals and promotions	10(i)	2,852	-	5,323	-
Rent		6,167	-	8,426	-
Transfer agents fees		3,787	-	5,241	-
Bank charges and interest		838	-	2,073	-
Communication		664	-	902	-
Amortization		346	-	462	-
Exchange loss		(428)	-	(8,303)	-
		348,317	-	4,346,763	-
<b>Net loss for period</b>		<b>(348,317)</b>	<b>-</b>	<b>(4,346,763)</b>	<b>-</b>
<b>Basic and diluted loss per share</b>					
Net Loss per share	8	<b>\$(0.00)</b>	<b>\$-</b>	<b>(0.03)</b>	<b>-</b>

\* Comparatives are for Portage Pharma Ltd (accounting acquirer) which was incorporated on May 23, 2012 and had no transactions for the period from the date of incorporation to September 30, 2012.

**The accompanying notes are an integral part of these consolidated financial statements.**

# Portage Biotech Inc.

(Formerly known as Bontan Corporation Inc.)

## Interim Consolidated Statements of Shareholders' Equity

(Acquisition accounted for as reverse takeover (Note 2))

For the six months ended September 30, 2013

(US Dollars)

(Unaudited – see Notice to Reader dated November 21, 2013)

	Number of Shares	Capital Stock	Warrants	Accumulated Deficit	Total Equity
<b>Balance, April 1, 2012</b>	<b>78,714,076</b>				
Issued under consultants compensation plan	<b>2,000,000</b>				
issued on incorporation of PPL		503,495		-	503,495
<b>Balance, September 30, 2012</b>	<b>80,714,076</b>	<b>\$503,495</b>			<b>\$503,495</b>
<b>Balance, April 1, 2013</b>	<b>81,759,076</b>	<b>\$503,495</b>		<b>\$(29,486)</b>	<b>\$474,009</b>
Issued on acquisition	81,759,076	\$1,761,413	1,108,402		2,869,815
Issued to Culminant Capital Inc. for financial advisory services relating to the acquisition transaction	9,811,091	\$3,826,325			3,826,325
Exercise of warrants	950,000	125,000			125,000
Exercise of options	1,996,547	299,482			299,482
Net loss for period				(4,346,763)	(4,346,763)
<b>Balance, September 30, 2013</b>	<b>176,275,790</b>	<b>\$6,515,715</b>	<b>\$1,108,402</b>	<b>\$(4,376,249)</b>	<b>\$3,247,868</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Portage Biotech Inc.

(Formerly known as Bontan Corporation Inc.)

## Interim Consolidated Statement of Cash Flows

(Acquisition accounted for as reverse takeover (Note 2))

For the six months ended September 30,

(US Dollars)

(Unaudited – see Notice to Reader dated November 21, 2013)

	2013	2012
<b>Cash flows from operating activities</b>		
Net loss for period	\$(4,346,763)	-
Amortization of office equipment and furniture	462	-
Acquisition related costs	3,826,325	-
<b>Net change in working capital components</b>		
Other receivables	235,590	-
Accounts payable and accrued liabilities	87,279	-
	\$(197,107)	\$-
<b>Cash flows from investing activities</b>		
Office equipment and furniture acquired	(5,299)	-
	\$(5,299)	\$-
<b>Cash flows from financing activities</b>		
Receivable from shareholders		(503,495)
Fair value of consideration received on acquisition (Note 2)	2,869,815	-
Options and warrants exercised	424,482	-
Capital contribution		503,495
	\$3,294,297	\$-
<b>Increase in cash during period</b>	<b>3,091,891</b>	-
<b>Cash at beginning of period</b>	<b>190,960</b>	-
<b>Cash at end of period</b>	<b>\$3,282,851</b>	<b>\$-</b>
<b>Supplemental disclosures</b>		
<b>Non-cash operating activities</b>		
Shares Issued to Culminant Capital Inc. For financial advisory services relating to the acquisition transaction	(3,826,325)	-
	(3,826,325)	-
<b>Non-cash investing activities</b>		
Value of shares and warrants issued on acquisition	2,869,815	-
	2,869,815	-

The accompanying notes are an integral part of these consolidated financial statements.

# Portage Biotech Inc.

(Formerly known as Bontan Corporation Inc.)

**Notes to Interim Consolidated Financial Statements  
(acquisition accounted for as reverse takeover (Note 2))  
(US Dollars)  
(Unaudited – see Notice to Reader dated November 21, 2013)**

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## 1. NATURE OF OPERATIONS

Portage Biotech Inc. (“the Company”) was operating as an Ontario, Canada incorporated company, Bontan Corporation Inc. (“Bontan”), until July 5, 2013. On July 5, 2013 Bontan changed its name to the current name and was issued a certificate of Continuance by the Registrar of Corporate Affairs of the British Virgin Islands (“BVI”).

The Company now continues as a BVI incorporated company with its registered office located at FH Chambers, P.O. Box 4649, Road Town, Tortola, BVI. Its Toronto agent is located at 47 Avenue Road, Suite 200, Toronto, Ontario, M5R 2G3, Canada.

The Company continues to be a reporting issuer with Ontario Securities Commission and US Securities and Exchange Commission and its shares trade on the Over the Counter Bulletin Board of NASDAQ under the trading symbol “PTGEF,” effective August 23, 2013. Prior to this date, it was trading as Bontan Corporation Inc. under the trading symbol “BNTNF”. Effective October 28, 2013, the Company’s shares are also listed for trading in US currency on the Canadian National Stock Exchange under the symbol “PBT.U”.

Since December 2012, the Company changed the focus of its business activities to biotechnology. On June 4, 2013, it acquired Portage Pharma Ltd (“PPL”), a private limited company formed under BVI laws on May 23, 2012 through the exchange of shares. The acquisition has been accounted for as a reverse acquisition as explained in Note 2.

The Company is engaged in researching and developing pharmaceutical and biotech products through to clinical “proof of concept” with an initial focus on unmet clinical needs and orphan drugs. Following proof of concept, the Company will look to sell or license the products to large pharmaceutical companies for further development and commercialization. The Company, through its subsidiary, holds an exclusive worldwide licence in non-oncology fields and the know-how relating to the Antennapedia protein transduction technology developed by Trojantec.

## 2. REVERSE ACQUISITION TRANSACTION

On June 4, 2013, the Company completed an acquisition with PPL pursuant to which a wholly owned subsidiary of the Company, Portage Acquisition Inc. and PPL amalgamated, resulting in the Company owning all of the issued and outstanding shares of the amalgamated entity.

Pursuant to a Share Exchange Agreement, Bontan issued 81,759,076 common shares and 71,456,420 warrants to PPL shareholders in exchange for PPL shareholders transferring all their shares in favour of Portage Acquisition Inc. Warrants can be exercised within two years at an exercise price of US\$0.29 to acquire an equal number of common shares of the Company. In addition, Bontan also issued 9,811,091 shares to Culminant Capital Inc. as compensation for financial advisory services rendered in connection with the transaction. The fair value of these shares of \$ 3,826,325 was expensed.

Although the transaction resulted in PPL becoming a wholly owned subsidiary of the Company, the transaction constitutes a reverse acquisition in as much as the shareholders of PPL own a substantial (approximately 46%) majority of the outstanding common shares of the Company and three out of four members of the Board of Directors of the Company are PPL shareholders. As a result, PPL controls the Company.

The transaction has therefore been accounted for as a reverse acquisition in accordance with guidance provided in International Financial Reporting Standards (“IFRS”) 3 *Business Combinations* and IFRS 10 *Consolidated Financial Statements*.

These interim consolidated financial statements include:

- a. The assets and liabilities of PPL at their pre-acquisition carrying amounts as at September 30, 2013 and expenses for the three and six months ended on that date
- b. The assets and liabilities of Portage Biotech Inc. entity as at September 30, 2013 and expenses from June 4, 2013 to September 30, 2013.
- c. Share capital representing the total number of shares issued by the Company.
- d. Value of the share capital on the date of acquisition was computed by adding to the value of the share capital of PPL, the fair value of Bontan as at June 4, 2013 as adjusted by warrants and options exercised during the period ended September 30, 2013.

Fair value of consideration	\$2,869,815	
Allocated to Shares issued		\$1,761,413
Warrants issued		\$1,108,402

- e. Comparative figures are those of PPL.

The fair value of the consideration is determined based on the fair value of net assets acquired by PPL, which was computed as \$2,869,815.

The fair value was allocated as follows:

Cash	\$3,006,593
Office equipment and furniture	5,528
Other assets	153,721
Liabilities	(296,027)
Fair value of consideration	<u>2,869,815</u>

### 3. BASIS OF PRESENTATION

#### (a) Statement of Compliance and Basis of presentation

These Interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), IAS 34 *Interim Financial Reporting*. These financial statements do not include all of the information required for full annual financial statements.

These consolidated financial statements have been prepared on a historical cost basis except for certain assets, liabilities and equity which are measured at fair value as explained in the Notes to these financial statements. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The Company has no requirement to report on segments as it operates as only one segment.

These interim consolidated financial statements were approved and authorized for issue by the Audit Committee and Board of Directors on November 21, 2013.

**(b) Consolidation**

The consolidated financial statements include the accounts of the Company and,

- a. Portage Services Ltd. (previously 1843343 Ontario Inc.), a wholly owned subsidiary incorporated in Ontario on January 31, 2011. 1843343 Ontario Inc. changed its name to Portage Services Ltd. effective July 11, 2013.
- b. Portage Pharmaceuticals Ltd. (previously Portage Acquisition Inc.), a wholly owned subsidiary incorporated on April 5, 2013 under the laws of the BVI, as a BVI business company. On July 23, 2013, Portage Pharma Limited merged with Portage Acquisition Inc. and the merged entity was known as Portage Acquisition Inc., which changed its name on August 27, 2013.

All inter-company balances and transactions have been eliminated on consolidation.

**(c) Functional and presentation currency**

On June 4, 2013, the Company did an analysis applying the primary and secondary indicators in IAS 21 and determined that, as a result of the reverse acquisition transaction discussed in Note 2 and change of its jurisdiction to BVI, its economic circumstances have changed. The Company is expected to incur substantially all expenses in US Dollars and expects future revenues in US Dollars.

The management therefore concluded that the US Dollar is the most appropriate functional currency for all operations. The Company has also decided to change its presentation currency to the US Dollar.

The effect of the above change in functional currency has been accounted for prospectively as provided under IAS 21 *the effect of changes in foreign exchange rates*. Accordingly, all Non-US dollar items were translated into US dollars using the exchange rate as of June 4, 2013. The resulting translated amounts for non-monetary items were treated at their historical costs.

**(d) Use of Estimates and judgments**

The preparation of these interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant areas where estimation uncertainty and critical judgments are applied include valuation of financial instruments, research and development costs, valuation of property, plant and equipment, impairment losses, depletion and depreciation, and measurement of share-based compensation.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out in Note 4 to the interim consolidated financial statements for the three months ended June 30, 2013. These policies have been applied consistently to all periods presented in these interim consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

***Accounting Standards and Interpretations Adopted in fiscal 2014***

On April 1, 2013 the Company adopted the following standards and amendments to existing standards:

IFRS 10, *Consolidated Financial Statements* (“IFRS 10”) replaces consolidation requirements in IAS 27 “Consolidated and Separate Financial Statements” and Standing Interpretation Committee Interpretation 12, *Consolidation – Special Purpose Entities* (“SIC-12”). IFRS 10 provides a revised definition of control so that a single control model can be applied to all entities for consolidation purposes.

IFRS 11, *Joint Arrangements* (“IFRS 11”) replaces IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*, and requires a single method to account for interests in jointly controlled entities.

IFRS 12, *Disclosure of Interests in Other Entities* (“IFRS 12”) establishes enhanced disclosure requirements about an entity’s interests in consolidated and unconsolidated entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities (special purpose entities).

IFRS 13, *Fair Value Measurements* (“IFRS 13”) establishes a single source of guidance for all fair value measurements required by other IFRS; clarifies the definition of fair value; and enhances disclosure about fair value measurements. IFRS 13 applies when other IFRS require or permit fair value disclosure. IFRS 13 specifies how we should measure fair value and disclose fair value information. It does not specify when an entity should measure an asset, a liability or its own equity instrument at fair value.

Amendments to IAS 1, *Presentation of Financial Statements*, require entities to group items within other comprehensive income that may be reclassified to net income.

The standards and amendments listed above did not have a significant impact on the Company’s financial statements.

### **New standards and interpretations not yet adopted**

Standards issued but not yet effective up to the date of issuance of the Company’s interim consolidated financial statements are listed below. This listing is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

#### *IFRS 9 - Financial Instruments*

The IASB intends to replace IAS 39, *Financial Instruments: Recognition and Measurements*, with IFRS 9, *Financial Instruments*. IFRS 9 will be published in six phases, of which the first phase has been published.

For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. For financial liabilities, the approach to the fair value option may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity’s own credit risk.

IFRS 9 is effective for annual periods beginning on April 1, 2015, but is available for early adoption. The Company has yet to assess the full impact of IFRS 9.

#### *IAS 32 (Amendment) – Financial Instruments*

The amendment relates to offsetting financial assets and financial liabilities and is effective for periods beginning on or after April 1, 2014. The Company has yet to assess the full impact of IFRS 9.

## 5. CAPITAL STOCK

(a) Authorized: Unlimited number of common shares

(b) Issued

	Common Shares	Amount
Balance at April 1, 2012	78,714,076	
Issued under Consultant Stock Compensation Plan	3,045,000	
Issued on incorporation of PPL		503,495
Balance at March 31, 2013	81,759,076	\$503,495
<b>Issued on acquisition of PPL (Note 2)</b>	<b>81,759,076</b>	<b>1,761,413</b>
<b>Issued for financial advisory services in connection with the acquisition of PPL (Note 2)</b>	<b>9,811,091</b>	<b>3,826,325</b>
<b>Exercise of warrants</b>	<b>950,000</b>	<b>125,000</b>
<b>Exercise of options</b>	<b>1,996,547</b>	<b>299,482</b>
<b>Balance at September 30, 2013</b>	<b>176,275,790</b>	<b>\$6,515,715</b>

(c) As at September 30, 2013, the Company had the following active Consultant Stock Compensation Plans:

	Date of registration*	Registered shares under Plan	Issued to March 31, 2012	As at April 1, 2013	Issued	Cancelled (i)	Balance at September 30, 2013
2011 Plan	11-Apr-11	6,000,000	(938,333)	5,061,667		-	5,061,667

\* Registered with the Securities and Exchange Commission of the United States of America (SEC) as required under the Securities Act of 1933.

## 6. STOCK OPTION PLANS

(a) The following is a summary of all Stock Option Plans as at September 30, 2013:

Date of Registration	April 30, 2003	July 22, 2004	Dec. 5, 2005	Dec. 5, 2005	Total
Registered *	3,000,000	2,500,000	1,100,000	1,000,000	7,600,000
Issued	3,000,000	2,500,000	1,100,000	1,000,000	7,600,000
Outstanding, April 1, 2013	1,730,000	1,945,000	1,100,000	610,000	5,385,000
Exercised	(482,100) (1,514,447)		(1,996,547)		
<b>Outstanding September 30, 2013</b>	<b>1,247,900</b>	<b>430,553</b>	<b>1,100,000</b>	<b>610,000</b>	<b>3,388,453</b>

\* Registered with the Securities and Exchange Commission of the United States of America (SEC) as required under the Securities Act of 1933.

All outstanding options were fully vested on the dates of their grant.

(b) The weighted average exercise price of the outstanding stock options was US\$0.18 as at September 30, 2013 and weighted average remaining contractual life was approximately 0.80 year.

The options can be exercised at any time after vesting within the exercise period in accordance with the applicable option agreement. The exercise price was more than the market price on the date of the grants for 560,000 options and less than the market price for the balance of 2,828,453 options.

## 7. WARRANTS

- (i) The Company issued 71.4 million warrants to nine shareholders of PPL as per the terms of the Share Exchange Agreement as explained in Note 2. These warrants are convertible into equal number of common shares at an exercise price of \$0.29 per warrant and expire within two years of their issuance.

The fair value of these warrants has been estimated using a Black-Scholes option pricing model with the following assumptions:

Risk free interest rate	1%
Expected dividend	nil
Expected volatility	137.71%
Expected life	730 days
Market price	US\$0.39

The fair value of the warrants as per the Black-Scholes option pricing model amounted to \$20,064,888 using the relative fair value method, an amount of \$1,108,402 for warrants issued has been accounted for as the value of warrants.

- (ii) Details of weighted average remaining life of the warrants granted and outstanding are as follows:

Exercise price in US\$	September 30, 2013	
	Warrants outstanding & exercisable	
	Number	Weighted average remaining contractual life (years)
0.10	9,650,000	0.50
0.25	12,646,420	0.50
0.29	71,456,420	1.68
0.35	42,825,000	1.42
0.29	136,577,840	1.40

## 8. LOSS PER SHARE

Loss per share is calculated on the weighted average number of common shares outstanding during the three and six months ended September 30, 2013

Weighted average number of shares issued and outstanding for the six months ended September 30, 2013 for the purpose of computing loss per share were 129,017,433 calculated as per IFRS 3 as follows (six months ended September 30, 2012 : 79,059,909):

Number of shares outstanding for the period from April 1, 2013 to June 4, 2013- the date of the reverse acquisition – which is the number of Shares issued by Bontan (Accounting acquiree and legal acquirer) to the shareholders of PPL (Accounting acquirer and legal acquiree)	81,759,076
Average number of issued and outstanding shares between June 4, 2013 and September 30, 2013	176,275,790
Simple average of the above	129,017,433

Weighted average number of shares issued and outstanding for the three months ended September 30, 2013 were 176,275,790(three months ended September 30, 2012: 79,405,743)

The Company had approximately 137 million warrants and 3 million options which were not exercised as at June 30, 2013. Inclusion of these warrants and options in the computation of diluted loss per share would have an anti-dilutive effect on the loss per share and are therefore excluded from the computation. Consequently, there is no difference between loss per share and diluted loss per share.

## 9. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) The Company entered into a consulting contract with Mr Kam Shah, the Chief Executive Officer and Chief Financial Officer on April 1, 2005 for a five-year term. This term was extended by another five years to March 31, 2015 by the audit committee on April 1, 2010. Mr Shah's monthly fee is \$15,000 plus taxes. Further, the contract provides for a lump sum compensation of US\$250,000 for early termination of the contract without cause. The contract also provides for entitlement to stock compensation and stock options under appropriate plans as may be decided by the board of directors from time to time.
- (b) Under the terms of the License Agreement dated January 25, 2013, the Company's subsidiary is required to reimburse to the Licensor, Trojan Technologies Limited, 50% of all maintenance costs of the US Patent # 7,968,512 and to pay royalties of 3% on Net Receipts from sales of the Licensed Product and 5% on Net Receipts from third parties in respect of development or other exploitation of Licensed Intellectual Property and/or Licensed Products up to a maximum of \$ 30 million. Total amount that may be payable in future under the terms of the Agreement cannot be reasonably estimated at this time.
- (c) PPL has outstanding options held by two consultants entitling them to acquire up to 7% equity interest in PPL at total exercise price of approximately \$35,247. The options are to be vested over two years by March 31, 2016 and are valid for five years from the date of grant. None of the options have so far been exercised.
- (d) PPL has signed a contract with an independent contract research and manufacturing organization to manufacture certain proprietary peptides for a total costs currently estimated at between \$ 169,000 and \$272,000 of which \$ 80,439 has already been incurred and paid for.

## 10. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. Related party transactions and balances have been listed below, unless they have been disclosed elsewhere in the consolidated financial statements. Amounts are for six months ended September 30, 2013.

- (i) Business expenses of \$6,408 were reimbursed to directors of the Company.  
(ii) Consulting fees include cash fee paid to key management for services of \$58,655

## 11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments recognized in the balance sheet consist of the following:

	September 30, 2013		March 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
<b><u>Financial assets</u></b>				
Cash	3,282,851	3,282,851	190,960	190,960
Other receivable	59,851	59,851	295,441	295,441
<b><u>Financial liabilities</u></b>				
Accounts payable and accrued liabilities	99,671	99,671	12,392	12,392

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

**a) Fair value of financial instruments**

The Company's financial assets and liabilities are comprised of cash, amounts receivable, prepaid expenses, accounts payable and accrued liabilities.

The Company classifies the fair value of these transactions according to the following fair value hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Values are based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Values are based on prices or valuation techniques that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

The Company's financial instruments are exposed to certain financial risks: credit risk, liquidity risk, other price risk and market risk.

**b) Credit risk**

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is attributable to various financial instruments, as noted below. The credit risk is limited to the carrying value amount carried on the statement of financial position.

- a. Cash– Cash is held with a major international financial institution in Canada and therefore the risk of loss is minimal. However, the Company does have a concentration risk since all funds are held with one bank.
- b. Other receivable – The Company is not exposed to major credit risk attributable to customers. A significant portion of this amount is due from the Canadian government.

**c) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company holds sufficient cash to satisfy obligations under accounts payable and accruals.

The Company monitors its liquidity position regularly to assess whether it has the funds necessary to take care of its operating needs and needs for investing in new projects. The company has changed its business focus to biotechnology as explained in Note 1. The Company believes that its existing cash will allow it to finance the drug development work apart from meeting its operational needs for at least another year. However, the exact need for additional cash cannot be reasonably ascertained at this stage. Should the Company require further funding, it intends to secure it through equity financing.

However, as a biotech company at an early stage of development and without significant internally generated cash flows, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual drug development expenditures may exceed those planned. The current uncertainty in global markets could have an impact on the Company's future ability to access capital on terms that are acceptable to the Company. There can be no assurance that required financing will be available to the Company.

## **12. CAPITAL DISCLOSURES**

The Company considers the items included in Shareholders' Equity as capital. The Company had payables of approximately \$ 0.1 million as at September 30, 2013 and current assets, mostly in cash, of approximately \$3.4 million. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue new business opportunities and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

As at September 30, 2013, the shareholders' equity was approximately \$ 3.2 million, all of it was held in the form of cash.

The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. There have been no changes to the Company's approach to capital management during the period ended September 30, 2013.

## **13. SUBSEQUENT EVENT**

As required under listing requirements by Canadian National Stock Exchange, the Company SIGNED ON October 25, 2013 an escrow agreement with Equity Financial Trust Company to have 89,941,793 of its common shares and 69,524,447 of its warrants issued to four insiders under an escrow arrangement. The escrowed shares and warrants will be released in agreed tranches over the period of three years.