KANE BIOTECH INC.
FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

5-1250 Waverley Street
Winnipeg, Manitoba, R3T 6C6
Tel: (204) 453-1301   Fax: (204) 453-1314
www.kanebiotech.com

KANE BIOTECH INC.

Interim Balance Sheets

	September 30, 2009 (unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 278,994	$ 548,983
Accounts receivable	89,794	101,260
Prepaid expenses	8,170	43,800
	376,958	694,043
Property and equipment (Note 5)	51,393	71,108
Intangible assets (Note 6)	881,378	807,160
	$ 1,309,729	**$ 1,572,311**
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Note 9)	$ 59,036	$ 79,562
Shareholders' equity:		
Capital stock (Note 7(b))	6,254,874	5,548,574
Warrants (Note 7(d))	197,160	735,682
Contributed surplus (Note 7(e))	984,840	623,177
Deficit	(6,186,181)	(5,414,684)
	1,250,693	1,492,749
Nature and continuation of operations (Note 1)		
Commitments and contingencies (Note 8)		
Subsequent event (Note 13)		
	$ 1,309,729	**$ 1,572,311**

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

KANE BIOTECH INC.

Interim Statements of Operations and Deficit
(unaudited - prepared by management)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Expenses				
Amortization	$ 9,745	$ 10,578	$ 27,516	$ 31,714
General & administrative	125,484	128,304	352,512	377,536
Research	173,335	240,905	341,799	545,482
Stock-based compensation				
General & administrative	-	(13)	27,250	478
Research	-	-	14,295	-
Write-down of patents	-	-	12,966	9,489
	(308,564)	(379,774)	(776,338)	(964,699)
Other				
Investment income	937	6,780	4,841	22,408
Loss for the period	(307,627)	(372,994)	(771,497)	(942,291)
Deficit, beginning of period	(5,878,554)	(4,907,137)	(5,414,684)	(4,337,840)
Deficit, end of period	$ (6,186,181)	$ (5,280,131)	$ (6,186,181)	$ (5,280,131)
Basic and diluted loss per share	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.04)

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

KANE BIOTECH INC.

Interim Statements of Cash Flows
(unaudited - prepared by management)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Cash provided by (used in):				
Operating activities:				
Loss for the period	$ (307,627)	$ (372,994)	$ (771,497)	$ (942,291)
Adjustments for:				
Amortization of property and equipment	6,858	7,522	20,533	22,566
Amortization of patents	2,887	3,056	6,984	9,147
Write-down of patents	-	-	12,966	9,489
Non-cash stock-based compensation	-	(13)	41,545	478
Change in the following:				
Accounts receivable	(46,450)	(13,974)	11,466	(15,186)
Prepaid expenses	15,988	(34,903)	35,630	(21,264)
Accounts payable and accrued liabilities	35,728	(80,789)	(20,529)	(28,681)
	(292,616)	(492,095)	(662,902)	(965,742)
Financing activities:				
Issuance of common shares, net of share issue costs	262,467	-	487,896	1,428,405
Investing activities:				
Purchase of property and equipment	-	-	(815)	-
Patents and trademarks	(24,234)	(15,379)	(94,168)	(127,572)
Addition to technology licences	-	-	-	(10,430)
	(24,234)	(15,379)	(94,983)	(138,002)
Increase (decrease) in cash	(54,383)	(507,474)	(269,989)	324,661
Cash, beginning of period	333,377	1,176,646	548,983	344,511
Cash, end of period	$ 278,994	$ 669,172	$ 278,994	$ 669,172

Supplemental cash flow information:

Non-cash financing activities:				
Warrants issued as share issue costs	$ 6,492	$ -	$ 6,492	$ -

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

1. Nature and continuation of operations:

Kane Biotech Inc. (the "Company") is a biotechnology company engaged in the development of products to prevent and remove microbial biofilms in medical and industrial applications. To date, the Company has no products in commercial production or use. Accordingly, the Company is considered to be a development stage enterprise for accounting purposes. Since May 17, 2001, the date of incorporation of Kane Biotech Inc., through to September 30, 2009, the Company has expended approximately $2,750,307, net of government assistance, on research.

The accompanying unaudited financial statements include the operations of the Company for the nine months ended September 30, 2009. These financial statements have not been reviewed by the Company's auditor. These statements should be read in conjunction with the December 31, 2008 audited financial statements.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and on a basis consistent with the Company's annual audited financial statements for the year ended December 31, 2008 that are applicable to a going concern, which contemplates that Kane Biotech Inc. will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has experienced operating losses and cash outflows from operations since inception. The use of these principles may not be appropriate because at September 30, 2009 there was substantial doubt that the Company will be able to continue as a going concern without raising additional financial resources.

The Company's future operations are completely dependent upon its ability to generate product sales, negotiate collaboration or licence agreements with upfront payments, obtain research grant funding, defer expenditures, or other strategic alternatives, and/or secure additional funds. While the Company is striving to achieve the above plans, there is no assurance these and other strategies will be achieved or that such sources of funds will be available or obtained on favourable terms.

The Company's ability to continue as a going concern is dependent on its ability to obtain sufficient funds to conduct its research and development, and to successfully commercialize its products. The outcome of these matters cannot be predicted at this time. These financial statements do not reflect adjustments to the carrying values of the assets and liabilities, expenses, and the balance sheet classification used, that would be necessary if the going concern assumption were not appropriate. Such adjustment could be material.

2. Significant accounting policies:

These interim financial statements should be read in conjunction with the Company's audited annual financial statements as at December 31, 2008. All accounting policies are the same as described in Note 2 of the Company's audited financial statements for the year ended December 31, 2008, with the exception of the following changes adopted by the Company:

(a) Goodwill and intangible assets:

On January 1, 2009, the Company adopted CICA Handbook Section 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research & Development Costs, and which establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of IAS 38, Intangible Assets. There was no impact on the Company's financial position and results of operations on adoption of this standard.

3. Recent accounting pronouncements:

(a) Convergence to International Financial Reporting Standards ("IFRS"):

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB's strategic plan outlines the convergence of Canadian GAAP with IFRS over a five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's first year-end under IFRS will be December 31, 2011. The change over date for the Company will be January 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for fiscal 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. Financial instruments:

The Company has classified its financial instruments as follows:

	September 30, 2009	December 31, 2008
Financial assets:		
Cash and cash equivalents (Held-for-trading)	$ 278,994	$ 548,983
Accounts receivable (Loans and receivables)	89,794	101,260
	$ 368,788	$ 650,243
Financial liabilities:		
Accounts payable and accrued liabilities (Other financial liabilities)	$ 59,036	$ 79,562

The Company had neither available-for-sale nor held-to-maturity financial instruments during the nine months ended September 30, 2009 or the year-ended December 31, 2008. Cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

5. Property and equipment:

September 30, 2009	Cost	Accumulated amortization	Net book value
Computer and office equipment	$ 13,015	$ 9,050	$ 3,965
Scientific equipment	126,321	85,367	40,954
Leasehold improvements	82,789	76,315	6,474
	$ 222,125	$ 170,732	$ 51,393

5. Property and equipment (continued):

December 31, 2008	Cost	Accumulated amortization	Net book value
Computer and office equipment	$ 12,199	$ 8,163	$ 4,036
Scientific equipment	126,321	78,141	48,180
Leasehold improvements	82,789	63,897	18,892
	$ 221,309	$ 150,201	$ 71,108

6. Intangible assets:

September 30, 2009	Cost, net of impairments	Accumulated amortization	Net book value
Patents	$ 596,751	$ 27,305	$ 569,446
Trademarks	13,782	-	13,782
Technology licenses [1]	298,150	-	298,150
	$ 908,683	$ 27,305	$ 881,378

December 31, 2008	Cost, net of impairments	Accumulated amortization	Net book value
Patents	$ 518,556	$ 20,322	$ 498,234
Trademarks	10,776	-	10,776
Technology licenses [1]	298,150	-	298,150
	$ 827,482	$ 20,322	$ 807,160

[1] The Company has a worldwide exclusive licence to technology from the University of North Texas Health Science Center. The Company is obligated to pay all costs of filing and maintaining patents, pay a royalty of a stipulated percentage on the net sales of licensed products, and pay a stipulated percentage of any sub-license fees. Fees payable, if any, are to be paid quarterly. The agreement terminates on the expiration or invalidity of the last patent issued under the agreement.

On December 31, 2004, the Company acquired the worldwide exclusive rights to the Competence Stimulating Peptide (CSP) technology from the University of Toronto. Under the terms of the agreement, the Company paid an initial license fee of $30,000 to University of Toronto Innovations Foundation (UTIF) and, in fiscal 2005, issued 165,000 common shares to each of UTIF and the Governing Council of University of Toronto for an aggregate of 330,000 common shares at deemed consideration of $0.72 per share or $237,600. The Company is also obligated to pay $20,000 to UTIF for each patent issued as a result of this license agreement to a maximum of $40,000 as well as pay for all costs of filing and maintaining the patents. In further consideration of granting of the license, the Company will pay a royalty to UTIF of a stipulated percentage of the net sales of the licensed products.

6. Intangible assets (continued):

If the Company sub-licenses any rights under the agreement to a third party, the Company shall pay UTIF a stipulated percentage of a sub-license fee and sub-license royalty fee. The royalty, sub-license and sub-license royalty fees, if any, are to be paid quarterly. The agreement terminates on the expiration or invalidity of the last patent issued under the agreement. There were no sales of licensed products to September 30, 2009.

On April 1, 2005, the Company acquired the worldwide exclusive license to all human and industrial applications of the DispersinB® enzyme from the University of Medicine and Dentistry of New Jersey (UMDNJ) and paid a license initiation fee of $11,815 (USD $10,000). Under the terms of the agreement, the Company committed to: pay all costs of filing and maintaining the patents; pay a license initiation fee of USD $10,000 during the first year; and, additional negotiated milestone payments throughout the term of the agreement. The Company will also pay a royalty to UMDNJ of a stipulated percentage of the net sales of the licensed products. If the Company sub-licenses any rights under the agreement to a third party, the Company shall pay UMDNJ a stipulated percentage of a sub-license fee and sub-license royalty fee. The royalty, sub-license and sub-license royalty fees, if any, are to be paid quarterly. This agreement terminates on the expiration or invalidity of the last patent issued under the agreement. During fiscal 2006, the Company negotiated an expansion to the scope of the original license agreement with UMDNJ and, as a result, paid an additional fee of $8,735 (USD $7,500). During fiscal 2007, as a result of the issuance of a patent, a $10,000 milestone payment was incurred. The Company began paying an annual minimum royalty fee beginning on April 1, 2008, which was the third anniversary date of the agreement. There were no sales of licensed products to September 30, 2009.

7. Capital stock:

(a) Authorized:

The Company has authorized share capital of an unlimited number of common voting shares and an unlimited number of class A common voting shares.

(b) Shares issued and outstanding:

Shares issued and outstanding are as follows:

	Number of Common Shares	Amount
Balance, December 31, 2007	19,028,491	$ 4,794,288
Issued for cash, net of issue costs of $178,885 (1)	6,200,000	754,286
Balance, December 31, 2008	25,228,491	5,548,574
Issued for cash, net of issue costs of $31,063 (2)	3,571,429	111,591
Exercise of warrants, net of issue costs of $13,153 (3)	2,088,500	554,680
Exercise of warrants	250,000	40,029
Balance, September 30, 2009	31,138,420	$ 6,254,874

7. Capital stock (continued):

(b) Shares issued and outstanding (continued):

(1) On February 28, 2008, the Company closed a private placement offering (the "2008 Offering") of 6,200,000 units (a "Unit") at a price of $0.25 per share, for aggregate gross proceeds to the Company of $1,550,000. Each Unit was comprised of one common share (a "Share") and one half of one share purchase warrant (a "Warrant"). Each whole Warrant entitled the holder to purchase one Share at a price of $0.40 per Share at any time within eighteen months of the closing date of the 2008 Offering. The Warrants expired on September 18, 2009 (Note 13). The fair value assigned to the Warrants upon issuance was $616,829.

Certain individuals and companies assisted the Company by introducing potential subscribers for the 2008 Offering and received a finder's fee in the amount of $100,300 calculated as eight percent of the total subscription proceeds received from subscribers introduced to the Company by each particular individual and company. In addition, these individuals and companies were issued 278,600 compensation warrants (a "Compensation Warrant"), equivalent to seven percent of the units subscribed for by subscribers introduced to the Company by each particular individual and company. Each Compensation Warrant entitled the holder to purchase one Share at a price of $0.28 per Share within one year of the closing date of the 2008 Offering. The Compensation Warrants expired on February 28, 2009. The fair value of $57,290 assigned to the Compensation Warrants upon issuance is included in share issue costs.

(2) On May 14, 2009, the Company closed a private placement offering (the "2009 Offering") of 3,571,429 units (a "Unit") at a price of $0.07 per share, for aggregate gross proceeds to the Company of $250,000. Each Unit was comprised of one common share (a "Share") and one half of one share purchase warrant (a "Warrant"). Each whole Warrant entitled the holder to purchase one Share at a price of $0.10 per Share if exercised within six months from the date the Warrant is issued or $0.15 per Share if exercised after six month up to eighteen months from the closing date of the 2009 Offering. The Warrants will expire on November 14, 2010. The fair value assigned to the Warrants upon issuance was $107,346.

Certain individuals and companies assisted the Company by introducing potential subscribers for the 2009 Offering and received a finder's fee in the amount of $12,350 calculated as eight percent of the total subscription proceeds received from subscribers introduced to the Company by each particular individual and company. In addition, these individuals and companies were issued 117,936 compensation warrants (a "Compensation Warrant"), equivalent to seven percent of the units subscribed for by subscribers introduced to the Company by each particular individual and company. Each Compensation Warrant entitled the holder to purchase one Share at a price of $0.07 per Share within one year of the closing date of the 2009 Offering. The fair value of $6,492 assigned to the Compensation Warrants upon issuance is included in share issue costs.

(3) Under an early exercise warrant incentive program ("Warrant Incentive Program") related to the 2008 Offering, the Company issued 2,088,500 units (a "Unit") at a price of $0.12 per unit, for aggregate gross proceeds to the Company of $250,620. Each Unit was comprised of one common share (a "Share") and one half of one share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder to purchase one Share at a price of $0.14 per Share if exercised within six months from the date the Warrant is issued or $0.22 per Share if exercised after six month up to eighteen months from the closing date of the Warrant Incentive Program. The Warrants will expire on March 28, 2011. $415,563 was transferred from warrants to recognize the fair value determined at the date of the original grant. The fair value assigned to the Warrants upon issuance was $98,350.

7. Capital stock (continued):

(c) Options:

The Company has a stock option plan which is administered by the Board of Directors of the Company with stock options granted to directors, management, employees, management company employees and consultants as a form of compensation. The number of common shares reserved for issuance of stock options is limited to a maximum of 10% of the issued and outstanding shares of the Company at any one time.

Changes in the number of options outstanding during the nine months ended September 30, 2009 and 2008 are as follows:

	September 30, 2009		**September 30, 2008**	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Balance, beginning of period	1,257,500	$ 0.44	1,657,211	$ 0.42
Granted	465,000	0.15	-	-
Forfeited, cancelled or expired	(25,000)	0.42	(234,711)	0.30
Balance, end of period	1,697,500	$ 0.36	1,422,500	$ 0.44
Options exercisable, end of period	1,697,500		1,421,250	

During the nine months ended September 30, 2009, 15,000 stock options previously granted were forfeited and 10,000 expired. During the same period, 465,000 stock options with a strike price equal to $0.15 were granted to certain directors, officers, employees and management company employees.

Options outstanding at September 30, 2009 consist of the following:

Range of exercise prices	Outstanding number	Weighted average remaining contractual life	Weighted average exercise price	Exercisable number
$0.15 - $0.55	1,697,500	2.56 years	$0.36	1,697,500

For the nine months ended September 30, 2009, compensation expense of $41,545 (September 30, 2008 - $478) was recorded to recognize options granted.

7. Capital stock (continued):

(c) Options (continued):

The compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

	September 30, 2009	September 30, 2008
Expected option life	5.0 years	5.0 years
Risk free interest rate	2.48%	3.44%
Dividend yield	nil	nil
Expected volatility	122.35%	91.40%

The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the measurement date is measured and recognized at that date. For awards that vest at the end of a vesting period, compensation cost is recognized on a straight-line basis over the period of service. The Company recognizes the effect of forfeitures on unvested options as they occur.

(d) Warrants:

Changes in the number of warrants outstanding during the nine months ended September 30, 2009 and 2008 are as follows:

	September 30, 2009			September 30, 2008		
	Shares	Amount	Weighted average exercise price	Shares	Amount	Weighted average exercise price
Balance, beginning of period	4,216,100	$ 735,682	$ 0.43	953,000	$ 70,138	$ 0.59
Granted, pursuant to private placements (Note 7(b))	1,785,714	107,346	0.10	3,100,000	616,829	0.40
Granted (Note 7(b))	117,936	6,493	0.07	278,600	57,290	0.28
Granted, pursuant to warrant exercise (Note 7(b))	1,044,250	98,350	0.14	-	-	-
Exercised (Note 7(b))	(2,338,500)	(430,592)	0.37	-	-	-
Expired (Note 7(e))	(2,127,600)	(320,119)	0.46	(115,500)	(8,575)	0.50
Balance, end of period	2,697,900	$ 197,160	$ 0.11	4,216,100	$ 735,682	$ 0.43
Weighted average remaining contractual life (years)		1.24	years		0.77	years

In 2008, the Company granted 3,100,000 Warrants together with common shares under the 2008 Offering (Note 7(b)), entitling the holders to purchase one common share at a price of $0.40 for a period of eighteen months commencing from the closing of the 2008 Offering. Net proceeds were allocated to common shares and warrants based on their relative fair values using the Black-Scholes model. On August 5, 2009, the Company announced an amendment to the terms of 3,100,000 Warrants issued under the 2008 Offering (Note 13).

7. Capital stock (continued):

(d) Warrants (continued):

The Company granted 278,600 Compensation Warrants relating to the 2008 Offering (Note 7(b)), entitling the holders to purchase one common share at a price of $0.28 for a period of one year commencing from the closing of the 2008 Offering. Share issue costs of $57,290 were recorded in the 2008 fiscal year to reflect the value of these warrants. These warrants expired February 28, 2009.

In 2009, the Company granted 1,785,714 Warrants together with common shares under the 2009 Offering (Note 7(b)), Each whole Warrant entitles the holder to purchase one Share at a price of $0.10 per Share if exercised within six months from the date the Warrant was issued or $0.15 per Share if exercised after six month up to eighteen months from the closing date of the 2009 Offering. Net proceeds were allocated to common shares and warrants based on their relative fair values using the Black-Scholes model. These warrants will expire November 14, 2010.

The Company granted 117,936 Compensation Warrants relating to the 2009 Offering (Note 7(b)), entitling the holders to purchase one common share at a price of $0.07 for a period of one year commencing from the closing of the 2009 Offering. Share issue costs of $6,492 were recorded in the 2009 fiscal year to reflect the value of these warrants. These warrants will expire May 14, 2010.

In 2009, the Company granted 1,044,250 Warrants together with common shares under the Warrant Incentive Program (Note 7(b)), Each whole Warrant entitles the holder to purchase one Share at a price of $0.14 per Share if exercised within six months from the date the Warrant is issued or $0.22 per Share if exercised after six month up to eighteen months of the closing date of the Warrant Incentive Program. Net proceeds were allocated to common shares and warrants based on their relative fair values using the Black-Scholes model. These warrants will expire March 28, 2011.

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

	September 30, 2009	September 30, 2008
Expected life	1.5 years	1.5 years
Risk free interest rate	1.02%	3.27%
Dividend yield	nil	nil
Expected volatility	196.56%	100.27%

(e) Contributed surplus:

Changes in contributed surplus are as follows:

	September 30, 2009	September 30, 2008
Balance, beginning of period	$ 623,177	$ 614,148
Stock-based compensation	41,545	478
Expired warrants (Note 7(d))	320,119	8,575
Balance, end of period	$ 984,840	$ 623,200

7. Capital stock (continued):

(f) Escrowed shares:

The Company's issued share capital includes no shares in escrow (December 31, 2008 - 1,275,000). The initial release of shares from escrow was September 30, 2003 and the final installment was released for trading on September 30, 2009.

(g) Per share amounts:

The weighted average number of common shares outstanding for the nine months ended September 30, 2009 and 2008 was 27,066,790 and 23,893,455, respectively. The dilution created by options and warrants has not been reflected in the per share amounts as the effect would be anti-dilutive.

8. Commitments and contingencies:

(a) Commitments:

As at September 30, 2009 and in the normal course of business, the Company has obligations to make future payments, representing contracts and other commitments that are known and committed.

Contractual obligation payments due by fiscal period ending December 31:

2009 - remaining	$	6,938
2010		16,938
2011		10,000
2011		10,000
2012		10,000
	$	53,876

Included in the above noted obligations are annual lease payments which are exclusive of maintenance, property taxes, insurance and other operating costs. The premises are leased from a company controlled by a director.

The Company has a business and administration services agreement with Genesys Venture Inc. (Note 9). The Company is committed to pay $160,000 per annum. The agreement shall be automatically renewed for succeeding terms of one year on terms to be mutually agreed upon by the parties. The Company may terminate this agreement at any time upon 90 days written notice.

8. Commitments and contingencies (continued):

(b) Guarantees:

The Company periodically enters into research and license agreements with third parties that include indemnification provisions customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of claims arising from research and development activities undertaken on behalf of the Company. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions could be unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying financial statements with respect to these indemnification obligations.

9. Related party transactions:

Related parties consist of certain officers and shareholders, and companies with significant influence. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the nine months ended September 30, 2009, the Company paid Genesys Venture Inc., a company controlled by a director, a total of $120,000 (September 30, 2008 - $120,000) for consulting fees in accordance with the above noted contractual obligation and $20,813 (September 30, 2008 - $20,813) under a sub-lease rental agreement in accordance with the above noted contractual obligation.

As of September 30, 2009, included in accounts payable and accrued liabilities is $805 (December 31, 2008 - $2,577) owed to Genesys Venture Inc.

10. Government and other assistance:

During the nine months ended September 30, 2009, the Company received $17,422 (September 30, 2008 - $120,935) in government and other assistance for the purpose of research. The funding has been recorded against the related research expenditures.

11. Capital risk management:

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern in order to pursue the development of its products and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable level; and
- To provide an adequate return to shareholders commensurate with the level of risk associated with a development stage biotechnology company.

The capital structure of the Company consists of equity comprising issued capital, contributed surplus, and warrants.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, granting of stock options, the issue of debt or by undertaking other activities as deemed appropriate under the specific circumstances. The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2008.

The Company is not subject to externally imposed capital requirements. In order to maximize ongoing research and development of its products, the Company does not pay out dividends.

12. Financial risk management:

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The audit committee of the board is responsible to review the Company's risk management policies.

(a) Credit Risk:

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable and cash and cash equivalents. The carrying amount of financial assets represents the maximum credit exposure.

The Company has investment policies to mitigate against the deterioration of principal and to enhance the Company's ability to meet its liquidity needs. Cash and cash equivalents are on deposit with a credit union and guaranteed by the Credit Union Deposit Guarantee Corporation of Manitoba.

(b) Liquidity Risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall 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 and to fund future operations. The Company manages its liquidity risk by forecasting its cash needs on a regular basis and seeking additional financing based on those forecasts.

As at September 30, 2009, the Company had financial assets held-for-trading of $278,994 (December 31, 2008 - $548,983), loans and receivables of $89,794 (December 31, 2008 - $101,260) and other financial liabilities of $59,036 (December 31, 2008 - $79,562). All of the Company's financial liabilities have contracted maturities of less than one year.

12. Financial risk management (continued):

(c) Market Risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the Company's income or the value of its financial instruments.

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates primarily within Canada although a portion of its expenses are incurred in United States dollars ("US dollar"). The Company has not entered into foreign exchange derivative contracts. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations, financial position and cash flows.

As at September 30, 2009, the Company is exposed to currency risk through its cash and cash equivalents and accounts payable denominated in US dollars as follows:

	September 30, 2009	December 31, 2008
Cash and cash indebtedness	$ (6,071)	$ 1,728
Accounts receivable	8,135	5,240
Accounts payable	14,745	(6,726)
Net	$ 16,809	$ 242

Based on the above net exposures as at September 30, 2009, and assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the US dollar would not be significant.

The Company is subject to interest rate risk on its cash and cash equivalents. The Company believes that interest rate risk is low as the Company does not hold any term deposits and interest earned on cash equivalents is variable. A change of 1% in interest rates over the nine months ended September 30, 2009 would not have been significant.

13. Subsequent event:

On November 16, 2009, the Company announced a non-brokered private placement offering (the "Offering") for gross proceeds of up to $500,000 consisting of up to 3,846,154 units ("Units") at a price of $0.13 per Unit. Each Unit will be comprised of one common share of the Company (a "Share") and one half of one Share purchase warrant (a "Warrant"). Each whole Warrant will expire 18 months from the date the Warrant is issued (the "Expiry Date") and will entitle the holder to purchase one Share at a price of $0.17 per Share if purchased within 6 months from the date the Warrant is issued or $0.25 per Share if purchased after 6 months up to the Expiry Date.