Condensed unaudited interim consolidated financial statements of Helix BioPharma Corp.
For the three-month periods ended October 31, 2013 and 2012

The Company's auditors have not reviewed the condensed unaudited interim consolidated financial statements for the three-month period ended October 31, 2013 and 2012.

HELIX BIOPHARMA CORP.

Consolidated Statement of Financial Position
In thousands of Canadian dollars
Unaudited

As at:	October 31, 2013	July 31, 2013
ASSETS		
Non-current assets		
Property, plant and equipment (*note 4)*	$ 623	$ 677
	623	677
Current assets		
Prepaid expenses	111	139
Accounts receivable	474	559
Cash	2,482	4,493
	3,067	5,191
Total assets	$ 3,690	$ 5,868
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity (*note 5*)	2,811	4,920
Current liabilities		
Deferred lease credit	17	23
Accrued liabilities	308	621
Accounts payable	554	304
	879	948
Total liabilities and shareholders' equity	$ 3,690	$ 5,868

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

HELIX BIOPHARMA CORP.

Consolidated Statement of Net Loss and Comprehensive Loss
In thousands of Canadian dollars, except per share amounts
Unaudited

For the three month period ended:	October 31, 2013	October 31, 2012
Expenses		
Research and development	1,332	1,608
Operating, general and administration	826	764
Results from operating activities before finance items	(2,158)	(2,372)
Finance items		
Finance income	9	10
Finance expense	(4)	(4)
Foreign exchange gain (loss)	16	(34)
	21	(28)
Net loss and total comprehensive loss	$ (2,137)	$ (2,400)
Loss and total comprehensive loss from continuing operations	(2,137)	(2,400)
Net income and total comprehensive income from discontinued operations *(note 12)*	–	323
Net loss and total comprehensive loss	$ (2,137)	$ (2,077)
Loss per common share from continuing operations *(note 11)*		
Basic	$ (0.03)	$ (0.04)
Diluted	$ (0.03)	$ (0.04)
Income per common share from discontinued operations *(note 11)*		
Basic	$ –	$ 0.01
Diluted	$ –	$ 0.01
Loss per common *(note 11)*		
Basic	$ (0.03)	$ (0.03)
Diluted	$ (0.03)	$ (0.03)
Weighted average number of common shares used in the calculation of basic and diluted loss per share	67,226,337	67,226,337

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

HELIX BIOPHARMA CORP.

Consolidated Statement of Changes in Shareholders' Equity
In thousands of Canadian dollars
Unaudited

	Common shares		Share purchase warrants						
	Amount	Number	Amount	Number	Options	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders equity
July 31, 2012	$ 102,393	67,226,337	$ 7,167	13,726,084	$6,036	$ 7,327	$(116,699)	$ –	$ 6,224
Net loss for the period	–	–	–	–	–	–	(1,545)	–	(1,545)
Common stock, issued	–	–	–	–	–	–	–	–	–
Warrants, issued	–	–	–	–	–	–	–	–	–
Warrants, expired unexercised	–	–	–	–	–	–	–	–	–
Warrants, amended terms	(986)	–	986	–	–	–	–	–	–
Stock-based compensation	–	–	–	–	241	–	–	–	241
Options, exercised	–	–	–	–	–	–	–	–	–
Options, forfeited	–	–	–	–	(1,645)	1,645	–	–	–
July 31, 2013	$ 101,407	67,226,337	$ 8,153	13,726,084	$4,632	$ 8,972	$(118,244)	$ –	$ 4,920
Net loss for the period	–	–	–	–	–	–	(2,137)	–	(2,137)
Common stock, issued	–	–	–	–	–	–	–	–	–
Warrants, issued	–	–	–	–	–	–	–	–	–
Warrants, expired unexercised	–	–	–	–	–	–	–	–	–
Warrants, amended terms	(666)	–	666	–	–	–	–	–	–
Stock-based compensation	–	–	–	–	28	–	–	–	28
Options, exercised	–	–	–	–	–	–	–	–	–
Options, forfeited	–	–	–	–	–	–	–	–	–
October 31, 2013	$ 100,741	67,226,337	$ 8,819	13,726,084	$4,660	$ 8,972	$(120,381)	$ –	$ 2,811

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

HELIX BIOPHARMA CORP.

Consolidated Statement of Cash Flows
In thousands of Canadian dollars
Unaudited

For the three month period ended:	October 31, 2013	October 31, 2012
Cash flows from operating activities		
Net loss and total comprehensive loss from continuing operations	$ (2,137)	$ (2,400)
Items not involving cash:		
Depreciation of property, plant and equipment	54	103
Deferred lease credit	(6)	(6)
Stock-based compensation	28	96
Foreign exchange loss (gain)	(16)	34
Change in non-cash working capital:		
Accounts receivable	85	3
Prepaid expenses	28	(31)
Accounts payable	250	(49)
Accrued liabilities	(313)	114
Net cash used in operating activities	(2,027)	(2,136)
Net cash provided by financing activities	–	–
Cash flows from investing activities		
Purchase of property, plant and equipment	–	(13)
Net cash used in investing activities	–	(13)
Foreign exchange loss on cash	16	(34)
Net decrease in cash from continuing operations	$ (2,011)	$ (2,183)
Net increase in cash from discontinued operations	$ –	$ 634
Cash, beginning of period	4,493	4,862
Cash, end of period	$ 2,482	$ 3,313

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

Helix BioPharma Corp (the "Company"), incorporated under the *Canada Business Corporations Act,* is a biopharmaceutical company primarily focused in the areas of cancer prevention and treatment. Until recently, the Company earned revenues from its drug distribution business in Canada. On January 24, 2013, the Company's shareholders approved the sale of the Company's drug distribution business, Rivex Pharma and the transaction closed on January 25, 2013 (see *"Rivex Transaction – Note 12,* below). The Company has funded its research and development activities mainly through the issuance of common shares and warrants. The Company expects to incur additional losses and therefore will require additional financial resources, on an ongoing basis. It is not possible to predict the outcome of future research and development activities or the financing thereof.

1. Basis of presentation and going concern

These condensed unaudited interim consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company's ability to continue as a going concern is dependent mainly on obtaining additional financing, which is always challenging for research and development companies. As at October 31, 2013, the Company does not have sufficient cash to meet anticipated cash needs for working capital and capital expenditures through the next twelve months. However, on November 4, 2013, the Company announced the closing of a private placement for net proceeds in excess of $4,600,000. See *Subsequent event – Note 13,* below. Even after the Private Placement, the Company still does not have sufficient cash resources to meet anticipated cash needs for working capital and capital expenditures through the next twelve months. The Company will require additional financing in the near term and in the future to see the current research and development initiates through to completion. The Company has undertaken various cost cutting measures and cost-deferral initiatives and will continue to do so where possible, but any future cost cutting measures and cost-deferral initiatives will be limited and will not obviate the need for additional financing. There can be no assurance however, that additional financing can be obtained in a timely manner, or at all. Not raising sufficient additional financing on a timely basis may result in delays and possible termination of all or some of the Company's research and development initiatives, and as a result, may cast significant doubt as to the ability of the Company to operate as a going concern and accordingly, the appropriateness of the use of the accounting principles applicable to a going concern. These condensed unaudited interim consolidated financial statements do not include any adjustments to the carrying amount and classification of reported assets, liabilities and expenses that might be necessary should the Company not be successful in its aforementioned initiatives. Such adjustments could be material. The Company cannot predict whether it will be able to raise the necessary funds it needs to continue as a going concern.

Statement of compliance

These condensed unaudited interim consolidated financial statements of the Company for the three-month period ended October 31, 2013 are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The condensed unaudited interim consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on December 12, 2013.

Use of estimates and assumptions

The preparation of 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 at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Significant areas requiring the use of estimates include research and development tax credits associated with research and development expenditures, the determination of fair value of stock options granted for estimating stock-based compensation, the allocation of proceeds to share purchase warrants, estimates related to the determination of useful lives and assessment of impairment of long-lived assets such as property, plant and equipment. In determining these estimates, the Company relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. These assumptions are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Actual results could differ from these estimates.

Functional and presentation currency

The functional and presentation currency of the Company is the Canadian dollar.

Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed unaudited interim consolidated financial statements.

IFRS 10, Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes SIC-12, *Consolidations - Special Purpose Entities*, and replaces parts of IAS 27, *Consolidated and Separate Financial Statements*. The effective date of this amendment was for annual periods beginning on or after January 1, 2013. The adoption of these standards and amendments had no impact on the financial statements of the Company.

The condensed unaudited interim consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances.

IFRS 12, Disclosure of Interest in Other Entities ("IFRS 12")

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31, "Interests in Joint Ventures" and IAS 28, "Investments in Associates". These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard became effective for annual periods beginning on or after January 1, 2013. The adoption of these standards and amendments had no impact on the financial statements of the Company.

IFRS 13, Fair Value Measurement

The amendment does not change the circumstances under which an entity is required to use fair value, but rather provides an entity guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. The disclosure requirements are substantial. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 13 by the Company did not result in any measurement adjustments.

Cash

The Company considers cash on hand, deposits in banks and bank term deposits with maturities of 90 days or less as cash.

Inventory

The Company no longer has any inventory following the closing of the Rivex Transaction on January 25, 2013. See *Rivex Transaction – Note 12,* below.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Impairment charges are included in accumulated depreciation. Depreciation is provided using the following methods and estimated useful life:

Asset	Basis	Rate
Computer equipment and software	Straight line	3 years
Furniture and fixtures	Straight line	5 years
Research and manufacturing equipment	Straight line	10 years
Leasehold improvements	Straight line	Lease term

Revenue recognition

The Company no longer has product revenue from pharmaceutical sales following the closing of the Rivex Transaction on January 25, 2013. See *Rivex Transaction – Note 12,* below.

Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred except for those which meet the criteria for deferral, in which case, the costs are capitalized and amortized to operations over the estimated period of benefit. No costs have been deferred to date.

Investment tax credits

The Company is entitled to Canadian federal and provincial investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year. Investment tax credits are accounted for as a reduction

of the related expenditure for items of a current nature and a reduction of the related asset cost for items of a capital nature, provided that the Company has reasonable assurance that the tax credits will be realized.

Stock-based compensation

The Company accounts for stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees in accordance with the fair value method. The fair value of stock options granted is determined at the appropriate measurement date using the Black-Scholes option pricing model, and generally expensed over the options' vesting period for employee awards and non-employee awards. Awards with graded vesting are considered multiple awards for fair value measurement and stock-based compensation calculation. In determining the expense, the Company accounts for forfeitures using an estimate based on historical trends.

Foreign currency translation

The Company's currency of presentation is the Canadian dollar, which is also the Company's functional currency. Foreign currency-denominated items are translated into Canadian dollars. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at the balance sheet dates. Non-monetary items are translated at historical exchange rates. Revenue and expenses are translated at the exchange rates prevailing at their respective transaction dates. Exchange gains and losses arising on translation are included in income.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of certain existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. Given the Company's history of net losses and expected future losses, the Company is of the opinion that it is probable that these tax assets will not be realized in the foreseeable future and therefore, the deferred tax asset has not been recognized.

Financial instruments

Financial assets and financial liabilities are initially recorded at fair value and their subsequent measurements are determined in accordance with their classification. The classification depends on the purpose for which the financial instruments were acquired or issued and their characteristics. Cash and cash equivalents are classified as held-for-trading assets and are accounted for at fair value. Accounts receivable are classified as loans and receivables, and after initial recognition are recorded at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and after initial recognition are recorded at amortized cost.

Impairment

(i) Financial assets:
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment test is performed, on an individual basis, for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in income.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets original effective interest rate. Losses are recognized in income and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income for all financial assets except available-for-sale equity securities.

(ii) Non-financial assets:
The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or cash-generating units. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses recognized in prior periods are assessed each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Basic and diluted loss per common share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similarly to basic loss per share, except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. The inclusion of the Company's stock options and warrants in the computation of diluted loss per share has an anti-dilutive effect on the loss per share and, therefore, they have been excluded from the calculation of diluted loss per share.

3. New accounting standards and pronouncements not yet adopted

Standards issued but not yet effective up to the date of issuance of the Company's condensed unaudited interim consolidated financial statements are listed below. This listing includes 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.

Certain pronouncements were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretations Committee that are mandatory for annual periods beginning on or after January 1, 2011 or later periods. Many of these updates are not applicable or are inconsequential to the Company and have been excluded from the discussion below.

IFRS 9, Financial Instruments

In November 2009, the IASB issued IFRS 9, which covers classification and measurement as the first part of its project to replace IAS 39, Financial Instruments - Recognition and Measurement ("IAS 39"). In October 2010, the IASB also incorporated new accounting requirements for liabilities. The standard introduces new requirements for measurement and eliminates the current classification of loans and receivables, available-for-sale and held-to-maturity, currently in IAS 39. There are new requirements for the accounting of financial liabilities as well as a carryover of requirements from IAS 39. The Company does not anticipate early adoption and will adopt the standard when it is mandated by the IASB, which is in fiscal 2016. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

4. Property, plant and equipment

	October 31, 2013			July 31, 2013		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Research equipment	$ 1,298	$ 920	$ 378	$ 1,298	$ 897	$ 401
Manufacturing equipment	1,555	1,393	162	1,555	1,385	170
Leasehold improvements	370	316	54	370	297	73
Computer equipment	195	179	16	195	177	18
Computer software	89	79	10	89	78	11
Furniture and fixtures	19	16	3	19	15	4
	$ 3,526	$ 2,903	$ 623	$ 3,526	$ 2,849	$ 677

Accumulated depreciation includes impairment charges of $314,000 associated with the Topical Interferon Alpha-2b program. The impairment charges were all incurred in the fiscal 2012 and impacted the following property, plant and equipment categories as follows: research equipment $287,000, manufacturing equipment $22,000, computer equipment $3,000 and furniture and fixtures $2,000.

5. Shareholders' equity

Preferred shares

Authorized 10,000,000 preferred shares.
As at October 31, 2013 and July 31, 2013 the Company had nil preferred shares issued and outstanding.

Common shares and share purchase warrants

Authorized unlimited common shares without par value
As at October 31, 2013 the Company had 67,226,337 (July 31, 2013 – 67,226,337) common shares issued and outstanding. On November 4, 2013, the Company closed a private placement and issued an additional 4,678,000 common shares and 4,678,000 warrants bringing the number of common shares issued and outstanding at 71,904,337. See *Subsequent event – Note 13,* below.

On September 8, 2009, the Company announced the completion of a private placement, issuing 6,625,000 units at $2.05 per unit, for gross proceeds of $13,581,250. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $2.87 until 5pm (Toronto time) on September 7, 2012. Of the gross proceeds amount, $3,577,500 was allocated to the share purchase warrants based on fair value and the residual amount of $10,003,750 was allocated to common stock. Share issue costs of $1,984,000 were proportionately allocated to the share purchase warrants ($523,000) and common stock ($1,461,000), respectively. On September 7, 2012 the Company announced that it had extended the expiry date of warrants issued on September 8, 2009 for an additional six months, from September 7, 2012 to March 7, 2013. The Company did not amend any other provisions of the affected warrants. On February 21, 2013 the Company announced a further extension of the expiry date of these warrants, from March 7, 2013 to September 7, 2013. The Company did not amend any other provisions of the affected warrants as part of this extension. As a result of the amended terms, the Company increased the value of these warrants by $986,000 and accordingly reduced the value of the common shares associated with this private placement by the same amount. On August 23, 2013, the Company announced that it extended the expiry date of these warrants from September 7, 2013 to September 7, 2014, which in this case, included an increase in the exercise price of the these warrants from $2.87 to $3.51. As a result of the amended terms, the Company increased the value of these warrants by an additional $277,000 and accordingly reduced the value of the common shares associated with this private placement by the same amount.

On August 6, 2010, the Company announced the completion of a private placement, issuing 4,530,000 units at $2.43 per unit, for gross proceeds of $11,007,900. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $3.40 until August 5, 2013. Of the gross proceeds amount, $2,400,900 was allocated to the share purchase warrants based on fair value and the residual amount of $8,607,000 was allocated to common stock. Share issue costs totalling $1,551,000 were proportionately allocated to the share purchase warrants ($338,000) and common stock ($1,213,000), respectively. On August 9, 2013, the Company announced that, effective August 5, 2013, it had extended the expiry date of these warrants from August 5, 2013 to February 5, 2015 and to increase the exercise price of the these warrants from $3.40 to $4.15. The Company did not amend any other provisions of these warrants. As a result of the amended terms, the Company increased the value of these warrants by $389,000 and accordingly reduced the value of the common shares associated with this private placement by the same amount.

On March 28, 2011, the Company completed a private placement, issuing 1,652,719 units at $2.39 per unit, for gross proceeds of $3,949,998. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $3.35 until March 27, 2016. Of the gross proceeds amount, $1,362,000 was allocated to the share purchase warrants based on fair value and the residual amount of $2,588,000 was allocated to common stock. Share issue costs totalling $34,000 were proportionately allocated to the share purchase warrants ($12,000) and common stock ($22,000), respectively.

On March 30, 2011, the Company completed a private placement, issuing 918,365 units at $2.39 per unit, for gross proceeds of $2,194,892. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $3.35 until March 29, 2016. Of the gross proceeds amount, $759,000 was allocated to the share purchase warrants based on fair value and the residual amount of $1,436,000 was allocated to common stock. Share issue costs totalling $175,000 were proportionately allocated to the share purchase warrants ($60,000) and common stock ($115,000), respectively.

Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

The following table provides information on share purchase warrants outstanding as at:

	October 31, 2013		July 31, 2013	
Exercise Price	Weighted average remaining contractual life (in years)	Number of share purchase warrants outstanding	Weighted average remaining contractual life (in years)	Number of share purchase warrants outstanding
$2.87	0.85	6,625,000	0.11	6,625,000
$3.40	1.27	4,530,000	0.01	4,530,000
$3.35	2.41	1,652,719	2.66	1,652,719
$3.35	2.42	918,365	2.67	918,365
Outstanding, period end		13,726,084		13,726,084

Stock options

The Company's equity compensation plan reserves up to 10% of the Company's outstanding common stock from time to time for granting to directors, officers and employees of the Company or any person or company engaged to provide ongoing management or consulting services. Based on the Company's current issued and outstanding common shares as at October 31, 2013, options to purchase up to 6,722,633 common shares may be granted under the plan. As at October 31, 2013, options to purchase a total of 3,554,084 common shares have been issued and are outstanding under the equity compensation plan. In addition, 102,107 common shares have been issued to consultants.

The following table provides information on options outstanding and exercisable as at:

	October 31, 2013			July 31, 2013		
Exercise Price	Weighted average remaining contractual life (in years)	Number of options outstanding	Number of vested and exercisable options	Weighted average remaining contractual life (in years)	Number of options outstanding	Number of vested and exercisable options
$1.30	3.67	250,000	83,333	3.92	250,000	83,333
$1.68	3.13	1,372,084	1,372,084	3.38	1,954,689	1,372,084
$2.43	1.79	556,000	556,000	2.04	767,000	481,000
$2.74	1.12	636,000	636,000	1.37	852,000	636,000
$3.00	2.74	740,000	627,500	2.99	1,008,500	627,500
Outstanding, period end	2.52	3,554,084	3,274,917	2.77	3,554,084	3,199,917

The following table summarizes activity under the Company's stock option plan for the three month period ended October 31, 2013:

	Number	Weighted average exercise price	Weighted average fair value	Weighted average remaining contractual life
Outstanding, beginning of period	3,554,084	$ 2.24	$ 1.34	
Granted	–	–	–	
Exercised	–	–	–	
Cancelled/Forfeited	–	–	–	
Outstanding, period end	3,554,084	$ 2.24	$ 1.34	2.52
Vested and exercisable, period end	3,274,917	$ 2.26	$ 1.36	2.45

Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

The following table summarized activity under the Company's stock option plan for the three month period ended October 31, 2012:

	Number	Weighted average exercise price	Weighted average fair value	Weighted average remaining contractual life
Outstanding, beginning of period	4,832,189	$ 2.24	$ 1.35	
Granted	–	–	–	
Exercised	–	–	–	
Forfeited	(29,605)	2.47	1.43	
Outstanding, period end	4,802,584	$ 2.24	$ 1.35	3.51
Vested and exercisable, period end	4,082,584	$ 2.23	$ 1.37	3.47

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Grant Date	Number of options granted	Volatility factor	Risk free interest rate	Dividend rate	Expected life	Vesting period	Fair value of options granted
July 3, 2012	250,000	62.16 %	1.25 %	0.00 %	5 years	3 years	$ 170
July 29, 2011	1,164,000	61.88 %	2.04 %	0.00 %	5 years	3 years	$ 1,781
August 17, 2010	893,000	67.10 %	2.18 %	0.00 %	5 years	3 years	$ 1,440
December 14, 2009	968,000	70.26 %	2.56 %	0.00 %	5 years	3 years	$ 1,548
December 17, 2008	2,070,000	64.30 %	2.44 %	0.00 %	8 years	3 years	$ 2,525

6. Capital risk management

The Company's main objectives when managing capital are to ensure sufficient liquidity to finance research and development activities, clinical trials, ongoing administrative costs, working capital and capital expenditures. The Company includes cash in the definition of capital. The Company endeavours not to unnecessarily dilute shareholders when managing the liquidity of its capital structure.

Since inception, the Company has financed its operations from public and private sales of equity, the exercise of warrants and stock options, and, to a lesser extent, from interest income from funds available for investment, government grants and investment tax credits. Since the Company does not have net earnings from its operations, the Company's long-term liquidity depends on its ability to access capital markets, which depends substantially on the success of the Company's ongoing research and development programs, as well as capital market conditions and availability.

The Company does not currently have enough cash reserves to fully fund its clinical trials nor does the Company have sufficient cash reserves to meet anticipated cash needs for working capital and capital expenditures through at least the next twelve months.

The Company does not have any credit facilities and is therefore not subject to any externally imposed capital requirements or covenants.

7. Financial instruments and risk management

The Company has classified its financial instruments as follows:

	October 31, 2013		July 31, 2013	
	Fair Value	Fair value hierarchy	Fair Value	Fair value hierarchy
Cash	$ 2,482	Level 1	$ 4,493	Level 1

Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 reflects valuation based on quoted prices observed in active markets for identical assets or liabilities;

Level 2 reflects valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

Level 3 reflects valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The financial instrument in the Company's financial statements, measured at fair value, is cash and cash equivalents.

Fair value

The fair value of financial instruments as at October 31, 2013 and July 31, 2013 approximates their carrying value because of the near-term maturity of these instruments.

Financial risk management

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

Risk management (the identification and evaluation of financial risk) is carried out by the finance department, in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed.

Market risk

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

Currency risk

The Company has international transactions and is exposed to foreign exchange risks from various currencies, primarily the Euro and US dollar. Foreign exchange risks arise from the foreign currency translation of the Company's integrated foreign operation in Ireland. In addition, foreign exchange risks arise from purchase transactions, as well as recognized financial assets and liabilities denominated in foreign currencies.

The Company has maintained minimal cash balances denominated in both Euro and US dollars due to Canadian dollar stability and strength against foreign currencies.

Balances in foreign currencies are as follows as at:

	October 31, 2013		July 31, 2013	
	Euros	US Dollars	Euros	US Dollars
Cash	269	79	314	63
Accounts payable	(43)	(157)	(35)	(39)
Accruals	(3)	–	(3)	–
Net foreign currencies	223	(78)	276	(36)
Closing exchange rate	1.4158	1.0427	1.3665	1.0272
CAD impact of 1% change in exchange rate	+/- 3	+/- 1	+/- 4	+/- 1

Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

Any fluctuation in the exchange rates of the foreign currencies listed above could have an impact on the Company's results from operations; however, they would not impair or enhance the ability of the Company to pay its foreign-denominated expenses.

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in interest rates, which are affected by market conditions. The Company is exposed to interest rate risk arising from fluctuations in interest rates received on its cash and cash equivalents. The Company does not have any credit facilities and is therefore not subject to any debt related interest rate risk.

The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct its operations on a day-to-day basis. Any investment of excess funds is limited to risk-free financial instruments. Fluctuations in the market rates of interest do not have a significant impact on the Company's results of operations due to the relatively short term maturity of any investments held by the Company at any given point in time and the low global interest rate environment. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company sold its distribution business on January 25, 2013 resulting in a reduction in customer credit risk going forward.

The table below breaks down the various categories that make up the Company's accounts receivable balances as at:

	October 31 2013	July 31 2013
Accounts receivable		
Government related – HST	195	121
Research and development investment tax credits	276	434
Other	3	4
	$ 474	$ 559

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due.

Since inception, the Company has mainly relied on financing its operations from public and private sales of equity. The Company does not have any credit facilities and is therefore not subject to any externally imposed capital requirements or covenants.

The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flow from operations and anticipated investing and financing activities.

The Company's cash reserves of $2,482,000 as at October 31, 2013 are insufficient to meet anticipated cash needs for working capital and capital expenditures through the next twelve months, nor are they sufficient to see the current research and development initiates through to completion. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, management considers securing additional funds primarily through equity arrangements, of utmost importance.

The Company's long-term liquidity depends on its ability to access the capital markets, which depends substantially on the success of the Company's ongoing research and development programs, as well as economic conditions relating to the state of the capital markets generally. Accessing the capital markets is particularly challenging for companies that operate in the biotechnology industry. On November 4, 2013, the Company announced the closing of a private placement for net proceeds in excess of $4,600,000. See *Subsequent event – Note 13,* below.

Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at:

	October 31, 2013			July 31, 2013		
	Carrying amount	Less than one year	Greater than one year	Carrying amount	Less than one year	Greater than one year
Accounts payable and accruals	$ 862	$ 862	$ –	$ 925	$ 925	$ –

This table only covers liabilities and obligations relative to financial instruments and does not anticipate any income associated with assets.

8. Segmented information

Management has determined that the Company has one operating segment, which is biopharmaceuticals.

The following table summarizes the Company's assets by geographic region as at October 31, 2013:

	Cash	Accounts receivable	Prepaid and other assets	Property, plant and equipment
Canada	$ 2,106	$ 474	$ 111	$ 623
USA	–	–	–	–
Europe	376	–	–	–
	$ 2,482	$ 474	$ 111	$ 623

The following table summarizes the Company's assets by geographic region as at July 31, 2013:

	Cash	Accounts receivable	Prepaid and other assets	Property, plant and equipment
Canada	$ 4,111	$ 559	$ 139	$ 677
USA	–	–	–	–
Europe	382	–	–	–
	$ 4,493	$ 559	$ 139	$ 677

9. Related party transactions

The key management personnel of the Company are the Chief Executive Officer, the President and Chief Operating Officer, the Chief Scientific Officer, the Chief Financial Officer and, prior to the completion of the Rivex Transaction, the Vice President, Product Distribution.

The following table summarizes for key management personnel compensation for the three month periods ended:

	October 31 2013	October 31 2012
Compensation	$ 302	$ 338
Stock-based compensation	28	82

The following table summarizes Directors' compensation for the fiscal years ended:

	October 31 2013	October 31 2012
Directors' fees and expense reimbursement	$ 87	$ 102
Stock-based compensation	–	14

10. Research and development projects

The Company has incurred research and development expenditures primarily on two research and development programs: L-DOS47 and Topical Interferon Alpha-2b.

Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

Included in research and development expenditures are costs directly attributable to the various research and development functions and initiatives the Company has underway and include: salaries; bonuses; benefits; stock based compensation; depreciation of property, plant and equipment; patent costs; consulting services; third party contract manufacturing, third party clinical research organization services; and all overhead costs associated with the Company's research facilities.

The following table outlines research and development costs expensed and investment tax credits for the Company's significant research and development projects for the three month periods ended:

	October 31 2013	October 31 2012
L-DOS47	$ 650	$ 822
Topical Interferon Alpha-2b	114	413
Corporate research and development expenses	281	235
Trademark and patent related expenses	225	11
Stock-based compensation expense	11	38
Depreciation expense	51	89
Research and development investment tax credit	–	–
	$ 1,332	$ 1,608

11. Loss per common share

The share purchase warrants and stock options outstanding for each of the periods reported were not included in the computation of diluted loss per share because the effect would be anti-dilutive.

12. Rivex Transaction:

On December 10, 2012, the Company announced that it had entered into a definitive agreement for the sale of the Company's Rivex Pharma division, for gross cash proceeds of up to $8.5 million (the "Rivex Transaction"). The Rivex Transaction was approved at the annual general and special meeting of the Company's shareholders on January 24, 2013 and the Rivex Transaction closed on January 25, 2013.

The components associated with the condensed consolidated statement of net income and total comprehensive income of the Company's discontinued operations, is as follows, for the three month periods ended:

	October 31 2013	October 31 2012
Revenues	$ –	$ 882
Expenses		
Cost of sales	–	355
Sales and marketing	–	204
	–	559
Net income and total comprehensive income from discontinued operations	$ –	$ 323

The impact of discontinued operations on the condensed consolidated statement of cash flows, is as follows, for the three month periods ended:

	October 31 2013	October 31 2012
Cash provided by operating activities	$ –	$ 634
Net increase in cash from discontinued operations	$ –	$ 634

Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

The details of the Rivex Transaction are as follows:

Gross proceeds		
Initial sale price	$	7,600
Add: Inventory assumed by buyer		748
Add: Trade accounts receivable assumed by buyer		368
Less: Accounts payable assumed by buyer		(363)
Less: Accruals assumed by buyer		(5)
Less: Holdback by buyer		(200)
		8,148
Costs		
Supplier contract extension fee		500
Transaction advisory fee		425
Legal costs		173
Employee termination costs		150
Other costs		133
Net assets disposed of at carrying value		748
		2,129
Gain on sale from discontinued operations	$	6,019

As security for the fulfillment of certain obligations by the buyer of the Company's distribution business to a key supplier, a holdback amount of $200,000 was applied to the proceeds upon closing the Rivex Transaction. This holdback amount will be paid to the Company beginning at the end of 2014, subject to the achievement of certain sales objectives by the purchaser of the Rivex Pharma division under a distribution agreement assumed by it in connection with the Rivex Transaction. The Company has not included the $200,000 holdback amount as consideration as at the closing date of the Rivex Transaction.

13. Subsequent event

Private placement

On November 4, 2013, subsequent to the Company fiscal quarter ending October 31, 2013, the Company closed a private placement for net proceeds in excess of $4,600,000. The terms of the private placement are for the purchase of common shares at $1.15 per share and include one warrant per share at an exercise price of $1.61 with an expiry of five years from the date of issue. A total of 4,678,000 common shares and 4,678,000 warrants were issued as part of the private placement.