

PIVOTAL THERAPEUTICS INC.
(A Development Stage Company)
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Nine months ended September 30, 2014

NOTICE TO READER

The management of Pivotal Therapeutics Inc. ("the Company") is responsible for the preparation of the accompanying condensed interim consolidated financial statements. The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the financial position, financial performance and cash flows of the Company.

These condensed interim consolidated financial statements have not been reviewed by the Company's auditor. These condensed interim consolidated financial statements are unaudited and include all adjustments consisting of normal and recurring items that management considers necessary for a fair presentation of the financial position, financial performance and cash flows.

PIVOTAL THERAPEUTICS INC.

(A Development Stage Company)

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

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PIVOTAL THERAPEUTICS INC.

(A Development Stage Company)

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(Unaudited – Prepared by Management)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2014

(with comparative amounts as at December 31, 2013)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash	\$ 1,439,105	\$ 487,199
Accounts receivable	42,277	20,107
Government remittances receivable	193,829	130,069
Inventory (Note 3)	355,016	452,294
Production advance (Note 4)	164,928	165,348
Prepaid expenses	58,621	101,429
	2,253,776	1,356,446
Non-current assets		
Equipment (Note 5a)	432,714	74,368
Intangible asset - Intellectual property (Note 5b)	614,850	580,709
	\$ 3,301,340	\$ 2,011,523
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 487,895	\$ 631,283
Government remittances payable	34,055	22,636
Current portion of loan payable (Note 6a)	-	1,763
	521,950	655,682
Loan payable (Note 6a)	-	107,526
Convertible promissory notes (Note 6b)	6,295,027	1,859,767
	6,816,977	2,622,975
COMMITMENTS (Note 9)		
DEFICIENCY		
Share capital (Note 7a)	7,962,346	7,962,346
Other paid-in capital (Note 7c)	3,641,190	1,458,518
Warrants (Note 7d)	869,583	537,943
Deficit	(15,988,756)	(10,570,259)
	(3,515,637)	(611,452)
	\$ 3,301,340	\$ 2,011,523

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

The accompanying notes form an integral part of these Condensed Interim Consolidated Financial Statements.

Approved by the Board of Directors

Signed: "John Gebhardt"

John Gebhardt, Director and
Chairman of the Audit Committee

Signed: "Eugenio Bortoluzzi"

Eugenio Bortoluzzi, CEO, CFO and
Director

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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the nine month periods ended September 30, 2014 and 2013

	3 months ended September 30, 2014	3 months ended September 30, 2013	9 months ended September 30, 2014	9 months ended September 30, 2013
SALES	\$ 72,544	\$ 60,839	\$ 198,867	\$ 227,670
COST OF SALES	11,031	24,048	71,574	102,933
	61,513	36,791	127,293	124,737
EXPENSES				
Research and development	263,226	93,887	636,726	260,670
Stock-based compensation	97,200	-	1,097,250	-
Selling fees and marketing	308,149	213,694	1,123,901	858,507
Salaries and benefits (Note 8)	191,104	83,584	639,139	285,968
Consulting (Note 8)	189,135	133,823	525,218	392,514
Office and general	11,048	87,599	303,832	214,414
Professional fees	36,413	42,405	199,252	157,746
Rent and utilities	19,003	11,109	57,616	37,924
Registration fees	16,683	10,048	38,288	37,180
Depreciation of equipment	18,157	5,563	50,360	16,688
Amortization of intangible asset	9,284	6,500	27,010	19,500
Scientific research refund applied	-	(158,702)	-	(158,702)
	1,159,402	529,510	4,698,592	2,122,409
LOSS BEFORE FINANCING EXPENSES	(1,097,889)	(492,719)	(4,571,299)	(1,997,672)
Interest on long term debt	156,145	-	357,837	-
Accretion expense	378,018	-	489,361	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIODS	\$ (1,632,052)	\$ (492,719)	\$ (5,418,497)	\$ (1,997,672)
LOSS PER SHARE				
- BASIC AND FULLY DILUTED	\$ (0.02)	\$ (0.01)	\$ (0.06)	\$ (0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES				
- BASIC AND FULLY DILUTED	91,916,277	79,453,509	91,916,277	79,453,509

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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine month periods ended September 30, 2014 and September 30, 2013

	Share Capital	Shares to be Issued	Warrants	Other Paid in Capital	Deficit	Total
Balance, December 31, 2013	\$ 7,962,346	\$ -	\$ 537,943	\$ 1,458,518	\$(10,570,259)	\$ (611,452)
Stock-based compensation (Note 7c)	-	-	-	1,097,250	-	1,097,250
Value attributed to equity component of convertible promissory note	-	-	331,640	1,085,422	-	1,417,062
Net loss for the period	-	-	-	-	(5,418,497)	(5,418,497)
Balance, September 30, 2014	\$ 7,962,346	\$ -	\$ 869,583	\$ 3,641,190	\$(15,988,756)	\$ (3,515,637)
Balance, December 31, 2012	\$ 5,758,480	\$ 1,495,250	\$ -	\$ 1,366,998	\$ (7,608,499)	\$ 1,012,229
Shares to be issued	-	1,246,559	-	-	-	1,246,559
Net loss for the period	-	-	-	-	(1,997,672)	(1,997,672)
Balance, September 30, 2013	\$ 5,758,480	\$ 2,741,809	\$ -	\$ 1,366,998	\$ (9,606,171)	\$ 261,116

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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine month periods ended September 30, 2014 and 2013

	September 30, 2014	September 30, 2013
Cash flows from operating activities		
Net loss for the periods	\$ (5,418,497)	\$ (1,997,672)
Items not affecting cash		
Stock-based compensation	1,097,250	-
Depreciation of equipment	50,360	16,688
Amortization of intangible assets	27,010	19,500
Accretion expense	489,361	-
Net change in non-cash working capital items relating to operating activities		
Accounts receivable	(22,170)	(2,562)
Government remittances receivable	(63,760)	36,238
Inventory	97,278	127,625
Prepaid expenses	42,808	(18,467)
Production advance	420	(5,395)
Accounts payable and accrued liabilities	(143,388)	478,641
Government remittances payable	11,419	-
Cash used in operating activities	(3,831,909)	(1,345,404)
Cash flows from investing activities		
Acquisition of equipment	(408,706)	-
Additions to intangible assets	(61,151)	-
Cash used in investing activities	(469,857)	-
Cash flows from financing activities		
Proceeds from shares to be issued	-	1,246,559
Repayment of loan payable	(109,289)	109,717
Proceeds from note payable, net	5,362,961	-
Cash provided by financing activities	5,253,672	1,356,276
Increase in cash during the periods	951,906	10,872
Cash, beginning of periods	487,199	20,694
Cash, end of periods	\$ 1,439,105	\$ 31,566

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS September 30, 2014 and 2013

NOTE 1 NATURE OF OPERATIONS AND GOING CONCERN

Pivotal Therapeutics Inc. (the “Company”) or (“New Pivotal”) was formed on April 7, 2011, as a result of an amalgamation between Media Script Marketing Inc. and Pivotal Therapeutics Inc. (“Old Pivotal”). The Company is a specialty pharmaceutical company dedicated to the rapid discovery, development and marketing of prescription grade pharmaceuticals with proven efficacy and safety. The Company has funded its activities through the issuance of common shares and warrants, and notes and loans payable. Its head office is located at 81 Zenway Blvd., Unit 10, Woodbridge, Ontario, Canada L4H 0S5.

The condensed interim consolidated financial statements were approved by the Board of Directors on November 28, 2014.

These condensed interim consolidated financial statements are prepared on the assumption that the Company is a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. The Company has yet to generate substantial revenue and has relied upon the issuance of debt and equity instruments to fund operations. There is no assurance that the Company will be able to continue to raise funds in this manner on acceptable terms, if at all, leading to substantial doubt surrounding the Company’s ability to continue as a going concern. Failure to obtain such additional financing could result in delay or indefinite postponement of the Company’s strategic goals. These condensed interim consolidated financial statements do not include any adjustments relative to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

NOTE 2 BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

(a) Statement of compliance

The Company has prepared these unaudited condensed interim consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*, employing all of the same accounting policies and methods of computation as disclosed in the annual audited consolidated financial statements as at December 31, 2013. The notes to these unaudited condensed interim consolidated financial statements are intended to provide a description of events and transactions that are significant to an understanding to the changes in the Company’s financial position and performance since December 31, 2013. Certain disclosures that appear in the annual consolidated financial statements have not been reproduced in these unaudited condensed interim consolidated financial statements and, in this regard only, these unaudited condensed interim consolidated financial statements do not conform in all respects to the requirements of IFRS for the annual audited consolidated financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should only be read in conjunction with the annual audited consolidated financial statements as at December 31, 2013.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS September 30, 2014 and 2013

NOTE 2 BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE (continued)

(b) Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared on an historical cost basis, except for certain financial instruments that have been measured at fair value. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

(c) Significant accounting estimates and judgements

The preparation of these unaudited condensed interim consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of assets and liabilities at the financial reporting date and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgements and estimates. These unaudited condensed interim consolidated financial statements include judgements and estimates which, by their nature, are uncertain. The impacts of such judgements and estimates are pervasive throughout the unaudited condensed interim consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and also in future periods when the revision affects both current and future periods.

(d) Functional currency

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

NOTE 3 INVENTORY

Inventory consists of finished goods amounting to \$355,016 as at September 30, 2014 (December 31, 2013 work in progress - \$371,268, finished goods - \$81,026). During the year ended December 31, 2013 the Company recognized an inventory impairment totalling \$271,068 related to slow moving inventory.

NOTE 4 PRODUCTION ADVANCE

During the year ended December 31, 2011, \$709,326 (500,000 Euro) was provided as a production advance to a supplier under an Exclusive Supply Agreement. The Company committed under the supply agreement to purchase minimum quantities of raw material each year. The price of the raw material is fixed for the first two years of the contract and is subject to negotiation thereafter. The advance bears interest at a rate of 4% per annum. The remaining balance outstanding as of September 30, 2014 was \$164,928 or 116,209 Euro (December 31, 2013 - \$165,348 or 112,827 Euro).

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS September 30, 2014 and 2013

NOTE 5 EQUIPMENT AND INTANGIBLE ASSET – INTELLECTUAL PROPERTY

(a) Equipment

	September 30, 2014	December 31, 2013
Cost		
Opening balance	\$ 131,271	\$ 118,168
Additions	408,706	13,103
Ending balance	539,977	131,271
Accumulated depreciation		
Opening balance	56,903	33,353
Depreciation for the period	50,360	23,550
Ending balance	107,263	56,903
Net carrying value	\$ 432,714	\$ 74,368

(b) Intangible Assets – Intellectual Property

	September 30, 2014	December 31, 2013
Cost		
Opening balance	\$ 659,167	\$ 520,000
Additions	61,151	139,167
Ending balance	720,318	659,167
Accumulated amortization		
Opening balance	78,458	45,500
Amortization for the period	27,010	32,958
Ending balance	105,468	78,458
Net carrying value	\$ 614,850	\$ 580,709

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014 and 2013

NOTE 6 LOAN PAYABLE AND CONVERTIBLE PROMISSORY NOTES

(a) Loan Payable

	September 30, 2014	December 31, 2013
Non-secured note payable advanced from a minority shareholder bearing interest at 4.69% per annum repayable in equal monthly instalments of principal and interest in the amount of approximately \$570, due July 1, 2016	\$ -	\$ 109,289
Current portion	-	1,763
	\$ -	\$ 107,526

During the period, the note was fully repaid.

(b) Convertible Promissory Notes

	September 30, 2014	December 31, 2013
Advances on convertible promissory notes	\$ 1,915,425	\$ 1,915,425
Discount on face value	(124,520)	(124,520)
Accumulated accretion	124,520	68,862
Transfer of principal on issuance of promissory notes	(1,915,425)	-
	\$ -	\$ 1,859,767
Face value of convertible promissory notes	\$ 7,743,580	\$ -
Discount on face value	(1,507,633)	-
Transaction costs allocated	(374,623)	-
Accumulated accretion	433,703	-
	\$ 6,295,027	\$ -

The Company entered into an agreement whereby it offered units ("Units") consisting of \$1,000 of Convertible Promissory Notes ("Notes") and warrants to purchase 1,200 shares of the common stock of the Company up to 5,000 Convertible Promissory Notes of \$5,000,000.

As of December 31, 2013, the Company had received advances of \$1,915,425 for Units to be issued upon closing of the financing. The carrying value of the advances at December 31, 2013 is \$1,859,767. The Company treated the advances as interest

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014 and 2013

NOTE 6 LOAN PAYABLE AND CONVERTIBLE PROMISSORY NOTES (continued)

(b) Convertible Promissory Notes (continued)

free loans. The market interest rate was estimated to be 18% and resulted in an initial fair value of the liability of \$1,790,905 and a corresponding gain in other paid in capital of \$124,520.

After initial recognition, the advances were carried at amortized cost and were accreted to their face amount upon closing of the transaction using the effective interest rate. For the nine months ended September 30, 2014, \$489,361 has been recognized as additional accretion expense on the advances.

On March 4, 2014, the Company completed its debt financing issuing a total of 7,744 units for gross proceeds of \$7,743,580. Each unit consists of \$1,000 Convertible Promissory Notes ("Notes") and 1,200 common share purchase warrants for a total issuance of 9,292,296 warrants. The maturity of the Note is two years from the date of issuance. The conversion price of the Notes has been amended from \$0.25 to \$0.20 for each common share of the Company. The Notes will accrue interest at a rate of 8% per annum and the warrants may be exercised for a period of 60 months following the date of issuance at an exercise price of \$0.30 per common share. The Company may, at its discretion, pay the interest in either cash or common shares of the Company, valued at the greater of \$0.20 per share and such price as may be allowed under the Canadian Securities Exchange policy (CNSX policy).

The Company also incurred financing costs associated with the transaction of \$480,544 and issued 1,641,586 agent warrants at the time of closing. The agent warrants carry an exercise price of \$0.30, carry a term of five years and may be exercised at any time.

The Company used the residual value method to allocate the proceeds between the liability and equity components. Under this method, the fair value of the liability component of \$6,235,947 was computed as the present value of the future principal and interest payments discounted at a rate of 20% per annum. The residual value of \$1,507,633 was attributed to the equity components and allocated proportionately between the 10,933,882 warrants issued and the option to convert the Notes into 38,717,900 common shares. The transaction costs totalling \$480,544 were then allocated proportionally to each component.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS September 30, 2014 and 2013

NOTE 7 SHARE CAPITAL

(a) Shares

Authorized

Unlimited number of common shares without par value

Issued and outstanding

91,916,277 common shares

The common share transactions over the periods are as follows:

	Number of Shares	Amount
Closing balance December 31, 2012 and 2011	79,453,509	\$ 5,758,480
Issuance of common shares on October 2, 2013	12,462,768	2,203,866
Closing balance December 31, 2013 and September 30, 2014	91,916,277	\$ 7,962,346

On October 2, 2013 the Company closed a non-brokered private placement consisting of 12,462,768 units for gross proceeds of \$2,741,809. Each unit consisted of one common share and one-half common share purchase warrant for a total issuance of 12,462,768 common shares and 6,231,384 warrants. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.30 per common share expiring after 60 months. The purchase warrants may be called by the Company at any time after six months following the closing, provided the common shares of the Company have traded at a price of at least CDN \$0.45 for 20 trading days within a 30 consecutive day trading period.

Using the Black-Scholes model to value the warrants, \$537,943 was allocated to warrants and the remaining amount of \$2,203,866 was allocated to share capital.

(b) Shares to be Issued

Pursuant to a subscription agreement dated June 24, 2012 the Company signed a non-brokered private placement to issue 22,727,273 common shares for \$5,000,000 or \$0.22 per unit. Each unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each full purchase warrant entitles the holder thereof to subscribe for one common share. The terms of the purchase warrants were revised from an expiry of 24 months to 60 months. The warrants' exercise price was reduced from \$0.50 per common share to \$0.30 per common share. The purchase warrants may be called by the Company at any time after six months following the closing, provided the common

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NOTE 7 SHARE CAPITAL (continued)

(b) Shares to be Issued (continued)

shares of the Company have traded at a price of at least \$0.45 for 20 trading days within a 30 day consecutive trading period. As of December 31, 2012, the Company had received \$1,495,250 representing 6,796,591 common shares in the Company. The shares were issued during the year ended December 31, 2013 upon closing the private placement.

(c) Stock Options

The Company has a rolling stock option plan for its directors, officers, employees and consultants retained by the Company or any of its subsidiaries or affiliates to provide common shares of the Company at a price as determined by the Board of Directors. The maximum aggregate number of common shares reserved for issuance pursuant to the plan is 15% of the issued and outstanding common shares.

No stock options were granted during the year ended December 31, 2013.

On February 1, 2014, 100,000 stock options granted August 26, 2011 to a past employee were not exercised within the required option period following the employee departure and were forfeited.

On March 14, 2014, the Company granted previously reserved stock options to certain of its directors, officers, employees and consultants in recognition of their contribution made in 2012. Options to acquire a total of 4,075,000 common shares of the Company were granted in accordance with the provisions of the Company's 2011 stock option plan approved by shareholders on March 10, 2011. The options are exercisable at an exercise price of \$0.20, vest immediately and will expire five years following the date of the grant.

On April 7, 2014, the Company granted previously reserved stock options to certain of its directors, officers, employees, and consultants in recognition of their contributions made in 2013. Options to acquire a total of 4,176,000 common shares of the Company granted in accordance with the provisions of the Company's 2011 stock option plan approved by the shareholders on March 10, 2011. The options are exercisable at an exercise price of \$0.20, vest immediately, and will expire five years following the date of the grant.

On July 17, 2014, 250,000 stock options granted on March 14, 2014 and 500,000 stock options granted on April 7, 2014 to past directors were not exercised within the required option period following the director's departure and were forfeited.

On September 12, 2014, the Company granted previously reserved stock options to an officer and an advisor. Options to acquire 1,000,000 common shares of the

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS September 30, 2014 and 2013

NOTE 7 SHARE CAPITAL (continued)

(c) Stock Options (continued)

Company granted in accordance with the provisions of the Company's 2011 stock option plan approved by the shareholders on March 10, 2011. The options are exercisable at an exercise price of \$0.20, vest immediately, and will expire five years following the date of the grant.

The fair value of the options granted during the nine months ended September 30, 2014 of \$1,097,250 was determined using the Black-Scholes option pricing model using the following weighted average assumptions:

Risk free interest rate	1.63% - 2.20%
Expected life in years	5 years
Expected volatility	84% - 93%
Expected dividend yield	0%
Weighted average fair value per option granted	\$0.097 - \$0.125

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. The Company's stock options are not transferable and cannot be traded, thus the Black-Scholes model may over-estimate the actual value of the options that the Company has granted. The Black-Scholes model also requires an estimate of expected volatility.

Following is a summary of options outstanding at September 30, 2014, exercise price and expiry date:

Dates Options Granted	Number of Options	Exercise Price (\$)	Expiry Date
January 11, 2011	600,000	0.10	January 11, 2016
February 7, 2011	200,000	0.10	February 7, 2016
March 10, 2011	899,000	0.10	March 10, 2016
May 24, 2011	1,600,000	0.45	May 24, 2016
August 18, 2011	100,000	0.30	August 18, 2016
August 26, 2011	550,000	0.30	August 26, 2016
November 22, 2011	200,000	0.25	November 22, 2016
March 29, 2012	200,000	0.29	March 29, 2017
March 14, 2014	3,825,000	0.20	March 14, 2019
April 7, 2014	3,676,000	0.20	April 7, 2019
September 12, 2014	1,000,000	0.20	September 12, 2019
	12,850,000		

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS September 30, 2014 and 2013

(d) Warrants

The following table summarizes activity of the Company's warrants, exercisable for common shares for the period ended September 30, 2014:

	Number of Warrants	Exercise Price
Outstanding, December 31, 2013	6,231,384	\$0.30
Granted (Note 6(b))	9,292,296	\$0.30
Granted (Note 6(b))	1,641,586	\$0.30
Outstanding, September 30, 2014	17,165,266	\$0.30

The fair value of the warrants issued during the period was determined using the Black-Scholes option pricing model using the following assumptions:

Risk free interest rate	1.13% - 1.63%
Expected life in years	2 - 5 years
Expected volatility	84% - 105%
Expected dividend yield	0%

Following is a summary of warrants outstanding at September 30, 2014, exercise price and expiry date:

Date Warrants Granted	Number of Warrants	Exercise Price (\$)	Expiry Date
October 23, 2013	6,231,384	0.30	October 23, 2018
March 4, 2014	10,933,882	0.30	March 4, 2019
	17,165,266		

NOTE 8 RELATED PARTY TRANSACTIONS

The Company paid a total of \$270,000 in consulting fees to an officer and director of the Company during the period (2013 - \$180,000). The Company paid a total of \$480,080 in management compensation during the period (2013 - \$225,000).

As of September 30, 2014, Nil (December 31, 2013 - \$29,205) was owing to officers and directors of the Company for unpaid wages and expenses.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014 and 2013

NOTE 9 COMMITMENTS

The Company entered into a lease for office premises which was due to expire on January 31, 2013 with an option to renew the term of the lease for a further three years. The Company exercised the option for a further three years expiring January 2016. The minimum annual lease payments to the expiration of the lease are as follows:

2014	\$	39,000
2015	\$	39,000
2016	\$	3,300

On December 1, 2013, the Company entered into a new lease for additional office space which expires November 30, 2016. The minimum annual lease payments to the expiration of the lease are as follows:

2014	\$	25,400
2015	\$	25,400
2016	\$	23,283

NOTE 10 MANAGEMENT OF CAPITAL

The Company defines capital as its equity (currently a deficiency) that may be used for operations and development of its family of pharmaceutical products. The Company's objective in managing capital is to maintain adequate levels of funding to support development of its pharmaceutical products, maintain corporate and administrative functions necessary to support organizational management oversight.

The Board of Directors does not establish quantitative "return on capital" criteria for management. The Company seeks to manage its capital structure in a manner that provides sufficient funding for operational activities. Funds are primarily secured through equity capital obtained in private placements as well as debenture financing. There can be no assurances that the Company will be able to continue raising capital in this manner.

The Company does not have any plans to pay dividends within the next year.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014 and 2013

NOTE 11 FINANCIAL RISK FACTORS

The Company reviews and manages the key risks that could prevent it from reaching its business objectives. This covers all risk areas, including strategic, operational and financial risks. The key risks identified by management are as follows:

Credit risk

Substantially all of the Company's cash is held with major financial institutions in Canada and management believes the exposure to credit risk with such institutions is not significant. The Company is also exposed to credit risk in the event of non-performance by customers paying outstanding trade receivables. At September 30, 2014 and December 31, 2013 no amounts due from customers were considered past due and no allowance for uncollectible amounts was considered necessary.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities (see note 1). The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements as well as growth and development of its Omega-3 pharmaceutical products. The Company coordinates this planning and budgeting process with its financing activities through the capital management process described above in normal circumstances. The Company's financial liabilities are comprised of its accounts payable and accrued liabilities summarized as follows:

Financial liabilities with 90 days or less	\$ 487,895
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Interest rate risk

Interest rate risk is the risk that the value of financial instruments may fluctuate due to changes in market interest rate. As at September 30, 2014 and December 31, 2013 the Company has no significant exposure to interest rate risk through its financial instruments.

Foreign currency risk

The Company is exposed to currency risk because it makes purchases and sales transacted in US dollars and Euro. At September 30, 2014, a 10% change in the average exchange rate between Canadian dollars and US dollars or Euro would have resulted in a \$19,250 change on reported net loss and comprehensive loss for the period.

PIVOTAL THERAPEUTICS INC.

(A Development Stage Company)

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS **September 30, 2014 and 2013**

NOTE 12 GEOGRAPHIC INFORMATION

The Company is organized and managed as a single reportable operating segment. No significant non-current assets are held outside of the United States.

Revenue from operations, classified by the major geographical segments in which the Company's customers are located was as follows:

	September 30, 2014	September 30, 2013
United States	\$ 196,286	\$ 220,755
Canada	2,581	6,915
Total	\$ 198,867	\$ 227,670

NOTE 13 SUBSEQUENT EVENT

On October 1, 2014, the Company issued 780,722 common shares of the Company, representing payment of interest for the period June 5, 2014 to September 4, 2014 on its outstanding convertible notes. Interest on the notes, at a rate of 8% per annum, is payable quarterly in either cash or common shares at the option of the Company, valued at the greater of \$0.20 per share and such price as may be allowed under the Canadian Securities Exchange policy (CNSX policy).