

TAPIMMUNE INC
Form 10-Q/A
August 19, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2013

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File Number: 000-27239

TAPIMMUNE INC.

(Name of registrant in its charter)

NEVADA

88-0277072

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification
No.)

1551 Eastlake Avenue East, Suite 100
Seattle, Washington

98102

(Address of principal executive offices)

(Zip Code)

(206) 504 7278

(Issuer's telephone number)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

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Large accelerated filer

Non-accelerated filer (Do not check
if smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 9, 2013, the Company had 92,728,474 shares of common stock issued and outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (the “Form 10-Q/A”) to the Quarterly Report on Form 10-Q for TapImmune Inc. (“we” or the “Company”) for the quarterly period ended March 31, 2013, initially filed with the Securities and Exchange Commission (the “SEC”) on May 21, 2013 (the “Original Filing”), is being filed to report restated:

(i)(a) Cash, (b) Accounts payable, (c) Derivative liability – conversion option, (d) Derivative liability – warrants, (e) Due to related parties, (f) Common stock, (g) Additional paid-in capital, (h) Deficit accumulated during development stage relating to revaluation of derivative liabilities and (i) other adjustments in fiscal year ended December 2012 and

(ii)(a) Accounts payable, (b) Derivative liability – conversion option, (c) Derivative liability – warrants, (d) Promissory notes, (e) Due to related parties, (f) Common stock, (g) Additional paid-in capital, (h) Deficit accumulated during development stage relating to revaluation of derivative liabilities and (i) other adjustments in the current period.

The restatement of the Company’s adjustments to derivative liabilities and other adjustments arose in connection with management’s review of the Company’s periodic SEC filings.

As a result, on May 21, 2013, the Board of Directors of the Company, determined that the Company’s previously issued consolidated unaudited financial statements and reports filed with the SEC for the quarterly period ended March 31, 2013 should not be relied upon. For a more detailed description of the effects of the restatement, see further discussion in Note 1A, “Restatement of Consolidated Financial Statements” to our consolidated financial statements included in Part I, Item 1 of this report.

For the convenience of the reader, this Form 10-Q/A sets forth the Original Filing in their entirety. However, this Form 10-Q/A only amends and restates Items 1 and 2 of Part I of the Original Filing, in each case, solely as a result of, and to reflect, the restatement, and no other information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain currently dated certifications from the Company’s Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, and they are attached as Exhibits 31.1 and 32.1 to this report.

Except for the foregoing amended information, this Form 10-Q/A continues to speak as of the dates of the Original Filing, and the Company has not updated the disclosures contained herein to reflect events that occurred at a later date. Other events occurring after the filing of the Original Filing or other disclosures necessary to reflect subsequent events will be addressed in any reports filed with the SEC subsequent to the date of this filing.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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TAPIMMUNE INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS

| | March 31, 2013 (Unaudited) (As restated) | December 31, 2012 (As restated) |
|--|---|--|
| ASSETS | | |
| Current Assets | | |
| Cash | \$4,436 | \$33,839 |
| Due from government agency | 1,099 | 1,077 |
| Prepaid expenses and deposits | 118,954 | 15,004 |
| Deferred financing costs (Note 5) | 26,867 | 37,452 |
| | 151,356 | 87,372 |
| | \$151,356 | \$87,372 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities (Note 12) | \$1,898,463 | \$1,941,716 |
| Research agreement obligations (Note 3) | 443,534 | 415,998 |
| Derivative liability – conversion option (Note 4) | 329,900 | 867,575 |
| Derivative liability – warrants (Note 4) | 462,293 | 977,086 |
| Convertible notes payable (Note 5) | 2,064,171 | 1,476,230 |
| Loans payable (Note 6) | 10,000 | 10,000 |
| Promissory notes (Note 7) | 277,942 | 67,942 |
| Due to related parties (Note 8) | 153,846 | 373,346 |
| | 5,640,149 | 6,129,893 |
| Stockholders' Deficit | | |
| Capital stock (Note 9) | | |
| Common stock, \$0.001 par value, 150,000,000 shares authorized 87,571,984 shares issued and outstanding (2012 – 76,402,958) | 85,674 | 76,404 |
| Additional paid-in capital | 44,456,733 | 43,483,947 |
| Shares and warrants to be issued (Note 9) | 367,405 | 352,859 |
| Deficit accumulated during the development stage | (50,335,515) | (49,894,083) |
| Accumulated other comprehensive loss | (63,090) | (61,648) |
| | (5,488,793) | (6,042,521) |
| | \$151,356 | \$87,372 |

RESTATEMENT (Note 1(A))

CONTINGENCIES AND COMMITMENTS (Notes 1, 3, 5 and 11)

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

TAPIMMUNE INC.
(A Development Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended March 31, 2013 (As restated) | Three Months Ended March 31, 2012 | Period from July 27, 1999 (inception) to March 31, 2013 (As restated) |
|--|--|---|--|
| EXPENSES | | | |
| Consulting | \$30,000 | \$- | \$2,251,500 |
| Consulting - stock-based (Note 9) | 67,812 | 133,908 | 8,106,184 |
| Depreciation | - | - | 213,227 |
| General and administrative | 207,318 | 141,890 | 4,136,670 |
| Interest and financing charges (Note 4) | 334,888 | 96,726 | 6,910,975 |
| Management fees (Note 8) | 58,500 | 80,100 | 3,132,803 |
| Management fees - stock-based (Notes 8 and 9) | 15,563 | 29,563 | 4,464,561 |
| Professional fees | 266,630 | 74,129 | 5,682,739 |
| Research and development (Note 8) | 134,380 | 115,465 | 7,102,975 |
| Research and development - stock-based | - | - | 612,000 |
| | 1,115,091 | 671,781 | 42,613,634 |
| NET LOSS BEFORE OTHER ITEMS | (1,115,091) | (671,781) | (42,613,634) |
| OTHER ITEMS | | | |
| Foreign exchange (loss) gain | 12,533 | (7,783) | 58,220 |
| Changes in fair value of derivative liabilities (Note 4) | 1,097,168 | 71,062 | 5,401,560 |
| Loss on debt financing (Note 5) | - | - | (1,373,263) |
| Gain (loss) on settlement of debt (Note 8) | (436,042) | 9,930 | (12,126,843) |
| Gain on extinguishment of derivative liabilities - warrants (Note 5) | - | - | 290,500 |
| Interest income | - | - | 33,344 |
| Loss on disposal of assets | - | - | (5,399) |
| NET LOSS | \$(441,432) | \$(598,572) | \$(50,335,515) |
| BASIC AND DILUTED NET LOSS PER SHARE | \$(0.01) | \$(0.01) | |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED | 80,694,680 | 52,470,198 | |

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

TAPIMMUNE INC.
(A Development Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Three Months Ended March 31, 2013 (As restated) | Three Months Ended March 31, 2012 | Period from July 27, 1999 (inception) to March 31, 2013 (As restated) |
|---|---|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss | \$(441,432) | \$(598,572) | \$(50,335,515) |
| Adjustments to reconcile net loss to net cash from operating activities: | | | |
| Depreciation | - | - | 213,228 |
| Non-cash loss on debt financing | - | - | 1,373,263 |
| Changes in fair value of derivative liabilities | (1,097,168) | (71,062) | (5,401,560) |
| Loss (gain) on settlement of debt | 436,042 | (9,930) | 12,126,843 |
| Gain on extinguishment of derivative liabilities - warrants | - | - | (290,500) |
| Loss on disposal of assets | - | - | 5,399 |
| Non-cash interest and financing charges | - | 96,726 | 5,468,499 |
| Stock based compensation | 83,375 | 163,471 | 13,198,995 |
| Changes in operating assets and liabilities: | | | |
| Due from government agency | - | (24) | (1,055) |
| Prepaid expenses and deposits | (103,950) | 15,152 | (142,954) |
| Deferred financing costs | 10,585 | 3,827 | (1,618) |
| Accounts payable and accrued liabilities | 630,558 | 24,268 | 6,227,839 |
| Research agreement obligations | 27,536 | 43,761 | 661,665 |
| NET CASH USED IN OPERATING ACTIVITIES | (454,454) | (332,383) | (16,897,471) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Issuance of shares, net | 235,951 | 85,000 | 11,096,526 |
| Convertible notes, net | - | - | 2,123,906 |
| Proceeds from loans payable | - | - | 428,000 |
| Notes and loans payable | - | - | 919,845 |
| Advances from related parties | 80,500 | 20,900 | 1,880,283 |
| Proceeds from exercise of warrants | 108,600 | - | 108,600 |
| Stock subscriptions | - | - | 140,000 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 425,051 | 105,900 | 16,697,160 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of furniture and equipment | - | - | (218,626) |
| Cash acquired on reverse acquisition | - | - | 423,373 |

| | | | |
|--|-----------|------------|---------|
| NET CASH PROVIDED BY INVESTING ACTIVITIES | - | - | 204,747 |
| INCREASE (DECREASE) IN CASH | (29,403) | (226,483) | 4,436 |
| CASH, BEGINNING OF PERIOD | 33,839 | 250,234 | - |
| CASH, END OF PERIODPERIOD | \$4,436 | \$23,751 | \$4,436 |

Supplemental cash flow information and non-cash investing and financing activities: (Note 10)

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

TAPIMMUNE INC.
(A Development Stage Company)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013 (UNAUDITED)

NOTE 1A: RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

We have restated our consolidated financial statements as of and for the year ended December 31, 2012 and the consolidated financial statements as of and for the three months ended March 31, 2013 relating to the Company's accounting for derivative liabilities and other accounts. We had recorded the derivative liabilities without accurately reflecting the effect of conversion of certain convertible notes and proper classification of some of the liabilities.

The impact of the restatement on the consolidated financial statements as of and for the year ended December 31, 2012, is shown in the following table:

| | As reported | Adjustment | As restated |
|---|----------------|--------------|----------------|
| Balance sheet data — December 31, 2012 | | | |
| Cash | \$50,679 | \$(16,840) | \$33,839 |
| Total Assets | 104,212 | (16,840) | 87,372 |
| Accounts payable and accrued liabilities | 2,058,556 | (116,840) | 1,941,716 |
| Derivative liability – conversion option | 798,300 | 69,275 | 867,575 |
| Derivative liability - warrants | 677,086 | 300,000 | 977,086 |
| Convertible notes payable | 1,376,230 | 100,000 | 1,476,230 |
| Due to related parties | 366,697 | 6,649 | 373,346 |
| Total liabilities | \$5,770,809 | \$359,084 | \$6,129,893 |
| Additional paid-in capital | 43,545,947 | (62,000) | 43,483,947 |
| Deficit accumulated during the development stage | (49,580,159) | (313,924) | (49,894,083) |
| Stockholders' deficiency | \$(5,666,597) | \$(375,924) | \$(6,042,521) |
| | | | |
| | As reported | Adjustment | As restated |
| Consolidated Statement of Operations data | | | |
| For the year ended December 31, 2012 | | | |
| Management fees | \$295,600 | \$6,649 | \$302,249 |
| Net Loss Before Other Items | (6,222,798) | (6,649) | (6,229,447) |
| Changes in fair value of derivative liabilities | 536,527 | (307,375) | 229,252 |
| NET LOSS | \$(5,857,943) | \$(313,924) | \$(6,171,867) |
| | | | |
| | As reported | Adjustment | As restated |
| Consolidated Statement of Operations data | | | |
| From July 27, 1999 (inception) to December 31, 2012 | | | |
| Management fees | \$3,067,654 | \$6,649 | \$3,074,303 |
| Net Loss Before Other Items | (41,491,894) | (6,649) | (41,498,543) |
| Changes in fair value of derivative liabilities | 4,611,667 | (307,375) | 4,304,392 |
| NET LOSS | \$(49,580,159) | \$(313,924) | \$(49,894,083) |

The impact of the restatement on the consolidated financial statements as of and for the three months ended March 31, 2013, and from July 27, 1999 (inception) to March 31, 2013 is shown in the following tables:

| | As reported | Adjustment | As restated |
|--|----------------|--------------|----------------|
| Balance sheet data — March 31, 2013 | | | |
| Accounts payable and accrued liabilities | \$2,055,493 | \$(157,030) | \$1,898,463 |
| Derivative liability – conversion option | 531,600 | (201,700) | 329,900 |
| Promissory notes | 67,942 | 210,000 | 277,942 |
| Convertible notes payable | 1,964,171 | 100,000 | 2,064,171 |
| Due to related parties | 117,197 | 36,649 | 153,846 |
| Total liabilities | \$5,652,230 | \$(12,081) | \$5,640,149 |
| Common stock | 87,573 | (1,899) | 85,674 |
| Additional paid-in capital | 44,763,651 | (306,918) | 44,456,733 |
| Deficit accumulated during the development stage | (50,656,413) | 320,898 | (50,335,515) |
| Stockholders' deficiency | \$(5,500,874) | \$12,081 | \$(5,488,793) |

| | As reported | Adjustment | As restated |
|---|---------------|------------|--------------|
| Consolidated Statement of Operations data | | | |
| For the three months ended March 31, 2013 | | | |
| Professional fees | \$83,660 | \$182,970 | \$266,630 |
| Research and development | 242,980 | (108,600) | 134,380 |
| Net Loss Before Other Items | (1,040,721) | (74,370) | (1,115,091) |
| Changes in fair value of derivative liabilities | 526,193 | 570,975 | 1,097,168 |
| Loss on settlement on debt | (574,259) | 138,217 | (436,042) |
| NET LOSS | \$(1,076,254) | \$634,822 | \$(441,432) |

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| | As reported | Adjustment | As restated |
|--|----------------|------------|----------------|
| Consolidated Statement of Operations data From July 27, 1999 (inception) to March 31, 2013 | | | |
| Management fees | \$3,126,154 | \$6,649 | \$3,132,803 |
| Professional fees | 5,499,769 | 182,970 | 5,682,739 |
| Research and development | 7,211,575 | (108,600) | 7,102,975 |
| Net Loss Before Other Items | (42,532,615) | (81,019) | (42,613,634) |
| Changes in fair value of derivative liabilities | 5,137,860 | 264,500 | 5,401,560 |
| Loss on settlement on debt | (12,265,060) | 138,217 | (12,126,843) |
| NET LOSS | \$(50,656,413) | \$320,898 | \$(50,335,515) |

| | As reported | Adjustment | As restated |
|---|----------------|------------|--------------|
| Consolidated Statement of Cash Flows data For the three months ended March 31, 2013 | | | |
| Net loss | \$(1,076,254) | \$634,822 | \$(441,432) |
| Changes in fair value of derivative liabilities | (526,193) | (570,975) | (1,097,168) |
| Loss on settlement of debt | 574,259 | (138,217) | 436,042 |
| Accounts payable and accrued liabilities | 539,348 | 91,210 | 630,558 |
| NET CASH USED IN OPERATING ACTIVITIES | \$(471,294) | \$16,840 | \$(454,454) |

| | As reported | Adjustment | As restated |
|--|----------------|------------|----------------|
| Consolidated Statement of Cash Flows data From July 27, 1999 (inception) to March 31, 2013 | | | |
| Net loss | \$(50,656,413) | \$320,898 | \$(50,335,515) |
| Changes in fair value of derivative liabilities | (5,137,860) | (263,700) | (5,401,560) |
| Loss on settlement of debt | 12,265,060 | (138,217) | 12,126,843 |
| Accounts payable and accrued liabilities | 6,153,469 | 74,370 | 6,227,839 |
| NET CASH USED IN OPERATING ACTIVITIES | (16,890,822) | (6,649) | (16,897,471) |
| Advances from related parties | 1,873,634 | 6,649 | 1,880,283 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | \$16,690,511 | \$6,649 | \$16,697,160 |

NOTE 1: NATURE OF OPERATIONS

TapImmune Inc. (the “Company”), a Nevada corporation incorporated in 1992, is a clinical development stage company which was formed for the purpose of building a biotechnology business specializing in the discovery and development of immunotherapeutics aimed at the treatment of cancer, and therapies for infectious diseases, autoimmune disorders and transplant tissue rejection.

Since inception, the Company has been party to various Collaborative Research Agreements (“CRA”) working with universities to carry out development of the licensed technology and providing TapImmune the option to acquire the rights to commercialize any additional technologies developed within the CRA. The lead product candidate, a set of Class II HER2/neu antigens is in Phase I clinical trials in breast cancer patients at the Mayo Clinic. This product will be combined with a novel Class I HER2/neu antigen in further clinical trials and with TapImmune’s expression vector technology containing TAP in a “boost” strategy. TapImmune has a license and an exclusive option to license the HER2/neu antigen technologies from the Mayo Clinic. The TAP technology is now wholly owned and with no ongoing license or royalty, resulting from these license agreements is an immunotherapy vaccine, on which the Company has been completing pre-clinical work in anticipation of clinical trials. Specifically, the Company has obtained and expanded on three U.S. and international patents, tested various viral vectors, licensed a viral vector and is working towards production of a clinical grade vaccine. The Company plans to continue development of the lead product vaccine through to clinical trials in both oncology and infectious diseases alone or in partnership with other vaccine developers.

These consolidated financial statements have been prepared on the basis of a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As at March 31, 2013, the Company had a working capital deficiency of \$5,488,793 and has incurred significant losses since inception. Further losses are anticipated in the development stage raising substantial doubt as to the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on raising additional capital to fund ongoing research and development, maintenance and protection of patents, accommodation from certain debt obligations and ultimately on generating future profitable operations. Planned expenditures relating to future clinical trials of the Company’s immunotherapy vaccine will require significant additional funding. The Company is dependent on future financings to fund ongoing research and development as well as working capital requirements. The Company’s future capital requirements will depend on many factors including the rate and extent of scientific progress in its research and development programs, the timing, cost and scope involved in clinical trials, obtaining regulatory approvals, pursuing further patent protections and the timing and costs of commercialization activities.

Management is addressing going concern remediation through seeking new sources of capital, restructuring and retiring debt through conversion to equity and debt settlement arrangements with creditors, cost reduction programs and seeking possible joint venture participation. Management’s plans are intended to return the Company to financial stability and improve continuing operations. The Company is continuing initiatives to raise capital through private placements, related party loans and other institutional sources to meet immediate working capital requirements.

Additional funding was raised through equity and debt placements in 2013 and 2012, and management intends to continue restructuring outstanding debt and equity instruments. Additional capital is required currently to expand programs including pre-clinical work and to establish future manufacturing contracts necessary for clinical trials for the lead TAP (Transporters of Antigen Processing) vaccine and infectious disease adjuvant technology. Strategic partnerships will be needed to continue the product development portfolio and fund development costs. These measures, if successful, may contribute to reduce the risk of going concern uncertainties for the Company over the next twelve months.

There is no certainty that the Company will be able to arrange sufficient funding to satisfy current debt obligations or to continue development of products to marketability.

NOTE 2: UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR AN INTERIM PERIOD

Basis of Presentation

In the opinion of management, the accompanying balance sheets and related interim statements of operations and cash flows include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and expenses. Significant areas requiring management’s estimates and assumptions include deferred taxes and related tax balances and disclosures, determining the fair value of stock-based compensation and stock based transactions, the fair value of the components of the convertible notes payable, foreign exchange gains and losses, allocation of costs to research and development and accrued liabilities. Matters impacting the company’s ability to continue as a going concern and contingencies also involve the use of estimates and assumptions.

Interim results are not necessarily indicative of results for a full year. The information included in this quarterly report on Form 10-Q should be read in conjunction with information included in the Company’s annual report on Form 10-K filed on May 15, 2013, with the U.S. Securities and Exchange Commission.

NOTE 3: RESEARCH AGREEMENTS

Crucell Holland B.V. (“Crucell”) – Research License and Option Agreement

Effective August 7, 2003, Crucell and the Company’s subsidiary GPI entered into a five-year research license and option agreement whereby Crucell granted to GPI a non-exclusive worldwide license for the research use of its adenovirus technology. The Company was required to make certain payments over the five-year term totaling Euro €450,000 (approximately \$510,100).

At December 31, 2008, \$243,598 (€172,801) was owing to Crucell under this agreement. During the year ended December 31, 2009, management negotiated a settlement of the outstanding balance requiring a €17,000 cash payment (paid) and the issuance of 265,000 shares of the Company’s common stock.

In addition, retroactively effective August 7, 2008, the Company negotiated an amended license agreement for the use of Crucell’s adenovirus technology. The Company is required to make annual license payments on the anniversary of the effective date for the three year term equal to €75,000 per annum. As at March 31, 2013, the Company had accrued \$443,535 (€345,957) under the amended agreement, inclusive of interest on outstanding amounts. The Company is currently delinquent on making its first annual license payment under the amended license agreement. Crucell has the right to cancel the agreement however, to date, the Company has not received any notice terminating the license agreement. Management plans to negotiate an amended payment structure with Crucell that, if successful, would allow the Company to maintain the license agreement in good standing. However, there is no certainty that the license agreement will be maintained or that Management will successfully negotiate new terms.

Mayo Clinic –License Option Agreement

For details regarding the license option agreement with Mayo Clinic, please refer to Note 11.

NOTE 4: DERIVATIVE WARRANT LIABILITY AND FAIR VALUE

The Company has evaluated the application ASC 480-10 Distinguishing liabilities from equity, ASC 815-40 Contracts in an Entity’s Own Equity and ASC 718-10 Compensation – Stock Compensation to the issued and outstanding warrants

to purchase common stock that were issued with the convertible notes, private placements, consulting agreements, and various debt settlements during 2009 through 2012. Based on the guidance, management concluded these instruments are required to be accounted for as derivatives either due to a ratchet down protection feature available on the exercise price (Note 5) or a holder's right to put the warrants back to the Company for cash under certain conditions or a conversion option feature with conversion into variable number of shares. Under ASC 815-40-25, the Company records the fair value of these warrants and conversion options (derivatives) on its balance sheet, at fair value, with changes in the values reflected in the statements of operations as "Changes in fair value of derivative liabilities". The fair value of the share purchase warrants are recorded on the balance sheet under 'Derivative liability – warrants' and the fair value of the conversion options are recorded on the balance sheet under 'Derivative liability – conversion option'.

ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820-10 describes three levels of inputs that may be used to measure fair value: Level 1 – Quoted prices in active markets for identical assets or liabilities; Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3 – Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation. The Company’s Level 3 liabilities consist of the derivative liabilities associated with the warrants issued with the convertible notes during the year ended December 31, 2011. At December 31, 2012, all of the Company’s derivative liabilities were categorized as Level 3 fair value liabilities. If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Level 3 Valuation Techniques

Financial liabilities are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial liabilities consist of the notes and warrants for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation.

Determining fair value of share purchase warrants and conversion options, given the Company’s stage of development and financial position, is highly subjective and identifying appropriate measurement criteria and models is subject to uncertainty. There are several generally accepted pricing models for warrants and options and derivative provisions. The Company has chosen to value the warrants and conversion option on the notes that contain ratchet down provisions using the Binomial model under the following assumptions:

| | December 31, 2012 | | | | March 31, 2013 | | | |
|-------------------------|-----------------------|----------------|----------------|------------|-----------------------|----------------|----------------|------------|
| | Expected Life (Years) | Risk free Rate | Dividend yield | Volatility | Expected Life (Years) | Risk free Rate | Dividend yield | Volatility |
| Share purchase warrants | 0.08 to 3.78 | 0.02% to 0.36% | 0.00% | 199% | 0.01 to 3.53 | 0.04% to 0.36% | 0.00% | 199% |

| | December 31, 2012 | | | | March 31, 2013 | | | |
|-------------------|-----------------------|----------------|----------------|--------------------|-----------------------|----------------|----------------|--------------------|
| | Expected Life (Years) | Risk free Rate | Dividend yield | Volatility | Expected Life (Years) | Risk free Rate | Dividend yield | Volatility |
| Conversion Option | 0.003 to 0.89 | 0.05% to 0.19% | 0.00% | 100.88% to 141.21% | 0.049 to 0.64 | 0.04% to 0.17% | 0.00% | 108.00% to 123.76% |

The foregoing assumptions are reviewed quarterly and are subject to change based primarily on management’s assessment of the probability of the events described occurring. Accordingly, changes to these assessments could materially affect the valuations.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Financial assets and liabilities measured at fair value on a recurring basis are summarized below and disclosed on the balance sheet under Derivative liability – warrants and Derivative liability – conversion option:

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As of March 31, 2013

Fair Value Measurements

| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|---------|---------|-----------|-----------|
| Derivative liability - warrants | \$462,293 | - | - | \$462,293 | \$462,293 |
| Derivative liability – conversion option | 329,900 | - | - | 329,900 | 329,900 |
| Total | \$792,193 | - | - | \$792,193 | \$792,193 |

As of December 31, 2012

Fair Value Measurements Using

| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|---------|---------|-------------|-------------|
| Derivative liability - warrants | \$977,086 | - | - | \$977,086 | \$977,086 |
| Derivative liability – conversion option | 867,575 | - | - | 867,575 | 867,575 |
| Total | \$1,844,661 | - | - | \$1,844,661 | \$1,844,661 |

The table below provides a summary of the changes in fair value, including net transfers, in and/or out, of financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended March 31, 2013 and the year ended December 31, 2012:

| | Fair Value Measurements Using Level 3 Inputs | | |
|---|--|--|-------------|
| | Derivative liability - warrants | Derivative liability – conversion option | Total |
| Balance, December 31, 2011 | \$1,317,834 | \$- | \$1,317,834 |
| Additions during the year | 300,000 | 737,700 | 1,037,700 |
| Total unrealized (gains) or losses included in net loss | (597,127) | 129,875 | (467,252) |
| Debt settlement | (43,621) | - | (43,621) |
| Transfers in and/or out of Level 3 | - | - | - |
| Balance, December 31, 2012 | 977,086 | 867,575 | 1,844,661 |
| Additions during the year | - | 44,700 | 44,700 |
| Total unrealized (gains) or losses included in net loss | (514,793) | (582,375) | (1,097,168) |
| Transfers in and/or out of Level 3 | - | - | - |
| Balance, March 31, 2013 | \$462,293 | \$329,900 | \$792,193 |

The fair value of the warrants is determined using a Binomial option pricing model. The valuation of warrants is subjective and is affected by changes in inputs to the valuation model including the price per share of common stock, the historical volatility of the stock price, risk-free rates based on U.S. Treasury security yields, the expected term of the warrants and dividend yield. Changes in these assumptions can materially affect the fair value estimate. The Company could ultimately incur amounts to settle the warrant at a cash settlement value that is significantly different than the carrying value of the liability on the financial statements. The Company will continue to classify the fair value of the warrants as a liability until the warrants are exercised, expire, or are amended in a way that would no longer require these warrants to be classified as a liability. Changes in the fair value of the common stock warrants liability are recognized as a component of other income (expense) in the statement of operations.

The net cash settlement value at the time of any future Fundamental Transaction will depend upon the value of the following inputs at that time: the consideration value per share of the Company's common stock, the volatility of the Company's common stock, the remaining term of the warrant from announcement date, the risk-free interest rate based on U.S. Treasury security yields, and the Company's dividend yield. The warrant requires use of a volatility assumption equal to the greater of 100% and the 100-day volatility function determined as of the trading day immediately following announcement of a Fundamental Transaction. The fair value of the warrants is determined using the Black Scholes Option Pricing Model.

NOTE 5: CONVERTIBLE NOTES PAYABLE

The following is a summary of debt instrument transactions that are relevant to the current year:

| | Face Value | Principal Repayment/ Settlement | Unamortized Note Discount | Balance at March 31, 2013 |
|--|--------------|---------------------------------------|---------------------------------|---------------------------------|
| February 2011 Secured Convertible Notes Senior Secured Notes, due February 24, 2014 | \$ 1,184,694 | \$ 203,836 | \$ 120,496 | \$ 860,362 |
| April 2011 Secured Convertible Notes Senior Secured Notes, due April 4, 2014 | 215,000 | - | 34,681 | 180,319 |
| June 2011 Secured Convertible Note Senior Secured Notes, due June 6, 2014 | 30,000 | - | 3,271 | 26,729 |
| August 8, 2012 Convertible Note Note due August 8, 2013 | 111,430 | 65,970 | 16,193 | 29,267 |
| August 12, 2012 Convertible Note Note became due November 12, 2012 | 27,500 | - | - | 27,500 |
| August 20, 2012 Convertible Note Note due August 20, 2013 | 20,000 | - | 7,780 | 12,220 |
| September 18, 2012 Convertible Note Note due October 1, 2013 | 82,500 | 61,750 | 10,072 | 10,678 |
| October 2012 Convertible Note Note due October 15, 2013 | 340,000 | - | 184,438 | 155,562 |
| October 9, 2012 Convertible Notes | 100,000 | - | - | 100,000 |
| November 1, 2012 Convertible Note Note due April 30, 2013 | 31,471 | 15,000 | 2,381 | 14,090 |
| November 20, 2012 Convertible Note Note due November 20, 2013 | 55,710 | - | 35,715 | 19,995 |
| December 14, 2012 Convertible Note | | | | |

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| | | | | |
|--|-------------|------------|------------|-------------|
| Note due April 18, 2013 | 189,210 | 189,210 | - | - |
| December 18, 2012 Convertible Note Note due December 14, 2013 | 50,000 | - | - | 50,000 |
| January 5, 2013 Convertible Notes | 567,729 | - | - | 567,729 |
| February 27, 2013 Convertible Note Note due February 27, 2014 | 55,710 | - | 45,990 | 9,720 |
| Total | \$3,060,954 | \$ 535,766 | \$ 461,017 | \$2,064,171 |

February 2011 Secured Convertible Notes

On February 24, 2011, the Company entered into a securities purchase agreement with accredited investors to place Senior Secured Convertible Notes (the "February 2011 Notes") with a maturity date of three years after the issuance thereof in the aggregate principal amount of \$1,184,694. Consideration under the notes consisted of \$944,694 in cash proceeds, including accrued interest, and \$240,000 was subscribed for by two of the holders of outstanding and demandable 2010 secured convertible notes (the "2010 Notes"). The holders of the 2010 Notes returned their Series A, Series B and Series C warrants to the Company for cancellation. In connection with the issuance of the February 2011 Notes, the Company entered into a 2011 Security Agreement with the note holders securing the February 2011 Notes with all of the Company's assets. One year after the issuance of the February 2011 Notes, the note holders have the option to convert a portion or all of the outstanding balance of the February 2011 Notes including any accrued interest into shares of the Company's common stock at a conversion rate of \$0.15 per share.

The February 2011 Notes bear interest at the rate of 10% per annum except in case of default, in which case they bear interest at the rate of 20% per annum. The interest is due on the February 2011 Notes at the end of each three month period, starting three months from their issuance. One year after the issuance of the February 2011 Notes, the Company may elect to prepay a portion of the principal. If the Company makes such an election, the holders may elect to receive such prepayment in cash or in shares of the Company's common stock, at a conversion rate of \$0.15 per share, or in a combination thereof.

The Company paid a finders' fee of \$41,500. The finder's fee was accounted for as deferred financing costs, and is being amortized over the term of the notes. At March 31, 2013, \$11,597 of the \$26,867 in deferred financing costs relates to the February 2011 Notes which remains unamortized, and is presented in the current assets on the Company's Balance Sheet.

In connection with the issuance of the February 2011 Notes, the Company issued 2,369,388 warrants, exercisable into common stock at \$0.25 with five year terms. The Company may force the exercise of the warrants at any time that the average volume weighted average price of the Company's common stock over the prior ten trading days is greater than \$0.50, the average daily dollar volume of the Company's common stock sold over those ten trading days is greater than \$25,000 and there is an effective registration statement covering the resale of the shares underlying the warrants.

The Company has allocated the net proceeds to the warrants based on the calculated fair value at the date of issuance. The fair value of the warrants was recorded at \$483,355 and recognized as derivative liabilities and the debt was recorded at \$701,339. The fair value of the warrants was calculated using the Binomial option pricing model under the following assumptions: estimated life of five years, risk free rate of 2.06%, dividend yield of 0% and volatility of 199%. The debt discount is being accreted over the three year term of the February 2011 Notes using the effective interest rate method.

During the year ended December 31, 2012, one of the investors settled the principal amount of \$203,836 and accrued interest of \$16,419 of the February 2011 Notes in exchange for December 14, 2012 Convertible Note (the "December 14, 2012 Note").

For the three months ended March 31, 2013, accretion of the debt discount of \$32,862 was recorded for the February 2011 Notes.

April 2011 Secured Convertible Notes

On April 4, 2011, the Company entered into a securities purchase agreement with accredited investors to place Senior Secured Convertible Notes (the "April 2011 Notes") with a maturity date of three years after the issuance thereof in the

aggregate principal amount of \$215,000. Consideration under the notes consisted of \$190,000 in cash proceeds, and \$25,000 was subscribed for by a holder of 2010 Notes in exchange for the extinguishment of the Series A, Series B and Series C warrants related to the 2010 Notes. In connection with the issuance of the April 2011 Notes, the Company entered into a 2011 Security Agreement with the note holders securing the April 2011 Notes with a secondary security interest in all of the Company's assets. One year after the issuance of the April 2011 Notes, the note holders have the option to convert a portion or all of the outstanding balance of the April 2011 Notes including any accrued interest into shares of the Company's common stock at a conversion rate of \$0.15 per share.

The April 2011 Notes bear interest at the rate of 10% per annum except in case of default, in which case they bear interest at the rate of 20% per annum. The interest is due on the April 2011 Notes at the end of each three month period, starting three months from their issuance. One year after the issuance of the April 2011 Notes, the Company may elect to prepay a portion of the principal. If the Company makes such an election, the holders may elect to receive such prepayment in cash or in shares of the Company's common stock, at a conversion rate of \$0.15 per share, or in a combination thereof.

The Company paid a finders' fee of \$4,550. The finder's fee was accounted for as deferred financing costs, and is being amortized over the term of the notes. At March 31, 2013, \$1,517 of the \$26,867 in deferred financing costs relates to the April 2011 Notes which remains unamortized, and is presented in the current assets on the Company's Balance Sheet.

In connection with the issuance of the April 2011 Notes, the Company issued 430,000 warrants, exercisable into common stock at \$0.25 with 2 year terms. The Company may force the exercise of the warrants at any time that the average volume weighted average price of the Company's common stock over the prior ten trading days is greater than \$0.50, the average daily dollar volume of the Company's common stock sold over those ten trading days is greater than \$25,000 and there is an effective registration statement covering the resale of the shares underlying the warrants.

The Company has allocated the net proceeds to the warrants based on the calculated fair value. The fair value of the warrants was recorded at \$130,720 and recognized as derivative liabilities and the debt was recorded at \$84,280. The fair value of the warrants was calculated using the Binomial option pricing model under the following assumptions: estimated life of two years, risk free rate of 0.77%, dividend yield of 0% and volatility of 199%. The debt discount is being accreted over the three year term of the April 2011 Notes using the effective interest rate method.

For the three months ended March 31, 2013, accretion of the debt discount of \$8,459 was recorded for the April 2011 Notes.

June 2011 Secured Convertible Note

On June 6, 2011, the Company entered into a securities purchase agreement with accredited investors to place Senior Secured Convertible Note (the "June 2011 Note") with a maturity date of three years after the issuance thereof in the aggregate principal amount of \$30,000. In connection with the issuance of the June 2011 Note, the Company entered into a 2011 Security Agreement with the note holder securing the June 2011 Note with a secondary security interest in all of the Company's assets. One year after the issuance of the June 2011 Note, the note holder has the option to convert a portion or all of the outstanding balance of the June 2011 Note including any accrued interest into shares of the Company's common stock at a conversion rate of \$0.15 per share.

The June 2011 Note bears interest at the rate of 10% per annum except in case of default, in which case it bears interest at the rate of 20% per annum. The interest is due on the June 2011 Note at the end of each three month period, starting three months from its issuance. One year after the issuance of the June 2011 Note, the Company may elect to prepay a portion of the principal. If the Company makes such an election, the holders may elect to receive such prepayment in cash or in shares of the Company's common stock, at a conversion rate of \$0.15 per share, or in a combination thereof.

In connection with the issuance of the June 2011 Note, the Company issued 60,000 warrants, exercisable into common stock at \$0.25 with two year terms. The Company may force the exercise of the warrants at any time that the average volume weighted average price of the Company's common stock over the prior ten trading days is greater than \$0.50, the average daily dollar volume of the Company's common stock sold over those ten trading days is greater than \$25,000 and there is an effective registration statement covering the resale of the shares underlying the warrants.

The Company has allocated the net proceeds to the warrants based on the calculated fair value. The fair value of the warrants was recorded at \$8,280 and recognized as derivative liabilities and the debt was recorded at \$21,720. The fair value of the warrants was calculated using the Binomial option pricing model under the following assumptions: estimated life of two years, risk free rate of 0.43%, dividend yield of 0% and volatility of 199%. The debt discount is being accreted over the three year term of the June 2011 Note using the effective interest rate method.

For the three months ended March 31, 2013, accretion of the debt discount of \$682 was recorded for the June 2011 Note.

August 8, 2012 Convertible Note

On August 8, 2012, the Company entered into a securities purchase agreement with an accredited investor to place a Convertible Note (the "August 8, 2012 Note") with a maturity date of one year after the issuance thereof in the aggregate principal amount of \$111,430. Consideration under the notes consisted of \$92,000 in cash proceeds after \$8,000 payment of finders' fee and an original issue discount of \$11,430. The note holder has the option to convert a portion or all of the outstanding balance of the August 8, 2012 Note including any accrued interest into shares of the Company's common stock at a conversion rate of \$0.09 per share or 70% of the lowest traded price in the 25 trading days prior to conversion.

The August 8, 2012 Note carries no interest if the Company repays the note within 90 days from issuance. If the Company does not repay the note within 90 days, a one-time interest of 5% shall apply to the principal sum.

The finder's fee of \$8,000 was accounted for as deferred financing costs, and is being amortized over the term of the note. At March 31, 2013, \$1,360 of the \$26,867 in deferred financing costs relates to the August 8, 2012 Note which remains unamortized, and is presented in current assets on the Company's Balance Sheet.

The Company has allocated the net proceeds to the conversion option based on the calculated fair value. The fair value of the conversion option was recorded at \$155,700 and recognized as a derivative liability and the debt was recorded at \$nil. The transaction resulted in an accounting loss on debt financing of \$55,700. The fair value of the conversion option was calculated using the Binomial option pricing model under the following assumptions: estimated life of one year, risk free rate of 0.19%, dividend yield of 0% and volatility of 139.77%. The debt discount is being accreted over the one year term of the August 8, 2012 Note using the effective interest rate method.

During the three months ended March 31, 2013, the investor converted \$65,970 and accrued interest of the August 8, 2012 Note into common shares (Note 9). The balance remaining on the August 8, 2012 Note as on March 31, 2013 was \$45,460.

For the three months ended March 31, 2013, accretion of the debt discount of \$11,209 was recorded for the August 8, 2012 Note.

August 12, 2012 Convertible Note

On August 12, 2012, the Company entered into a securities purchase agreement with accredited investors to place a Convertible Note (the "August 12, 2012 Note") with a maturity date of three months after the issuance thereof in the aggregate principal amount of \$27,500. Consideration under the notes consisted of \$25,000 in cash proceeds after an original issue discount of \$2,500. The note holder has the option to convert a portion or all of the outstanding balance of the August 8, 2012 Note including any accrued interest into shares of the Company's common stock at a conversion rate of \$0.09 per share or on similar terms as of any future financings with more favorable terms. The agreement provides for the Company to issue 50,000 shares to the note holder as risk premium. The 50,000 shares were valued at \$6,250 and recorded as loss on debt financing and obligation to issue shares.

The August 12, 2012 Note bears interest at the rate of 10% per annum.

The Company allocated the net proceeds to the conversion option based on the calculated fair value. The fair value of the conversion option was recorded at \$31,100 and recognized as a derivative liability and the debt was recorded at \$nil. The transaction resulted in an accounting loss on debt financing of \$6,100. The fair value of the conversion option was calculated using the Binomial option pricing model under the following assumptions: estimated life of three months, risk free rate of 0.11%, dividend yield of 0% and volatility of 138.31%. The debt discount is being accreted over the three month term of the August 12, 2012 Note using the effective interest rate method.

The Company has not repaid the August 12, 2012 Note as of March 31, 2013, which is in default.

August 20, 2012 Convertible Note

On August 20, 2012, the Company entered into a securities purchase agreement with accredited investors to place a Convertible Note (the "August 20, 2012 Note") with a maturity date of one year after the issuance thereof in the aggregate principal amount of \$20,000. The note holder has the option to convert a portion or all of the outstanding balance of the August 8, 2012 Note including any accrued interest into shares of the Company's common stock at a conversion rate of \$0.09 per share or 70% of the lowest traded price in the 25 trading days prior to conversion.

The August 20, 2012 Note bears interest at the rate of 8% per annum.

The Company has allocated the net proceeds to the conversion option based on the calculated fair value. The fair value of the conversion option was recorded at \$36,100 and recognized as a derivative liability and the debt was recorded at \$nil. The transaction resulted in an accounting loss on debt financing of \$16,100. The fair value of the conversion option was calculated using the Binomial option pricing model under the following assumptions: estimated life of one year, risk free rate of 0.19%, dividend yield of 0% and volatility of 140.11%. The debt discount is being accreted over the one year term of the August 20, 2012 Note using the effective interest rate method.

For the three months ended March 31, 2013, accretion of the debt discount of \$4,932 was recorded for the August 20, 2012 Note.

September 18, 2012 Convertible Note

On September 18, 2012, the Company entered into a securities purchase agreement with accredited investors to place a Convertible Note (the "September 18, 2012 Note") with a maturity date of one year after the issuance thereof in the aggregate principal amount of \$82,500. Consideration under the notes consisted of \$69,000 in cash proceeds after \$6,000 payment of finders' fee and an original issue discount of \$7,500. The note holder has the option to convert a portion or all of the outstanding balance of the September 18, 2012 Note including any accrued interest into shares of the Company's common stock at a conversion rate of \$0.09 per share or 70% of the lowest traded price in the 20 trading days prior to conversion.

The September 18, 2012 Note carries no interest other than the amortization of the original issue discount.

The finder's fee of \$6,000 was accounted for as deferred financing costs, and is being amortized over the term of the note. At March 31, 2013, \$755 of the \$26,867 in deferred financing costs relates to the September, 2012 Note which remains unamortized, and is presented in current assets on the Company's Balance Sheet.

The Company has allocated the net proceeds to the conversion option based on the calculated fair value. The fair value of the conversion option was recorded at \$76,400 and recognized as a derivative liability and the debt was recorded at \$nil. The transaction resulted in an accounting loss on debt financing of \$1,400. The fair value of the conversion option was calculated using the Binomial option pricing model under the following assumptions: estimated life of one year, risk free rate of 0.20%, dividend yield of 0% and volatility of 141.43%. The debt discount is being accreted over the one year term of the September, 2012 Note using the effective interest rate method.

During the three months ended March 31, 2013, the investor converted \$61,750 and accrued interest of the September 18, 2012 Note into common shares (Note 9). The balance remaining on the September 18, 2012 Note as on March 31, 2013 was \$20,750.

For the three months ended March 31, 2013, accretion of the debt discount of \$4,954 was recorded for the September, 2012 Note.

October 2012 Convertible Note

On October 15, 2012, the Company entered into a securities purchase agreement with an accredited investor to place a Convertible Note (the "October 2012 Note") with a maturity date of one year after the issuance thereof in the aggregate principal amount of \$340,000. Consideration under the notes consisted of \$310,000 in cash proceeds after \$10,000 payment of legal fee and an original issue discount of \$30,000. The note holder has the option to convert a portion or all of the outstanding balance of the October 2012 Note including any accrued interest into shares of the Company's common stock at a conversion rate of \$0.12 per share or to a new lower issuance price if the Company issues shares (or reduces the conversion or exercise price for outstanding debt or warrants) for less than \$0.12.

The October 2012 Note carries an interest rate of 8%. There are seven installment payments due on the note beginning on the seventh month after its issuance and each month thereafter until maturity.

The legal fee of \$10,000 was accounted for as deferred financing costs, and is being amortized over the term of the note. At March 31, 2013, \$5,425 of the \$26,867 in deferred financing costs relates to the October 2012 Note which remains unamortized, and is presented in current assets on the Company's Balance Sheet.

Provided that there is sufficient volume in the trading of the Company's common stock and other criteria are met, the Company may elect to make any payment due on an installment date in shares of common stock. If the Company

elects to make a payment in shares of common stock, the number of shares that the Company issues will be equal to the amount to be converted divided by the lesser of the conversion price or 70% of the average of the three lowest closing bid prices of the shares of common stock during the prior twenty consecutive trading days. If the Company elects to pay the full amount of the note in common shares (excluding any interest that becomes due thereon), the holder shall receive at a minimum 2,833,333 shares of the Company's common stock, but this amount could be substantially higher. Unless otherwise agreed in writing by both parties, at no time will the holder convert any amount of the debenture into common stock that would result in the holder owning more than 4.99% of the common stock outstanding.

As part of the agreement, the Company also issued 3,000,000 warrants to the note holder exercisable at \$0.25/share expiring on October 31, 2016.

The warrants include price adjustment provisions whereby the exercise price will be adjusted downwards based on future grants, which results in a share issuance at a per share amount less than \$0.25 per share, or repricing of any existing warrants to a lower price. During the three months ended March 31, 2013, the investor converted 1,898,588 share warrants into shares at a price of \$0.0572 per share (Note 9).

The Company has allocated the net proceeds to the conversion option and equity based on the calculated fair value. The fair value of the conversion option was recorded at \$248,000 and recognized as a derivative liability and the equity was recorded at \$62,000. The fair value of the conversion option was calculated using the Binomial option pricing model under the following assumptions: estimated life of one year, risk free rate of 0.19%, dividend yield of 0% and volatility of 139.16%. The debt discount is being accreted over the one year term of the October 2012 Note using the effective interest rate method.

For the three months ended March 31, 2013, accretion of the debt discount of \$83,836 was recorded for the October 2012 Note.

October 9, 2012 Convertible Note

On October 9, 2012, the Company converted accounts payable of \$100,000 into convertible notes (the "October 9, 2012 Note"). The note holder has the option to convert a portion or all of the outstanding balance of the October 9, 2012 Note into shares of the Company's common stock at a conversion rate of \$0.09 per share. The note has no terms of repayment and no interest charges. Only under certain events of default the note will incur an interest rate of 20% per year.

November 1, 2012 Convertible Note

During the year, the Company converted a promissory note of \$100,000 (Note 7) with an accredited investor into three convertible notes of \$105,000 cumulatively. The three convertible notes were assigned to a third party, of which, two notes were converted into equity. In November and December 2012, the Note holder converted \$73,737 of principal and interest into 1,262,727 shares. The fair value of the shares was determined to be \$140,538 based on the quoted market prices. The Company recorded \$66,801 as loss on settlement of debt (Note 9).

The third Convertible Note (the "November 1, 2012 Note") was issued with a maturity date of six months in the aggregate principal amount of \$31,471. The note holder has the option to convert a portion or all of the outstanding balance of the November 1, 2012 Note including any accrued interest into shares of the Company's common stock at a conversion rate of \$0.09 per share or 65% of the lowest bid price in the 20 trading days prior to conversion.

The November 1, 2012 Note bears interest at the rate of 10% per annum starting on November 15, 2012. If the Company is in default under certain events, the November 1, 2012 Note shall incur interest at the rate of 20% per annum retroactively.

The Company has allocated \$31,471 of the balance of the November 1, 2012 Note to the conversion option and debt based on the calculated fair value. The fair value of the conversion option was recorded at \$27,300 and recognized as a derivative liability and the debt was recorded at \$4,171. The fair value of the conversion option was calculated using the Binomial option pricing model under the following assumptions: estimated life of 0.49 year, risk free rate of 0.09%, dividend yield of 0% and volatility of 127.26%. The debt discount is being accreted over the 0.49 year term of the November 1, 2012 Note using the effective interest rate method.

During the three months ended March 31, 2013, the investor converted \$15,000 and accrued interest of the November 1, 2012 Note into common shares (Note 9). The balance remaining on the November 1, 2012 Note as on March 31, 2013 was \$16,471.

For the three months ended March 31, 2013, accretion of the debt discount of \$7,144 was recorded for the November 1, 2012 Note.

November 20, 2012 Convertible Note

On November 20, 2012, the Company entered into a securities purchase agreement with an accredited investor to place a Convertible Note (the "November 20, 2012 Note") with a maturity date of one year after the issuance thereof in the aggregate principal amount of \$55,710. Consideration under the notes consisted of \$50,000 in cash proceeds after \$4,000 payment of finder's fee and an original issue discount of \$5,710. The note holder has the option to convert a portion or all of the outstanding balance of the November 20, 2012 Note including any accrued interest into shares of the Company's common stock at a conversion rate of \$0.09 per share or 70% of the lowest traded price in the 25 trading days prior to conversion.

The August 8, 2012 Note carries no interest if the Company repays the note within 90 days from issuance. If the Company does not repay the note within 90 days, a one-time interest of 5% shall apply to the principal sum.

The finder's fee of \$4,000 was accounted for as deferred financing costs, and is being amortized over the term of the note. At March 31, 2013, 2,564 of the \$26,867 in deferred financing costs relates to the November 20, 2012 Note which remains unamortized, and is presented in current assets on the Company's Balance Sheet.

The Company has allocated the net proceeds to the conversion option based on the calculated fair value. The fair value of the conversion option was recorded at \$69,000 and recognized as a derivative liability and the debt was recorded at \$nil. The transaction resulted in an accounting loss on debt financing of \$19,000. The fair value of the conversion option was calculated using the Binomial option pricing model under the following assumptions: estimated life of one year, risk free rate of 0.16%, dividend yield of 0% and volatility of 134.71%. The debt discount is being accreted over the one year term of the November 20, 2012 Note using the effective interest rate method.

For the three months ended March 31, 2013, accretion of the debt discount of \$13,889 was recorded for the November 20, 2012 Note.

December 14, 2012 Convertible Note

On December 14, 2012, the Company converted part of the February 2011 Notes in the amount of \$220,255 into a Convertible Note (the "December 14, 2012 Note") with a maturity date of four months after the issuance thereof in the aggregate principal amount of \$252,280. Consideration under the notes consisted of \$220,255 from February 2011 Notes, \$10,000 payment of legal fee and an original issue discount of \$22,025. The December 14, 2012 Note is repayable in four equal installments with accrued interest, starting on January 18, 2013 and subsequently, the same day on each of the following calendar months. The Company can elect to pay the installments in cash or shares of Company's common stock.

The December 14, 2012 Note bears interest at the rate of 8% per annum. In the event of default under certain conditions, the interest will accrue at the rate of 18% per annum.

The note holder has the option to convert a portion or all of the outstanding balance of the December 14, 2012 Note including any accrued interest into shares of the Company's common stock at a conversion rate of 70% of the three lowest closing bid prices in the 20 trading days prior to conversion.

In December 2012, the December 14, 2012 Note was assigned to a third party and the Company paid the first installment of \$65,032 consisting of principal and interest in 1,078,477 shares. The fair value of the shares was determined to be \$96,523 based on the quoted market price of \$0.09 per share. The Company recorded \$31,491 as loss on settlement of debt (Note 9).

The Company has allocated \$189,210 of the balance of the December 14, 2012 Note to the conversion option and debt based on the calculated fair value. The fair value of the conversion option was recorded at \$94,100 and recognized as a derivative liability and the debt was recorded at \$95,110. The fair value of the conversion option was calculated using the Binomial option pricing model under the following assumptions: estimated life of 0.35 year, risk free rate of 0.06%, dividend yield of 0% and volatility of 100.88%. The debt discount is being accreted over the 0.45 year term of the December 14, 2012 Note using the effective interest rate method.

During the three months ended March 31, 2013, the investor converted the remaining balance of the note of \$189,210 and accrued interest on the December 14, 2012 Note into common shares (Note 9).

December 18, 2012 Convertible Note

On December 18, 2012, the Company entered into a securities purchase agreement with accredited investors to place convertible notes (the "December 18, 2012 Notes") with a maturity date of one year after the issuance thereof in the aggregate principal amount of \$50,000. The note holders have the option to convert a portion or all of the outstanding balance of the November 20, 2012 Note including any accrued interest into shares of the Company's common stock at a conversion rate of \$0.10 per share.

The December 18, 2012 Notes carry an interest rate of 9%, due and payable on the maturity date.

January 5, 2013 Convertible Notes

On January 5, 2013, the Company exchanged amounts due to related parties into convertible notes (the “January 5, 2013 Notes”) with no terms of repayment and no interest charges in the aggregate principal amount of \$567,729. The related parties have the option to convert a portion or all of the outstanding balance of the January 5, 2013 Notes into shares of the Company’s common stock at a conversion rate of \$0.08 per share.

February 27, 2013 Convertible Note

On February 27, 2013, the Company entered into a securities purchase agreement with an accredited investor to place a Convertible Note (the "February 27, 2013 Note") with a maturity date of one year after the issuance thereof in the aggregate principal amount of \$55,710. Consideration under the notes consisted of \$46,000 in cash proceeds after \$4,000 payment of finders' fee and an original issue discount of \$5,710. The note holder has the option to convert a portion or all of the outstanding balance of the February 27, 2013 Note including any accrued interest into shares of the Company's common stock at a conversion rate of \$0.09 per share or 70% of the lowest traded price in the 25 trading days prior to conversion.

The February 27, 2013 Note carries no interest if the Company repays the note within 90 days from issuance. If the Company does not repay the note within 90 days, a one-time interest of 5% shall apply to the principal sum.

The finder's fee of \$4,000 was accounted for as deferred financing costs, and is being amortized over the term of the note. At March 31, 2013, \$3,649 of the \$26,867 in deferred financing costs relates to the February 27, 2013 Note which remains unamortized, and is presented in current assets on the Company's Balance Sheet.

The Company has allocated the net proceeds to the conversion option based on the calculated fair value. The fair value of the conversion option was recorded at \$44,700 and recognized as a derivative liability and the debt was recorded at \$5,300. The fair value of the conversion option was calculated using the Binomial option pricing model under the following assumptions: estimated life of one year, risk free rate of 0.17%, dividend yield of 0% and volatility of 123.76%. The debt discount is being accreted over the one year term of the February 27, 2013 Note using the effective interest rate method.

For the three months ended March 31, 2013, accretion of the debt discount of \$4,420 was recorded for the February 27, 2013 Note.

NOTE 6: LOANS PAYABLE

As at March 31, 2013, there were unsecured loan advances from third parties in the amount of \$10,000 (December 31, 2012 - \$10,000), which is due on demand. The loan is accruing interest of 10% per annum.

NOTE 7: PROMISSORY NOTE

During the year ended December 31, 2011, the Company issued a note in the amount of \$100,000 towards future legal services, which matured July 24, 2011. As of December 31, 2012, the Company had received legal services in the amount of \$100,000 against the note. The note bears interest at 10% per annum and may be converted into shares at equal to lower of \$0.09 or 65% of the arithmetic average of the lowest closing bid prices of the Company's shares during the consecutive twenty day trading period prior to notice of conversion.

During the year ended December 31, 2012, the Company issued 500,000 shares to the holder of the note in exchange for the note holder's agreement to forbear from pursuing collections actions on the outstanding note (Note 9) and converted the promissory note into three convertible notes (Note 5).

During the year ended December 31, 2012, the Company issued additional promissory notes in the amount of \$67,942, of which \$38,000 of promissory notes were issued to an officer and a director of the Company (Note 8). These promissory notes were fully outstanding as at March 31, 2013 and had no interest charges and no fixed

repayment terms.

During the year ended December 31, 2012, the Company converted accounts payable into a promissory note in the amount of \$100,000. The note incurs interest at 8% per year and can be converted into shares at the option of the note holder at a conversion price of \$0.09 per share. If the Company defaults under certain conditions, the note shall incur interest at 20% per year. These promissory notes were fully outstanding as at March 31, 2013 and had no fixed repayment terms.

During the three months ended March 31, 2013, the Company converted \$210,000 of accounts payable into a promissory note, payable on a preset schedule of payments starting in April 2013. Any of the late payments will incur interest at the rate of 9%.

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NOTE 8: RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2013, the Company entered into transactions with certain officers and directors of the Company as follows:

- (a) incurred \$88,500 (March 31, 2012 - \$80,100) in management, consulting and directors' fees and \$33,000 (March 31, 2011 - \$22,500) in research and development services paid or accrued to officers and directors during the period;
- (b) recorded \$25,643 (March 31, 2012 - \$29,562) in stock based compensation for the fair value of options granted to management and consultants that were granted and or vested during the period;
- (c) converted \$nil (March 31, 2012 - \$50,000) of debt due to related parties during the period, which were settled with shares.
- (d) converted \$567,729 (2012 - \$nil) of payable into convertible notes to officers, consultant and a director of the Company (Note 5).

All related party transactions (other than stock based consideration) involving provision of services were recorded at the exchange amount, which is the amount established and agreed to by the related parties as representing fair value. The Company accounted for the debt settlement transactions with related parties at management's estimate of fair value, using amounts similar to arm's length settlements for debt settled.

At March 31, 2013, the Company had amounts owing to directors, consultants and officers of \$762,574 (December 31, 2012 - \$373,345). Amounts due to related parties are unsecured, non-interest bearing and have no specific terms of repayment.

NOTE 9: CAPITAL STOCK

Share Capital

Prior to March 27, 2007, the authorized capital of the Company consisted of 50,000,000 common shares with \$0.001 par value and 5,000,000 non-voting preferred shares with \$0.001 par value. On March 27, 2007, the Company's Articles of Incorporation were amended to increase the authorized shares of common stock from 50,000,000 shares of common stock to 200,000,000 shares. On June 28, 2007, the Company completed a reverse stock split thereby issuing 1 new share for each 2.5 outstanding shares of the Company's common stock. Accordingly, the Company's authorized share capital was decreased from 200,000,000 common shares to 80,000,000 common shares. On January 22, 2009 the authorized shares of common stock increased from 80,000,000 shares to 500,000,000 shares. Effective July 10, 2009, the Company executed a further 1 for 10 reverse stock split while simultaneously reducing the authorized shares of common stock to 50,000,000 common shares with a \$0.001 par value. Effective February 21, 2010, the Company increased its authorized shares of common stock from 50,000,000 shares to 150,000,000 common shares. The Company maintained its authorized shares of preferred stock at 5,000,000.

All prior period share transactions included in the Company's stock transactions and balances have been retroactively restated for the transactions described above.

2013 Share Transactions

In January 2013, the Company issued 231,332 shares of its restricted common stock for conversion of one of the two November 1, 2012 Notes (Note 5) at a conversion price of \$.0662 per share. The fair value of the shares was determined to be \$36,550 based on the quoted market price of \$0.158 per share. The Company recorded \$21,230 as loss on settlement of debt.

In February 2013, the Company issued 250,000 common shares to a consultant pursuant to a consulting agreement. The fair value of the shares was determined to be \$28,925 based on the quoted market price of \$0.116 per share.

In February 2013, the Company issued 1,898,588 common shares on a cashless conversion of 3,000,000 warrants at an exercise price of \$0.0572. The fair value of the shares was determined to be \$246,816 based on the quoted market price of \$0.13 per share.

In March 2013, the Company issued 100,000 common shares to a consultant pursuant to a consulting agreement. The fair value of the shares was determined to be \$10,010 based on the quoted market price of \$0.1001 per share.

In February and March 2013, the Company received subscription proceeds of \$242,950. The subscribers purchased 3,470,709 share units at \$0.07 per unit. Each unit consists of one share of Company's common stock and one warrant exercisable at \$0.07, which expires in two years. The fair value of these warrants was determined to be \$245,000.

During the period ended March 31, 2013, the Company issued 3,176,334 shares of its restricted common stock for conversion of December 14, 2012 Note (Note 5) at a conversion price of \$.0603 per share. The fair value of the shares was determined to be \$404,849 based on the average quoted market price of \$0.1245 per share. The Company recorded \$213,316 as loss on settlement of debt.

During the period ended March 31, 2013, the Company issued 992,063 shares of its restricted common stock for partial conversion of September 18, 2012 Note (Note 5) at an average conversion price of \$.0695 per share. The fair value of the shares was determined to be \$125,179 based on the average quoted market price of \$0.1228 per share. The Company recorded \$55,179 as loss on settlement of debt.

During the period ended March 31, 2013, the Company issued 1,050,000 shares of its restricted common stock for partial conversion of August 8, 2012 Note (Note 5) at an average conversion price of \$.0681 per share. The fair value of the shares was determined to be \$110,700 based on the average quoted market price of \$0.1063 per share. The Company recorded \$39,160 as loss on settlement of debt.

2012 Share Transactions

On March 15, 2012, the Company issued 333,334 shares of its restricted common stock to related parties, pursuant to debt settlement agreements to settle \$50,000 of outstanding trade payable. At the time of issuance the fair value of the shares was determined to be \$50,000 based on the quoted market price of \$0.15 per share.

On March 15, 2012, the Company issued 400,000 shares of its restricted common stock pursuant to a debt settlement and a consulting agreement. At the time of issuance the fair value of the shares was determined to be \$71,200 based on the quoted market price of \$0.15 per share. The Company recorded \$9,930 as gain on settlement of debt.

On March 15, 2012, the Company issued 789,778 shares of its restricted common stock in settlement of accrued interest on the outstanding 2011 Notes. At the time of issuance the fair value of the shares was determined to be \$118,467 based on the quoted market price of \$0.15 per share. No gain or loss was recorded on settlement.

In March 2012, the Company received subscription proceeds of \$85,000. The subscribers purchased 733,334 share units at \$0.15 per unit. Each unit consists of 1 share of Company's common stock and half a warrant exercisable at \$0.40, which expires in two years. The fair value of these warrants was determined to be \$5,133.

In April 2012, the Company received subscription proceeds of \$345,000. The subscribers purchased 2,300,000 share units at \$0.15 per unit. Each unit consists of 1 share of Company's common stock and half a warrant exercisable at \$0.40, which expires in two years. The fair value of these warrants was determined to be \$123,000.

In April, 2012, the Company issued 100,000 shares of its restricted common stock pursuant to a debt settlement and a consulting agreement. At the time of issuance the fair value of the shares was determined to be \$18,500 based on the quoted market price of \$0.185 per share. The Company recorded \$18,758 as gain on settlement.

In April 2012, the Company issued 933,333 restricted common shares, at \$0.15 per share, for proceeds of \$140,000 received in October 2011, in a private placement.

In April 2012, the Company issued 1,000,000 common shares to a consultant pursuant to a consulting agreement effective October 1, 2011.

In April, 2012, the Company issued 163,334 shares of its restricted common stock in settlement of accrued interest on the outstanding 2011 Notes. At the time of issuance the fair value of the shares was determined to be \$24,500 based on the quoted market price of \$0.15 per share. No gain or loss was recorded on settlement.

In May 2012, the Company issued 14,000,000 common shares to consultants pursuant to a consulting agreement (Note 12). At the time of issuance the fair value of the shares was determined to be \$1,918,000 based on the quoted market price of \$0.137 per share.

In June 2012, the Company issued 35,179 shares of its restricted common stock pursuant to a consulting agreement. The fair value of the shares was determined to be \$6,000 based on the quoted market price of \$0.17 per share.

In August 2012, the Company issued 500,000 shares of its restricted common stock pursuant to a consulting agreement. The fair value of the shares was determined to be \$74,000 based on the quoted market price of \$0.148 per share.

In September 2012, the Company issued 500,000 shares of its restricted common stock to the holder of a promissory note in exchange for the note holder's agreement to forebear from pursuing collection action on that note (Note 7). The fair value of the shares was determined to be \$72,750 based on the quoted market price of \$0.146 per share.

In November 2012, the Company issued 437,063 shares of its restricted common stock on election by the holder to convert part of a convertible debt (Note 5) at a conversion price of \$.0572 per share. The fair value of the shares was determined to be \$55,944 based on the quoted market price of \$0.128 per share. The Company recorded \$30,944 as loss on settlement of debt.

In November 2012, the Company issued 597,185 shares of its restricted common stock on election by the holder to convert part of a convertible debt (Note 5) at a conversion price of \$.0586 per share. The fair value of the shares was determined to be \$63,003 based on the quoted market price of \$0.106 per share. The Company recorded \$28,003 as loss on settlement of debt.

In November 2012, the Company issued 228,479 shares of its restricted common stock on election by the holder to convert part of a convertible debt (Note 5) at a conversion price of \$.0601 per share. The fair value of the shares was determined to be \$21,591 based on the quoted market price of \$0.095 per share. The Company recorded \$7,854 as loss on settlement of debt.

In December 2012, the Company issued 1,078,477 shares of its restricted common stock as payment of installment of \$65,032 for a convertible debt (Note 5) at a conversion price of \$.0603 per share. The fair value of the shares was determined to be \$96,523 based on the quoted market price of \$0.09 per share. The Company recorded \$31,491 as loss on settlement of debt.

Stock Compensation Plan

On October 14, 2009, the Company adopted the 2009 Stock Incentive Plan (the "2009 Plan") which supersedes and replaces the 2007 Stock Plan. The 2009 Plan allows for the issuance of up to 10,000,000 common shares. Options granted under the Plan shall be at prices and for terms as determined by the Board of Directors.

On April 30, 2012, the Company granted 250,000 stock options to a management at an exercise price of \$0.18 per share, vesting monthly over thirty six month period. The aggregate fair value of the grant was estimated at \$45,000, or \$0.18 per option, using the Black-Scholes Option Pricing Model with weighted average assumptions as follows: a risk free interest rate of 1.95%, a dividend yield of 0%, an expected volatility of 199.0%, and an expected life of 10 years.

On May 8, 2012, the Company granted 250,000 stock options to a consultant at an exercise price of \$0.17 per share, vesting monthly over twelve month period. The aggregate fair value of the grant was estimated at \$40,000, or \$0.17 per option, using the Black-Scholes Option Pricing Model with weighted average assumptions as follows: a risk free interest rate of 1.71%, a dividend yield of 0%, an expected volatility of 199.0%, and an expected life of 10 years.

The expensed portion of the value of the vesting options during the three months ended March 31, 2013 was \$29,894 (March 31, 2012 - \$43,482) which was recorded as stock based consulting and management fees. During the period, stock-based consulting and management fees also includes share based compensation.

Share purchase options

A summary of the Company's stock options as of March 31, 2013 and changes during the period is presented below:

| Number of Options | Weighted Average | Weighted Average |
|----------------------|---------------------|---------------------|
|----------------------|---------------------|---------------------|

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| | | Exercise Price | Remaining Life |
|----------------------------|------------|-------------------|-------------------|
| Balance, December 31, 2011 | 6,278,000 | \$0.18 | 6.85 |
| Issued | 500,000 | 0.17 | 9.35 |
| Cancelled | (250,000) | 0.35 | - |
| Balance, December 31, 2012 | 6,528,000 | \$0.18 | 6.05 |
| Issued | - | - | - |
| Cancelled/Forfeited | - | - | - |
| Balance, March 31, 2013 | 6,528,000 | \$0.18 | 5.80 |

At March 31, 2013, the intrinsic value of the vested options was equal to \$nil (December 31, 2012 - \$nil).

A summary of the status of the Company's unvested options as of December 31, 2012 is presented below:

| | Number of Shares | Weighted Average Grant-Date Fair Value |
|-----------------------------|---------------------|---|
| Unvested, December 31, 2012 | 379,575 | \$0.18 |
| Granted | - | - |
| Vested | (171,336) | 0.18 |
| Cancelled | - | - |
| Unvested, March 31, 2013 | 208,239 | \$0.17 |

Share Purchase Warrants

In March, 2012, the Company issued 366,668 share purchase warrants to acquire an equivalent number of common shares of the Company, at an exercise price of \$0.40 per share for an exercise period of up to two years from the issuance date. The warrants were issued pursuant to the private placement of \$110,000 and included within equity. The fair value of these warrants was determined to be \$5,133, using the Black-Scholes Option Pricing Model with an expected life of 2 years, a risk free interest rate of 0.37%, a dividend yield of 0%, and an expected volatility of 63%.

In April, 2012, the Company issued 1,150,000 share purchase warrants to acquire an equivalent number of common shares of the Company, at an exercise price of \$0.40 per share for an exercise period of up to two years from the issuance date. The warrants were issued pursuant to a private placement and included within equity. The fair value of these warrants was determined to be \$123,000, using the Black-Scholes Option Pricing Model with an expected life of 2 years, a risk free interest rate of 0.27%, a dividend yield of 0%, and an expected volatility of 146.6%.

In October, 2012, the Company issued 3,000,000 share purchase warrants to acquire an equivalent number of common shares of the Company, at an exercise price of \$0.25 per share for an exercise period of up to four years from the issuance date. The warrants were issued pursuant to a convertible debt with price adjustment features. The residual fair value of these warrants was determined to be \$300,000 and recognized as a derivative liability.

In December, 2012, the Company issued 1,000,000 share purchase warrants to acquire an equivalent number of common shares of the Company, at an exercise price of \$0.10 per share for an exercise period of up to five years from the issuance date. The warrants were issued pursuant to a private placement and included within equity. The fair value of these warrants was determined to be \$178,000, using the Black-Scholes Option Pricing Model with an expected life of 5 years, a risk free interest rate of 0.87%, a dividend yield of 0%, and an expected volatility of 199.0%.

In March, 2013, the Company issued 3,470,709 share purchase warrants to acquire an equivalent number of common shares of the Company, at an exercise price of \$0.07 per share for an exercise period of up to two years from the issuance date. The warrants were issued pursuant to a private placement and included within equity. The fair value of these warrants was determined to be \$245,000, using the Black-Scholes Option Pricing Model with an expected life of 2 years, a risk free interest rate of 0.24%, a dividend yield of 0%, and an expected volatility of 131.02%.

A summary of the Company's share purchase warrants as of March 31, 2013 and changes during the period is presented below:

| | Number of Warrants | Weighted Average | Weighted Average |
|--|-----------------------|---------------------|---------------------|
|--|-----------------------|---------------------|---------------------|

| | | Exercise Price | Remaining Life |
|---------------------------------|--------------|-------------------|-------------------|
| Balance, December 31, 2011 | 12,106,355 | \$0.56 | 2.81 |
| Issued | 5,516,668 | 0.26 | 3.32 |
| Exercised, cancelled or expired | (714,400) | 2.33 | - |
| Balance, December 31, 2012 | 16,908,623 | \$0.39 | 2.19 |
| Issued | 3,470,709 | 0.07 | 2.00 |
| Exercised | (1,898,588) | 0.06 | - |
| Extinguished or expired | (1,950,000) | 0.53 | - |
| Balance, March 31, 2013 | 16,530,744 | \$0.32 | 2.57 |

NOTE 10: SUPPLEMENTAL CASH FLOW INFORMATION AND NON-CASH INVESTING AND FINANCING ACTIVITIES

| | Three Months Ended March 31, 2013 | |
|---|--------------------------------------|---------|
| | Shares/warrant | Amount |
| | | \$ |
| Shares issued pursuant to consulting arrangements | 350,000 | 38,935 |
| Shares issued pursuant to notes conversion | 5,476,848 | 348,845 |

| | Three Months Ended March 31, 2012 | |
|--|--------------------------------------|-----------|
| | Shares/warrant | Amount |
| | | \$ |
| Shares issued pursuant to debt settlement agreements | 1,363,112 | \$211,187 |

See Notes 5 and 9 for additional disclosure on non-cash transactions.

| | Period Ended March 31, | |
|-----------------------|------------------------------|------|
| | 2013 | 2012 |
| Interest paid in cash | \$- | \$- |
| Income taxes paid | \$- | \$- |

NOTE 11: CONTINGENCIES AND COMMITMENTS

Contingencies

Tax Filings

The Company has not filed income tax returns for several years in certain operating jurisdictions (Note 10), and may be subject to possible compliance penalties and interest. Management is currently not able to make a reliably measurable provision for possible liability for penalties and interest, if any, at this time, and the Company may be liable for such amounts upon assessment. Penalties and interest, if assessed in the future, will be recorded in the period such amounts are determinable.

Commitments

Combined Research and Operating Obligations

Effective May 25, 2010, the Company entered into a research and license Option Agreement with the Mayo Clinic for the development and possible commercial use of a cancer vaccine. Subject to the approval and guidance of the United States Food and Drug Administration (“FDA”) the Mayo Clinic plans to conduct a Phase I human clinical trial (“Phase I Trial”) to test and develop the Company’s technology.

The Company has agreed that, during the period of the option and upon approval of FDA to conduct Phase I Trials, will pay all the costs incurred by the Mayo Clinic, not to exceed a total of \$841,000, of which, \$618,823 has been accrued as of March 31, 2013. Both Parties agree that within 30 days after the Mayo Clinic informs the Company in writing about the receipt of FDA approval, the parties shall enter into an a formal research agreement. Management anticipates that Phase 1 Trials will begin in the second quarter of 2013. An initial payment of \$250,000 will be required within 30 days of receiving notice from the Mayo Clinic that the Phase 1 Trial will commence.

Management Services Agreement

In February 2011, the Company approved an employment agreement with Dr. Wilson with an initial term of 2 years, which may be automatically extended for successive one-year terms. This employment agreement provides for annual compensation of \$180,000 and the grant of an option to acquire 2,000,000 shares of the Company's common stock at \$0.19 per share, 50% of which vested on March 16, 2011, while the remainder will vest monthly over a period of two years (41,667 per month). The options shall be exercisable for at least five years.

Consultant Agreements

In April 2012, the Company entered into an investors' relation consulting agreement for a one year term, with a one-time right to terminate the agreement at its six month anniversary. The consulting agreement provides for the Company to issue 620,690 shares to the consultant and a monthly payment of \$7,500.

In April 2012, the Company entered into financial consulting service agreements, which included compensation of 14,000,000 shares of common stock, whereby the Company agreed to issue additional shares to the consultants to restore their holdings to 24.8% of fully diluted capitalization of the Company if the Company completes a re-organization, re-capitalization or a liquidity event during the eighteen months commencing with the signing of these agreements.

In May 2012, the Company entered into a one year consulting services agreement superseding the previous management consulting agreement with Mr. Corin to provide expertise in the areas of finance and corporate development to the Management and Board of TapImmune. The consulting services agreement provides for a consulting fee of \$12,000 per month from May 2012 to December 2012 and \$10,000 for the following four months. The Company also granted 250,000 options to Mr. Corin, vesting equally over twelve months at an exercise price of \$0.17 with a ten year term.

Rental Lease Agreement

In December 2011, the Company entered into a lease agreement, to start in January 2012 for a two year period. The Company will pay a monthly basic rent of \$7,152 and additional rent for operating costs of 2.20% of total operating expenses of the property.

The Company has obligations under various research and consulting agreements through December 31, 2014. The aggregate minimum annual payments for the years ending December 31 are as follows:

| | |
|------|-----------|
| 2013 | \$638,316 |
| 2014 | 22,284 |
| | \$660,599 |

Refer to Note 13 Subsequent Events.

NOTE 12: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities

December 31,
March 31, 2013 2012

| | | | | |
|------------------------|----|-----------|----|-----------|
| Trade accounts payable | \$ | 1,459,469 | \$ | 1,663,315 |
| Accrued liabilities | | 183,245 | | 242,245 |
| Employee payroll | | 132,916 | | 61,458 |
| Accrued interest | | 122,833 | | 74,698 |
| | \$ | 1,898,463 | \$ | 2,041,716 |

NOTE 13: SUBSEQUENT EVENTS

The Company is in default of the secured notes issued in February 2011. No second year amortization payments have been made to the holders as of the anniversary of the notes in February 2013 and April 2013. Interest charges will be accrued at 20% per year. The note holders have not made any demands other than the interest rate penalty and are in discussions with the Company to resolve the matter.

The Company was in default of the October 2012 note to a note holder due to the late filing of its annual report. Concurrent with the filing, this default will be cured. The lender has not made any claims under their default provisions and management is working closely with them to mitigate or negate any such claims.

In May 2013, the Company recovered 2,800,000 of 14,000,000 common shares issued to a consultant during the year ended December 31, 2012, under a settlement agreement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, that involve risks and uncertainties. All statements other than statements relating to historical matters including statements to the effect that we "believe", "expect", "anticipate", "plan", "target", "intend" and similar expressions should be considered forward-looking statements. Our actual results could differ materially from those discussed in the forward-looking statements as a result of a number of important factors, including factors discussed in this section and elsewhere in this quarterly report on Form 10-Q, and the risks discussed in our other filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as the date hereof. We assume no obligation to update these forward-looking statements to reflect events or circumstance that arise after the date hereof.

As used in this quarterly report: (i) the terms "we", "us", "our", "TapImmune" and the "Company" mean TapImmune Inc. and wholly owned subsidiary, GeneMax Pharmaceuticals Inc. which wholly owns GeneMax Pharmaceuticals Canada Inc., unless the context otherwise requires; (ii) "SEC" refers to the Securities and Exchange Commission; (iii) "Securities Act" refers to the Securities Act of 1933, as amended; (iv) "Exchange Act" refers to the Securities Exchange Act of 1934, as amended; and (v) all dollar amounts refer to United States dollars unless otherwise indicated.

The following should be read in conjunction with our unaudited consolidated interim financial statements and related notes for the three Months Ended March 31, 2013 included in this quarterly report, as well as our Annual Report on Form 10-K for the year ended December 31, 2012.

Overview

TapImmune Inc. is a vaccine technologies company specializing in the development of innovative gene based immunotherapeutics and vaccines in the areas of oncology and infectious disease. The Company's lead product candidates, include vaccines designed to restore and augment antigen presentation and subsequent recognition and killing of cancer cells by the immune system. The Company recently began treating patients in its first Phase 1 immunotherapy clinical trial targeting HER2/neu in breast cancer at the Mayo clinic (see Clinicaltrials.gov). This trial uses patented antigen technologies developed at the Mayo clinic and will follow patients for safety and immune responses as the primary endpoints. During the first year of this trial there will be a safety review interim analysis. TapImmune has the exclusive Option to license this technology. The Company is also developing TAP-based prophylactic vaccines commercially suitable for the prevention of infectious diseases and as Biodefense agents. We have applied for a grant in collaboration with the Mayo Clinic for the biodefense applications of this technology in

and expect to file additional grants to support preclinical work on “boost” strategies for HER2/neu breast cancer. As a vaccine component, the gene based TAP technology has the potential to significantly improve the efficacy of both prophylactic and immunotherapeutic vaccines as it addresses a fundamental mechanism for T cell recognition and response. Unlike other vaccine technologies that address only the initiation of immune responses, TAP expression also has the unique ability to enhance the effector function of mature killer T cells. This enhancement of effector function is potentially complementary to any/all vaccine approaches that are designed to enhance cellular responses.

The current standard therapies for cancer treatment include surgery, radiation therapy and chemotherapy. However, we believe that these treatments are not precise in targeting only cancerous cells and often fail to remove or destroy all of the cancer. The remaining cancer cells may then grow into new tumors, which can be resistant to further chemotherapy or radiation, which may result in death. In the United States, deaths from cancer are second only to cardiovascular deaths. Our breast cancer immunotherapeutic vaccine candidate is being developed for use in this setting as an adjuvant treatment to prevent recurrent disease.

Management strongly believes that the comprehensive scientific underpinnings of our overall approach, to elicit the production of both T-helper cells and T-killer cells, will provide the Company with highly competitive product candidates for the treatment of HER2/neu positive breast cancer with additional applications in ovarian and colorectal cancer.

In May, we entered into a Material Transfer Agreement with the Fred Hutchinson Cancer Research Center (“FHCRC”), Seattle, WA. The initial aim of this collaboration is to determine levels of TAP1/TAP2 in tissues taken from melanoma patients in a clinical trial at FHCRC using adoptive T-cell therapy and to correlate these levels with clinical outcomes.

Regarding our programs for the development of vaccines aimed at viral pandemics/biodefense, we believe that collaborations with the Mayo Clinic have progressed well and studies on the immunogenicity of novel smallpox antigens in mice treated with both antigens and TAP expression vectors are ongoing. We plan to complete animal efficacy and human safety studies through non-dilutive grant funding in collaboration with Dr. Greg Poland and colleagues at the Mayo Clinic and anticipate that further development will be completed through strategic corporate partnerships. The use of non-dilutive grant funding to progress this area allows the Company to focus the majority of its internal resources on HER2/neu breast cancer.

The facilities at 1551 Eastlake Avenue, Seattle have exceeded our expectations and allowed us to continue to recruit top-class scientific staff while at the same time effectively leverage world class resources made available to us and manage our cash flow. We have added technical staff in the areas of molecular biology and immunology. Our small core team (7 scientists) has allowed us to establish in-house technical expertise in molecular biology (expression vector development) and immunology to underpin our current and future development projects and to optimally work with external collaborators. It has also allowed us to make significant progress in the refinement and focus of clinical programs to take advantage of new antigens, the emerging field of vaccinomics and vaccine development strategies. In addition, it has allowed us to start generating new intellectual property (IP) to add to our core TAP IP and the antigen IP from the Mayo Clinic that we have either licensed or have exclusive options to license.

Over the past few months we have, in a challenging financing climate, raised sufficient working capital to fund and progress our operations. We believe that we continue to make good progress with the resources available to us. With the start of clinical programs and our focus on securing non-dilutive financing from a number of sources, management is confident that our current pathway will secure longer term capital to finance and accelerate our activities. The strength of our science and development approaches is becoming more widely appreciated, particularly as our clinical program generates data and as we embrace additional collaborations with leading institutions and corporations.

While the pathway to successful product development takes time and significant resources, we believe that we have put in place the technical and corporate fundamentals for success. The strength of our product pipeline gives us a unique opportunity to make a major contribution to global health care.

The Immunotherapy Industry for Cancer

Management believes that there is a critical need for more effective cancer therapies. Management further believes that the global market for effective cancer treatments is large and that immunotherapies representing potential treatments for metastatic cancer are an unmet need in the area of oncology.

The human immune system appears to have the potential to clear cancers from the body, based on clinical observations that some tumors spontaneously regress when the immune system is activated. Most cancers are not very “immunogenic”, however, meaning that the cancers are not able to induce an immune response because they no longer express sufficient levels of key proteins on their cell surface, known as Major Histocompatibility Class I or MHC Class I proteins. These proteins provide the information to the immune system that defines whether the cell is healthy or, in the case of cancer or viral infection, abnormal. If the MHC Class I proteins signal that the cells are abnormal, then the immune system’s T-cells are activated to attack and kill the infected or malignant cell.

In many solid cancer tumors, the TAP protein system does not function and, therefore, the immune system is not stimulated to attack the cancer. Management believes that although a number of cancer therapies have been developed that stimulate the immune system, these approaches have often proven ineffective because the cancers remain invisible to the immune system due to this apparent lack of or low expression of the TAP protein.

By restoring TAP expression to TAP-deficient cells, the MHC Class I protein peptide complexes could signal the immune system to attack the cancer. The strategic vision of TapImmune is to be a product-driven biotechnology company, focusing primarily on use of its patented TAP technology to restore the TAP function within cancerous cells, thus making them immunogenic, or more “visible” to cancer fighting immune cells. Management believes that this cancer vaccine strategy will provide the most viable therapeutic approach that addresses this problem of “non-immunogenicity” of cancer. Management believes that this therapy may have a strong competitive advantage over other cancer therapies, since restoring the TAP protein will direct the immune system to specifically target the cancerous cells without damaging healthy tissue.

As a key part of its overall strategy, and with adequate funding, the Company is pursuing the development of prophylactic vaccines against infectious microbes and will also do so in partnership with other vaccine developers. The Company intends to develop the TAP technology for use as a vaccine that restores normal immune recognition for the treatment of cancer and supplements immune recognition for the development of prophylactic vaccines.

TapImmune's Target Market Strategy

With the required funding in place, we plan to focus our resources on the progression of products in our lead oncology indication, HER2/neu positive breast cancer. We will support and expand on our key infectious disease partnerships, including our collaboration efforts with the Mayo Clinic and others using grants. We have applied for a grant in collaboration with the Mayo Clinic to progress our smallpox program and extend it to additional emerging viral threats. Cancer encompasses a large number of diseases that affect many different parts of the human body. The diversity of cancer types and their overall prevalence create a large need for new and improved treatments. Management believes that there is a significant market opportunity for a cancer treatment that utilizes the highly specific defense mechanisms of the immune system to attack cancers. Vaccines continue to be the success story for pharmaceutical companies, with the world market for preventative vaccines totaling \$22.1 billion in 2009, up from \$19 billion in 2008, according to healthcare market research publisher Kalorama Information. Kalorama's new report, Vaccines 2010. World Market Analysis, Key Players, and Critical Trends in a Fast-Changing Industry, notes that the worldwide vaccine market is predicted to increase at a compound annual rate of 9.7% during the next five years, as new product introductions continue and the use of current products expands further (<http://www.kaloramainformation.com/Vaccines-Key-Players-2684026>). Our targeting of the HER2/neu antigen provides commercial opportunities in breast, ovarian and colorectal cancer.

In the USA, the second leading cause of death by illness is cancer. The current estimates for cancer treatments such as chemotherapy represent approximately a US\$7 billion market. The National Cancer Institute expects cancer to be the leading cause of death in the USA within 5 years. Cancer vaccines will become a major player in the vaccine market. According to the report Cancer Vaccines Markets, (http://www.pharmaceutical-market-research.com/publications/diseases_conditions/cancer/cancer_vaccines_markets.html) cancer vaccines have the potential to become a significant force in future cancer treatments. The approval of two immunotherapy products, Dendreon's Provenge® in 2010 for advanced prostate cancer, and Bristol Myers Squibb's Yervoy® in 2011 together with several late-stage clinical programs has generated renewed interest and support for this type of cancer immune therapy.

This relatively new commercial market for cancer vaccines is poised to dramatically increase to over \$7 billion by 2015.

Management also believes that our prophylactic vaccine adjuvant will be a catalyst in the development of new vaccines and will serve to enhance the efficacy of current vaccines in the treatment of infectious disease. It will be a key business development strategy to pursue additional partnerships and joint research and development ventures with vaccine manufacturers and pharmaceutical companies to bring new and improved vaccines to market. This strategy includes the development of vaccines for pandemic diseases and for bioterrorism threats. The global market for vaccines is dominated by five companies—Merck, GlaxoSmithKline, Sanofi Pasteur (the vaccines division of Sanofi SA [SNY-NYSE]), Pfizer Inc. (PFE-NYSE), and Novartis—with Pfizer, GlaxoSmithKline, Sanofi, and Novartis collectively accounting for approximately 74% of the market (Source: Transparency Market Research's Global Vaccine Market Analysis and Forecast 2011-2016). This market is estimated at roughly \$30 billion worldwide, with the U.S. contributing approximately \$20 billion. Importantly, there still exist significant development opportunities in the global vaccine market, as there are more than 300 infectious diseases yet effective prophylactic therapies for only approximately 15% of these (Source: The Life Sciences Report's "Vaccine Therapies Hold Promise for Investors: Stephen Dunn," April 12, 2012). Management believes that our TAP Platform technology will increase the potency of many of the currently available vaccines and lead to the creation of better, more effective new vaccines, thereby allowing us to participate in this large market through novel new products and in combination with existing vaccines.

Research and Development Efforts

We direct our research and development efforts towards the development of immunotherapeutic and prophylactic vaccine products for the treatment of cancer and protection against pathogenic microbes respectively, using our proprietary TAP technology. We have focused our efforts initially on the development of a therapeutic vaccine for applications in cancer treatment while demonstrating the breadth of the TAP technology for the development of prophylactic vaccines and its ability to complement currently approved and emerging products in both cancer therapeutics and prophylactic vaccines against microbes. This approach allows us to pursue our own internal product development while positioning us to enter into multiple partnerships and licensing agreements. We will also rely on our new collaboration agreements with Mayo clinic to demonstrate the use of TAP in new vaccine candidates. In parallel with our viral vector approach we plan to develop non-viral vectors for the delivery of plasmid DNA.

Products and Technology in Development

TAP Cancer Vaccine

Based on earlier research at UBC Biomedical Research Centre in Vancouver BC, our overall objective is to successfully develop the patented TAP gene vector technology to restore the TAP protein, with the objective being to develop the TAP technology as a therapeutic cancer vaccine that will restore the normal immune recognition of cancer cells. A TAP Cancer Vaccine will be targeted at those cancers that are deficient in the TAP protein, which include breast cancer, prostate cancer, lung cancer, liver cancer, melanoma, renal cancer and colorectal cancer. TAP gene vectors will be used clinically in concert with proprietary antigen technologies in a “Prime and Boost” strategy. In our HER2/neu breast cancer program, which has started at the Mayo Clinic, proprietary HER2/neu antigens licensed from the Mayo Clinic will be used as the “Prime” and a TAP gene vector also containing antigens will be used as the “Boost”.

As part of a vaccine approach a TAP gene vector will deliver the genetic information required for the production of the TAP protein in the target cancer cell. This will trigger the cancer cell’s ability to effectively identify itself to the body’s immune system by transporting the cancer antigen peptides to the cell surface using the individual’s specific MHC Class I proteins. As a result, we believe that the immune response could be targeted to the entire repertoire of cancer antigen peptides produced by the cancer cell, rather than just to a single cancer antigen, as delivered by current cancer vaccines. A TAP Cancer Vaccine could allow the immune response to respond to the cancer even if the TAP protein and genetic information were only delivered to a small portion of the cancer cells. In addition, a TAP Cancer Vaccine would generate an immune response to any TAP-deficient cancer, regardless of the patient’s individual genetic variability either in the MHC Class I proteins or in the cancer-specific proteins and resultant peptides.

In general, a “cancer vaccine” is a therapy whose goal is to stimulate the immune system to attack tumors. Management believes that most current cancer vaccines contain either cancer-specific proteins that directly activate the immune system or contain genetic information, such as DNA, that encodes these cancer-specific proteins. Management believes that there are a number of key conditions that must be met before a cancer vaccine can be effective in generating a therapeutic immune response: (i) the cancer antigen peptide delivered by the vaccine has to be recognized by the immune system as “abnormal” or “foreign” in order to generate a strong and specific T-cell response; (ii) the same cancer antigen peptide has to be displayed on the surface of the cancer cells in association with the MHC Class I proteins; and (iii) these cancer antigen peptides then have to be sufficiently different from normal proteins in order to generate a strong anti-tumor response.

If these conditions are all met, then management believes that such cancer vaccines should generate a sufficiently strong immune response to kill the cancer cells. However, the identification of suitable cancer-specific antigen proteins to use in these therapeutic vaccines has proven extremely complex. In addition, the MHC Class I proteins are highly variable, with over 100 different types in humans and, as a result, any one-cancer antigen peptide will not produce an immune response for all individuals. Cancers are “genetically unstable” and their proteins are highly variable, so that the selected cancer antigen protein may result in the immune system only attacking a small subset of the cancerous cells.

Laboratory Testing of the TAP Cancer Vaccine

Management believes that key milestones of efficacy in animal models of cancer have been achieved and that scientific research from other laboratories has validated the efficacy data. The proof of principle for the TAP technology as a cancer vaccine has been established in research conducted at UBC in metastatic models that have multiple defects in the “antigen presentation pathway” resulting in poor detection of cancer cells by the immune system. These studies demonstrating that introduction of the TAP gene can restore an immune response have been published

in a number of peer-reviewed leading scientific journals (links to publications can be found at www.tapimmune.com). We plan to conduct additional pre-clinical work on novel expression vectors that can express both TAP proteins and peptide antigens.

Pre-Clinical Testing

Once the formal pre-clinical testing is completed, we intend to compile and summarize the data and submit it to the United States Federal Drug Administration (or “FDA”) and/or the Canadian Health Canada (or “HC”), and/or other national regulatory agencies, in the form of an investigational new drug application. We anticipate that these applications would include data on vaccine production, animal studies and toxicology studies, as well as proposed protocols for the Phase I human clinical trials, described below.

Phase I Human Clinical Trials– HER2/neu Vaccine Technology – Mayo Clinic

On June 1, 2010, we signed an exclusive licensing option agreement with the Mayo Clinic, Rochester MN for clinical development of a new HER2/neu breast cancer vaccine technology. An IND for Phase I human clinical trials on the HER2/neu cancer vaccine in collaboration with the Mayo Clinic was allowed by the FDA in July, 2011 and the Mayo IRB approved the trial on May 4 2012. Patient dosing has started, and interim safety analysis on the first five patients is complete and was successful. The trial is ongoing and we expect to be able to release interim data in the next few months.

The primary endpoint for this trial will be vaccine safety. Secondary endpoints will be immune responses including generation of antigen-specific T-cells and time to disease progression in breast cancer patients. As this trial progresses, we plan to add the Class I peptide, licensed from the Mayo Clinic to the four Class II peptides as an extension of the Phase I clinical trial. In parallel, we will complete the manufacturing and toxicity of vector delivered Tap1/2 for subsequent Phase I human clinical trials and for use in combination in later stage clinical trials with the HER2/neu antigens as part of a “Prime and Boost” strategy. On April 16, 2012 we announced the licensing of a novel HER2/neu Class I antigen from the Mayo Clinic and are currently evaluating the clinical pathway to include this in our current “Prime and Boost” strategy. Management believes that the combination of Class I and Class II HER2/neu antigens plus TAP gives us the leading HER2/neu vaccine platform.

Clinical trials to support new drug applications are typically conducted in three sequential phases, although the phases may overlap. During Phase I there is an initial introduction of the therapeutic candidate into healthy human subjects or patients. The drug is tested to assess metabolism, pharmacokinetics and pharmacological actions and safety, including side effects associated with increasing doses. For immunotherapeutics/vaccine, Phase I studies are conducted in cancer patients and include the measurement of cellular immune responses. Phase II usually involves studies in a limited patient population to assess the clinical activity of the drug in specific targeted indications, assess dosage tolerance and optimal dosage and continue to identify possible adverse effects and safety risks. If the therapeutic candidate is found to be potentially effective and to have an acceptable safety profile in Phase II evaluations, Phase III trials are undertaken to further demonstrate clinical efficacy and to further test for safety within an expanded patient population at geographically dispersed clinical trial sites.

Infectious Disease Application for “TAP” Adjuvant

TapImmune plans to develop or license out our technology for the creation of enhanced viral vaccines, such as for smallpox and others, based on our findings that TAP can augment immune responses. We have presented data showing that increasing TAP expression in TAP-competent antigen presenting cells (APCs) and/or virus infected cells increases the antigenic peptide associated with MHC class I expression on the cell surface, and leads to increased specific T cell-mediated immune responses. We believe this technology can add great value to the creation of new vaccines and enhance those that already exist. We believe our collaborations with the Mayo Clinic is evidence of this and we will continue to pursue additional partnerships and collaborations as a key strategy to expand our research and development (R&D) program to optimize resources and to reduce costs and development times. In our collaboration with the Mayo Clinic, efficacy studies in small animals on a novel smallpox vaccine that includes TAP, were initiated in 2011 and are progressing on schedule. The subsequent regulatory pathway for this product is to use the FDA’s “Animal Efficacy Rule” for completion of efficacy studies in primates followed by Phase I clinical studies on vaccine safety.

The cost of funding our current Phase I clinical program in HER2/neu breast cancer at the Mayo Clinic is approximately \$850,000 and is mostly paid off as this report. We anticipate that on-going preclinical studies and Phase I studies on our TAP expression vectors will cost approximately \$5million. We intend to progress our infectious disease programs with non-dilutive grant funding as well. In collaboration with the Vaccine Group at the Mayo Clinic

we will continue development of our smallpox vaccine and to expand the use of our TAP platform to emerging pathogens that could be either pandemic or bioterrorist threats.

Strategic Relationships

Mayo Foundation for Medical Education and Research

On May 26, 2010 we signed a Technology Option Agreement with the Mayo Foundation for Medical Education and Research, Rochester, MN, for the evaluation of HER2/neu peptide epitopes as antigens for a breast cancer vaccine. The agreement grants TapImmune an exclusive worldwide option to become the exclusive licensee of the technology after completion of Phase I clinical trials.

Following approval of the IND by the FDA in July, 2011, TapImmune and the Mayo Foundation executed a Sponsored Research Agreement for the clinical trial.

On May 4, 2012, Mayo IRB approval was confirmed and patient dosing is expected to start in June 2012.

On July 24, 2010, we signed a Research and Technology License Option Agreement with the Mayo Foundation for Medical Education and Research, Rochester, MN, to evaluate novel smallpox peptide antigens. The Agreement grants TapImmune an exclusive worldwide option to become the exclusive licensee of the smallpox vaccine technology after research studies have been completed under the terms of the agreement.

On April 16, 2012, we announced an Exclusive Agreement with the Mayo Foundation for Education & Research, Rochester, MN, to License a proprietary MHC Class I HER2/neu antigen technology. This antigen was discovered in the laboratory of Dr. Keith Knutson at the Mayo Clinic. In contrast to Class I antigens in clinical testing this novel antigen is naturally produced in the intracellular proteasome and presented to T-cells as the MHC Class I peptide complex. Scientific details of this new work was presented by Andrea Henle of Dr. Knutson's lab at the Annual Meeting of The American Association of Immunologists held in Boston, MA, May 2012 and by Mark Reddish, Head of Development at TapImmune at the Third Annual Cancer Vaccines and Active Immunity Summit, Boston, June 26, 2012. A peer-reviewed manuscript from the Knutson lab, which describes the science in detail, has been accepted for publication in Journal of Immunology.

Intellectual Property, Patents and Trademarks

Patents and other proprietary rights are vital to our business operations. We protect our technology through various United States and foreign patent filings, and maintain trade secrets that we own. Our policy is to seek appropriate patent protection both in the United States and abroad for its proprietary technologies and products. We require each of our employees, consultants and advisors to execute a confidentiality agreement upon the commencement of any employment, consulting or advisory relationship with us. Each agreement provides that all confidential information developed or made known to the individual during the course of the relationship will be kept confidential and not be disclosed to third parties except in specified circumstances. In the case of employees, the agreements provide that all inventions conceived of by an employee shall be our exclusive property.

Patent applications in the United States are maintained in secrecy until patents are issued. There can be no assurance that our patents, and any patents that may be issued to us in the future, will afford protection against competitors with similar technology. In addition, no assurances can be given that the patents issued to us will not be infringed upon or designed around by others or that others will not obtain patents that we would need to license or design around. If the courts uphold existing or future patents containing broad claims over technology used by us, the holders of such patents could require us to obtain licenses to use such technology.

Method of Enhancing Expression of MHC Class I Molecules Bearing Endogenous Peptides

On March 26, 2002, the United States Patent and Trademark Office issued US Patent No. 6,361,770 to UBC for the use of TAP-1 as an immunotherapy against all cancers. The patent is titled "Method of Enhancing Expression of MHC Class I Molecules Bearing Endogenous Peptides" and provides comprehensive protection and coverage to both in vivo and ex vivo applications of TAP-1 as a therapeutic against all cancers with a variety of delivery mechanisms. The inventors were Dr. Jefferies, Dr. Reinhard Gabathuler, Dr. Gerassinmoes Kolaitis and Dr. Gregor S.D. Reid, who collectively assigned the patent to UBC under an assignment agreement. The patent expires March 23, 2014. We have pending applications for patent protection for this patent in Europe and in Japan.

Method of Enhancing an Immune Response

U.S. patent No. 7,378,087, issued May 27 2008. The patent claims relate to methods for enhancing the immune response to tumor cells by introducing the TAP molecule into the infected cells. Patent applications are pending on other aspects of the company's technology. The inventors were Jefferies, Wilfred A.; Zhang, Qian-Jin; Chen, Susan

Shu-Ping; Alimonti, Judie B., who collectively assigned the patent to UBC under an assignment agreement.

Method of Identifying MHC Class I Restricted Antigens Endogenously Processed by a Secretary Pathway

On August 11, 1998, the U.S. Patent and Trademark Office issued US Patent No. 5,792,604 to UBC, being a patent for the use of bioengineered cell lines to measure the output of the MHC Class I restricted antigen presentation pathway as a way to screen for immunomodulating drugs. The patent is titled “Method of Identifying MHC Class I Restricted Antigens Endogenously Processed by a Secretary Pathway.” This patent covers the assay which can identify compounds capable of modulating the immune system. The inventors were Dr. Jefferies, Dr. Gabathuler, Dr. Kolaitis and Dr. Reid, who collectively assigned the patent to UBC under an assignment agreement. The patent expires on March 12, 2016. We have been granted patent protection for this patent in Finland, France, Germany, Italy, Sweden Switzerland and the United Kingdom, and have applied for patent protection in Canada and Japan.

Method of Enhancing an Immune Response

On October 27, 2011 The US Patent Office has issued Patent 7,994,146 entitled “Method of Enhancing an Immune Response”. The invention relates to a method of enhancing an immune response to an antigen by augmenting the level of TAP (Transporters Associated with Antigen Processing) molecule in a target cell bearing the antigen. This patent details application to treating vaccinia, herpes simplex and influenza virus infections and small cell lung cancer. Levels of TAP in humans correlate with susceptibility to certain diseases and the ability to respond to a vaccine.

TAP Vaccines and other filings

We intend to continue to work with our collaborators to file additional patent applications with respect to any novel aspects of our technology to further protect our intellectual property portfolio. An invention that describes the use of bio-acceptable substances to promote the transcription of the TAP-1 gene in TAP-1 expression-deficient cells was filed in July 2009 and was available to us under an option agreement with the University of British Columbia. The patent is entitled “HAT acetylation promoters and uses of compositions thereof in promoting immunogenicity”. The Company will not pursue this technology or continue to prosecute this additional patent and has released its option back to the University of British Columbia.

Competition

The oncology industry is characterized by rapidly evolving technology and intense competition. Many companies of all sizes, including a number of large pharmaceutical companies as well as several specialized biotechnology companies, are developing various immunotherapies and drugs to treat cancer. While management believes that we have a unique platform technology approach there may be products on the market that will compete directly with the products that we are seeking to develop. In addition, colleges, universities, governmental agencies and other public and private research institutions will continue to conduct research and are becoming more active in seeking patent protection and licensing arrangements to collect license fees and royalties in exchange for license rights to technologies that they have developed, some of which may directly compete with our technologies and products. These companies and institutions may also compete with us in recruiting qualified scientific personnel. Many of our potential competitors have substantially greater financial, research and development, human and other resources than us. Furthermore, large pharmaceutical companies may have significantly more experience than we do in pre-clinical testing, human clinical trials and regulatory approval procedures. Such competitors may develop safer and more effective products, obtain patent protection or intellectual property rights that limit our ability to commercialize products, or commercialize products earlier than we do.

Management expects technology developments in the oncology industry to continue to occur at a rapid pace. Commercial developments by any competitors may render some or all of our potential products obsolete or non-competitive, which could materially harm the company’s business and financial condition.

Management believes that the following companies, which are developing various types of similar immunotherapies and therapeutic cancer vaccines to treat cancer, could be our major competitors: CellGenSys Inc., Dendreon Corp., Galena, Immune Design, Immunocellular, Oncothyreon, Celldex, BN Immunotherapeutics, and Transgene S.A.

Our Financial Condition

During the next 12 months, we anticipate that we will not generate any sales revenue but may receive grant funding. We had cash of \$4,436 and a working capital deficit of \$5,388,793 at March 31, 2013. We will require significant additional financial resources and will be dependent on future financings to fund our ongoing research and

development as well as other working capital requirements.

Plan of Operation and Funding

As a vaccine component, the gene based TAP technology has the potential to significantly improve the efficacy of both prophylactic and immunotherapeutic vaccines as it addresses a fundamental mechanism for T cell recognition and response. We believe that, unlike other vaccine technologies that address only the initiation of immune responses, TAP expression also has the unique ability to enhance the effector function of mature killer T cells. This enhancement of effector function is potentially complementary to any/all vaccine approaches that are designed to enhance cellular responses. Therefore, we envisage establishing multiple collaborative partnerships as we progress gene-based TAP development and research in the clinic. The exploitation of this key mechanism is highlighted by two collaborations with the Mayo Clinic in Rochester, MN and their progress in 2012 and Q1 2013.

Management believes that as a result of our recent personnel additions, our moving into a state of the art facility, our exclusive Licensing Option agreements with the Mayo Clinic in Rochester, Minnesota, the start of term Phase 1 clinical trials, together with and subject to raising adequate funding, the Company will be well positioned for significant growth in 2013.

In August 2011, the FDA allowed an IND (Investigational New Drug application) and the Company signed a sponsored research agreement with the Mayo Clinic for a Phase 1 Her2neu Breast Cancer Clinical Trial, which started in the first quarter of 2012. The trial will use a patented technology developed at the Mayo clinic. TapImmune has the exclusive Option to license this technology. Recent clinical trials of Her2neu vaccines have shown considerable promise but have significant room for improvements, and the technology we are evaluating in our phase I clinical trial offers a vaccine with broader coverage, making it applicable to a much larger population of women with breast cancer. We anticipate that this technology will be used therapeutically together with our TAP expression technology as it reaches clinical development in combination with the improved Her2neu targeted vaccine. Currently, Herceptin® (trastuzumab: an intravenously delivered monoclonal antibody) is used in the treatment of HER-2/neu breast cancer. Sales of this product in 2009 were approximately US\$5 billion (source: Roche AG's Pharmaceutical Division). As our vaccine approach has the potential to treat a broader HER-2/neu positive clinical population, the market potential is significant.

Our Gene-based TAP vaccines also have the potential to significantly improve the efficacy of prophylactic vaccines for viral pandemics and as agents for biodefense. In a novel approach to the development of a smallpox vaccine, in our collaboration with the Mayo Clinic, research studies have progressed well and are now testing unique and patentable smallpox antigens in combination with TAP technology. Once these feasibility studies are complete we would move to larger preclinical animal studies, and Phase I safety trials. This study will also act as a platform for more extensive use of gene-based TAP vectors for biodefense. We will be seeking non-dilutive avenues to finance and advance this program by way of biodefense focused grants and contracts. We have the exclusive option to license the patented Mayo technology that is derived from this collaboration.

With respect to the broader market, a major driver and positive influence on our activities has been the emergence and general acceptance of the potential of a new generation of immunotherapies that promise to change the standard of care for cancer. The immunotherapy sector has been greatly stimulated by the approval of Provenge® (Dendreon NASD: DNDN) for prostate cancer and Yervoy™ (BMS) for metastatic melanoma, anticipation of the results from Phase III trials on MAGE-3 (GSK) for treatment of lung cancer, and progression of approaches for multiple cancer indications through Phase II and into Phase III.

Management believes that TapImmune is well positioned to be a leading player in this emerging market. It is important to note that the late stage immunotherapies in development do not necessarily represent competition to our programs, but rather offer us opportunities as our TAP expression technology is potentially synergistic with many other vaccine approaches. The addition of a TAP expression vector to patients already receiving a therapeutic vaccine could enhance the efficacy of these vaccines, as TAP is designed to help killer T-cells kill tumor cells. This concept of enhancing the effector stage of an immune response differentiates TAP technology from a wide list of immunotherapies currently in development, and offers a great opportunity for collaborations and partnerships. Accordingly we believe that the use of TAP expression vectors represents the next logical step in the development of more effective immunotherapies.

In 2012 and Q1 2013, we continued to made significant progress with very few resources. Progress in developing vectors for expression of antigens and TAP as a boost strategy has led to new intellectual property that we intend to file in the second quarter of 2013. On the technology and product pipeline side, management believes that the company is fundamentally strong and poised to be a leading company in a highly attractive and expanding market.

Results of Operations

In this discussion of the Company's results of operations and financial condition, amounts, other than per-share amounts, have been rounded to the nearest thousand dollars.

In this Amendment No. 1, we have restated the amounts in our three months results of operations and financial condition, where applicable.

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

We are a development stage company. We recorded a net loss of \$441,000 during the three months ended March 31, 2013 compared to \$599,000 for the three months ended March 31, 2012.

Operating costs increased to \$1,115,000 during the three months ended March 31, 2013 compared to \$672,000 in the prior period. Significant changes in operating expenses are outlined as follows:

- Consulting fees increased to \$30,000 during the three months ended March 31, 2013 from \$nil during the prior period, due to a new consulting agreement entered into in April 2012.
- Consulting fee – stock-based decreased to \$68,000 during the three months ended March 31, 2013 from \$134,000 during the prior period. The lower current period expense is primarily due to decreased share based payments to the consultants compared to the prior period.
- General and administrative expenses increased to \$207,000 in the three months ended March 31, 2013 from \$142,000 in the prior period, with the increase resulting from increased staff and rental costs at the Company's Seattle office and higher travel related expense in the current period.
- Interest and finance charges increased to \$335,000 during the three months ended March 31, 2013 from \$97,000 during the prior period. Current and prior period interest charges are primarily accretion of convertible debt notes as additional convertible notes were issued in the second half of 2012.
- Management fees decreased to \$59,000 during the three months ended March 31, 2013 from \$80,000 during the prior period due to decrease in compensation to management in the current period.
- Management fees – stock-based decreased to \$16,000 during the three months ended March 31, 2013 from \$30,000 during the prior period. The current and prior period expense consists of the fair value of option grants earned during the period.
- Professional fees increased to \$267,000 during the three months ended March 31, 2013 from \$74,000 during the prior period, due to higher legal fees incurred relating to debt restructuring in the current period.
- Research and development increased to \$134,000 during the three months ended March 31, 2013 from \$115,000 during the prior period. This was due to higher technology licensing fee accrued for payments due to Mayo clinic and Crucell Holland B.V. in the current period.

Liquidity and Capital Resources

At March 31, 2013, we had \$4,000 in cash. Generally, we have financed our operations through the proceeds from convertible notes and the private placement of equity securities as noted in Financing Activities below. We decreased our net cash by \$29,000 during the three months ended March 31, 2013 compared to a decrease of \$226,000 during the prior period.

Operating Activities

Net cash used in operating activities during the three months ended March 31, 2013 was \$454,000 compared to \$332,000 during the prior period. We had no revenues during the current or prior periods. Operating expenditures, excluding non-cash interest and stock-based charges during the current period primarily consisted of consulting and management fees, office and general expenditures, and professional fees.

Investing Activities

Net cash used in investing activities during the three months ended March 31, 2013 was \$Nil compared to \$Nil during the prior period.

Financing Activities

Net cash provided by financing activities during the three months ended March 31, 2013 was \$425,000 compared to \$106,000 during the prior period. Current period financing consisted of proceeds from private placements and advances from related parties while prior period financing relates to proceeds from convertible notes and advances from related parties.

At March 31, 2013, we had 6,528,000 stock options and 16,530,744 share purchase warrants outstanding. The outstanding stock options had a weighted average exercise price of \$0.18 per share, with the warrants having a

weighted average exercise price of \$0.32 per share. Accordingly, as of March 31, 2013, the outstanding options and warrants represented a total of 23,058,744 shares issuable for proceeds of approximately \$6,518,000 if these options and warrants were exercised in full. The exercise of these options and warrants is completely at the discretion of the holders. There is no assurance that any of these options or warrants will be exercised.

As of March 31, 2013, we anticipate that we will need significant financing to enable us to meet our anticipated expenditures for the next 24 months, which are expected to be in the range of \$5,000,000 assuming a single Phase 1 clinical trial.

Going Concern

Our financial statements have been prepared assuming that we will continue as a going concern and, accordingly, do not include adjustments relating to the recoverability and realization of assets and classification of liabilities that might be necessary should we be unable to continue in operation. Our ability to continue as a going concern is dependent upon our ability to obtain the necessary financing to meet our obligations and pay our liabilities arising from our business operations when they come due. We intend to finance our anticipated operating expenses with further issuances of common stock through private placement offerings or loans from private investors. Management believes that the Company will be able to continue limited operations with accommodations from debt holders and additional temporary short term funding over the next twelve months. Due to capital market conditions, funding continues to be challenging. It is unlikely the Company will be able to continue as a going concern past a twelve month horizon if significant equity funding is not raised within this period.

Off-Balance Sheet Arrangements

Other than as disclosed in the financial statements, we have no significant off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

Critical Accounting Policies

Our consolidated financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

We regularly evaluate the accounting policies and estimates that we use to prepare our consolidated financial statements. In general, management's estimates are based on historical experience, on information from third party professionals, and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

Refer to Note 2 of our consolidated financial statements for our year ended December 31, 2012 for a summary of significant accounting policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer has concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are not effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

It should be noted that any system of controls is based in part upon certain assumptions designed to obtain reasonable (and not absolute) assurance as to its effectiveness, and there can be no assurance that any design will succeed in achieving its stated goals.

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as required by Sarbanes-Oxley (SOX) Section 404 A. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Principal Executive Officer and Principal Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with United States generally accepted accounting principles ("US GAAP").

As of March 31, 2013, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control -Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and SEC guidance on conducting such assessments. Based on that evaluation, they concluded that, as at March 31, 2013 such internal controls and procedures were not effective to detect the inappropriate application of US GAAP rules as more fully described below.

The matters involving internal controls and procedures that the Company's management considered to be material weaknesses under the standards of the Public Company Accounting Oversight Board were: (1) inadequate entity level controls due to an ineffective audit committee resulting from the presence of only one of independent members on the current audit committee and the presence of only one outside director on our board of directors; (2) inadequate segregation of duties consistent with control objectives; (3) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements; (4) ineffective controls over period end financial disclosure and reporting processes.

Management believes that none of the material weaknesses set forth above had a material adverse effect on the Company's financial results for the three months ended March 31, 2013 but management is concerned that the material weakness in entity level controls set forth in item (1) results in ineffective oversight in the establishment and monitoring of required internal controls and procedures, it could result in a material misstatement in our financial statements in future periods.

We are committed to improving our financial organization. As part of this commitment, we will continue to enhance our internal control over financial reporting by: i) expanding our personnel, ii) improving segregated duties consistent with control objectives, iii) appointing more outside directors to our board of directors who shall be appointed to our audit committee resulting in a fully functioning audit committee who will undertake the oversight in the establishment and monitoring of required internal controls and procedures such as reviewing and approving estimates and assumptions made by management; and iv) preparing and implementing sufficient written policies and checklists which will set forth procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements.

Management believes that the appointment of one or more outside directors, who shall be appointed to a fully functioning audit committee, will remedy the ineffective audit committee. To this end, Ms. Sherry Grisewood was appointed to our audit Committee in 2013. In addition, management believes that preparing and implementing sufficient written policies and checklists will remedy the following material weaknesses (i) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements; and (ii) ineffective controls over period end financial close and reporting processes. Further, management believes that the hiring of additional personnel will result in improved segregation of duties and provide more checks and balances within the financial reporting department.

We will continue to monitor and evaluate the effectiveness of our internal controls and procedures over financial reporting on an ongoing basis and are committed to taking further action by implementing additional enhancements or improvements, or deploying additional human resources as may be deemed necessary.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal controls over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the rules of the SEC that permit the Company to provide only management's report in this report.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

In May 2012, we issued 11,200,000 shares of our common stock to two consultants. We have contested the validity of the issuances of this common stock based on our belief that the consultants did not perform the services agreed to under their respective consulting agreements. The two consultants have threatened to sue us on perceived damages suffered as a result of our contesting the issuances under the consulting agreements.

Management is not aware of any legal proceedings contemplated by any government authority or any other party involving the Company. As of the date of this Annual Report, no director, officer or affiliate is (i) a party adverse to us in any legal proceeding, or (ii) has an adverse interest to us in any legal proceeding. Management is not aware of any other legal proceedings pending or threatened against the Company.

Item 1A. Risk Factors

Not required.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In January 2013, we issued 231,332 shares of restricted common stock for conversion of a convertible note at a conversion price of \$.0662 per share.

In February 2013, we issued 250,000 shares of restricted common stock at \$0.116 to a consultant pursuant to a consulting agreement.

In February 2013, we issued 1,898,588 common shares on conversion of warrants at an exercise price of \$0.0572.

In March 2013, we issued 100,000 shares of common stock at \$0.1001 to a consultant pursuant to a consulting agreement.

In February and March 2013, we issued 3,470,709 units for subscription proceeds of \$242,950 at \$0.07 per unit. Each unit consists of one share of Company's common stock and one warrant exercisable at \$0.07, which expires in two years.

During the period ended March 31, 2013, we issued 3,176,334 shares of restricted common stock for conversion of a note at a conversion price of \$.0603 per share.

During the period ended March 31, 2013, we issued 992,063 shares of restricted common stock for partial conversion of a note at an average conversion price of \$.0695 per share.

During the period ended March 31, 2013, we issued 1,050,000 shares of restricted common stock for partial conversion of a note at an average conversion price of \$.0681 per share.

The shares mentioned above were issued in reliance on exemptions from registration under Section 4(2) of the Securities Act of 1933, as amended, including Rule 506 of Regulation D. These transactions qualified for exemption from registration because among other things, the transactions did not involve a public offering, each investor was an accredited investor, each investor had access to information about our Company and their investment, each investor took the securities for investment and not resale, there was no general solicitation or advertising in connection with the

placement and we took appropriate measures to restrict the transfer of the securities.

Item 3. Defaults Upon Senior Securities

The Company is in default of the secured notes issued in February 2011. No second year amortization payments have been made to the holders as of the anniversary of the notes in February 2013 and April 2013. Interest charges will be accrued at 20% per year. The note holders have not made any demands other than the interest rate penalty and are in discussions with the Company to resolve the matter. Many of the Company's other notes have cross default provisions, meaning that a default under the secured notes would trigger a default under those notes as well.

The Company was in default of the October 2012 note to a note holder due to the late filing of its annual report. Concurrent with the filing, this default will be cured. The lender has not made any claims under their default provisions and management is working closely with them to mitigate or negate any such claims.

Item 4. Mine Safety Disclosure

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are included with this Quarterly Report on Form 10-Q:

Exhibit Number Description of Exhibit

- | | |
|------|---|
| 31.1 | Certification of Principal Executive Officer and Acting Principal Accounting Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1933, as amended. |
| 32.1 | Certification of Principal Executive Officer and Acting Principal Accounting Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Exhibit 101

101.INS - XBRL Instance Document

101.SCH - XBRL Taxonomy Extension Schema Document

101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF - XBRL Taxonomy Extension Definition Linkbase Document

101.LAB - XBRL Taxonomy Extension Label Linkbase Document

101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TAPIMMUNE INC.

/s/ Glynn Wilson
Glynn Wilson
Chairman, Chief Executive Officer, Principal
Executive Officer and Chief Financial Officer
Date: August 14, 2013.