

Biosenta Inc.

(formerly known as RXT 110 Inc.)

Financial Statements

For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Biosenta Inc.

We have audited the accompanying financial statements of Biosenta Inc., which comprise the statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010, and the statements of operations and comprehensive loss, statements of changes in shareholders' equity and statements of cash flows for the years ended September 30, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Biosenta Inc. as at September 30, 2012, September 30, 2011 and October 1, 2010, and its financial performance and its cash flows for the years ended September 30, 2012 and 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes that the Company has a history of losses and a need for working capital. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
January 25, 2013

Biosenta Inc.

Statements of Financial Position

(Expressed in Canadian dollars, unless otherwise stated)

	As at September 30, 2012 \$	As at September 30, 2011 \$	As at October 1, 2010 \$
Assets		(Note 17)	(Note 17)
Current assets			
Cash	19,536	800,421	242
Amounts Receivable	45,025	88,470	2,565
Prepaid expenses	131,026	82,065	-
Loan receivable (note 5)	60,000	100,000	-
Total Current assets	255,587	1,070,956	2,807
Intangible assets (note 6)	3,060,000	125,000	-
Equipment (note 7)	429,564	70,855	-
Total assets	3,745,151	1,266,811	2,807
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (note 8)	1,553,051	561,522	15,026
Loan payable	5,000	35,000	32,133
Total current liabilities	1,558,051	596,522	47,159
Shareholders Equity (Deficiency)			
Share capital (note 11)	5,515,506	2,204,574	752,063
Equity reserve (note 13)	390,022	208,531	-
Warrant reserve (note 12)	670,914	490,489	-
Deficit	(4,389,342)	(2,233,305)	(796,415)
Total Shareholders' equity (deficiency)	2,187,100	670,289	(44,352)
Total Liabilities and Shareholders' equity (deficiency)	3,745,151	1,266,811	2,807

Commitments and Contingencies (notes 6 and 14)

Nature of Operations and Going Concern (note 1)

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

Approved by the Board of Directors

_____, Director

_____, Director

Biosenta Inc.**Statements of Operations and Comprehensive (Loss)**

(Expressed in Canadian dollars, unless otherwise stated)

	Years ended	
	September 30,	
	2012	2011
		(Note 17)
	\$	\$
Administrative expense		
Product development costs	239,619	-
Management and consulting fees	878,853	699,864
Legal and accounting fees	465,284	196,962
Salaries and benefits	141,770	30,355
Rent and occupancy costs	82,319	19,199
Commissions	64,380	46,000
Vehicle expense	85,259	26,047
Office and general	54,154	37,487
Travel and entertainment	42,863	24,722
Insurance	32,500	-
Advertizing and promotion	62,638	33,162
Stock transfer fees	45,272	25,930
Amortization	4,093	26,644
License impairment (<i>note 6</i>)	125,000	-
Bad debt expense	-	70,518
Loan impairment charges (<i>note 6</i>)	-	200,000
Net loss and comprehensive loss for the year	(2,324,004)	(1,436,890)
Basic and diluted loss per share	(0.06)	(0.05)
Weighted average number of common shares outstanding – basic and diluted	39,601,945	27,334,270

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

Biosenta Inc.**Statements of Changes in Shareholders' Equity (deficiency)**

(Expressed in Canadian dollars, unless otherwise stated)

	Number of Shares	Share Capital \$	Warrant Reserve	Equity Reserve \$	Deficit \$	Total Equity (Deficiency) \$
Balance, October 1, 2010	17,470,003	752,063	-	-	(796,415)	(44,352)
Common shares issued from private placements (Notes 11(iii), 11(iv) and 11(v))	9,302,500	1,473,664	431,961	-	-	1,905,625
Common shares issued pursuant to license agreement at \$0.02 (Note 11(i))	10,000,000	200,000	-	-	-	200,000
Share based payments	-	-	-	208,531	-	208,531
Share issue costs –warrants issued	-	(58,528)	58,528	-	-	-
Share issue costs	-	(162,625)	-	-	-	(162,625)
Net (loss) for the year	-	-	-	-	(1,436,890)	(1,436,890)
Balance, September 30, 2011	36,772,503	2,204,574	490,489	208,531	(2,233,305)	670,289
Common shares issued from private placement (Notes 11(vi), 11(vii) and 11(viii))	3,312,500	506,075	180,425	-	-	686,500
Common shares canceled (Notes 11(i) and 11(ii))	(9,253,183)	(267,997)	-	-	167,967	(100,030)
Common shares issued for share subscriptions received	362,500	72,500	-	-	-	72,500
Share based payments	-	-	-	181,491	-	181,491
Common shares issued for license agreement (Note 6)	20,000,000	3,060,000	-	-	-	3,060,000
Share issue costs (Notes 11(vii) and 11(viii))	120,000	(59,646)	-	-	-	(59,646)
Net (loss) for the year	-	-	-	-	(2,324,004)	(2,324,004)
Balance, September 30, 2012	51,314,320	5,515,506	670,914	390,022	(4,389,342)	2,187,100

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

Biosenta Inc.**Statements of Cash Flows**

(Expressed in Canadian dollars, unless otherwise stated)

	Years ended	
	September 30,	
	2012	2011
		(Note 17)
	\$	\$
Cash flow from operating activities		
Net loss of the year	(2,324,004)	(1,436,890)
Items not involving cash		
Impairment charges	125,000	200,000
Share based payments	181,491	208,531
Amortization	4,093	26,644
	(2,013,420)	(1,001,715)
Changes in non-cash working capital		
Amounts receivable	43,415	(85,905)
Shareholder receivable	(60,000)	(100,000)
Prepaid expenses	(48,961)	(82,065)
Accounts payable and accrued liabilities	991,529	446,496
	(1,087,437)	(823,189)
Cash flow from financing activities		
Reduction in loan payable	(30,000)	2,867
Proceeds from issue of common shares	735,000	1,905,625
Share issue costs	(35,646)	(162,625)
	669,354	1,745,867
Cash flow from investing activities		
Expenditures on equipment	(362,802)	(72,499)
Acquisition of intangible assets	-	(50,000)
	(362,802)	(122,499)
Change in cash	(780,885)	800,179
Cash, beginning of year	800,421	242
Cash, end of year	19,536	800,421

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

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

1. Nature of Operations and Going Concern

Biosenta Inc. (the "Company" or "Biosenta" and formerly RXT 110 Inc.) is a public company incorporated and domiciled in Canada, whose shares are traded on the Canadian National Stock Exchange (CNSX) under the symbol "ZRO". The Company's registered address is 1120 Finch Avenue West, Suite 503, Toronto, Ontario M3J 3H7, Canada. In 2011, the Company acquired the intellectual property rights to certain technology and processes relating to anti-microbial products with potential commercial and consumer applications. In 2011, the Company entered into an exclusive retail distribution agreement with a major distributor of home renovation products (the "Distributor") for Canada and the United States for the Company's line of home improvement and construction related anti-microbial products. In late 2011, the Company began construction of a dedicated research facility in Parry Sound, Ontario, Canada to further develop and expand both the consumer and commercial applications of the technology. Construction is scheduled to be completed in late 2012.

The ability of the Company to continue as a going concern is dependent upon the continuing financial support of shareholders or other investors, obtaining new financing on commercial terms acceptable to the Company to enable it to monetize its intellectual property assets, and upon attaining profitable operations once such assets can be monetized, all of which outcomes are uncertain and which, taken together, cast significant doubt over the ability of the Company to continue as a going concern. These financial statements do not include any adjustments to the carrying values of the Company's assets, liabilities, and expenses and the related classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

The Company funded its operations for the year ended September 30, 2012 through the use of existing cash reserves and three private placements for common shares. The Company may not have sufficient cash reserves to fund its product development programs, administrative costs and other obligations for the coming fiscal year. Management is actively involved in developing and bringing their products to market, and in seeking new equity financing to enable it to service the Company's liabilities and its ongoing administrative costs. There can be no assurance that the Company will be successful in these initiatives. (See Note 19)

2. Basis of Preparation

Statement of Compliance and Conversion to International Financial Accounting Standards ("IFRS")

These financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and the interpretations of the IFRS Interpretations Committee. As these are the Company's first annual financial statements to be presented in accordance with IFRS and therefore, IFRS 1 - First-Time Adoption of International Financial Reporting Standards ("IFRS 1"), has been applied and the impact of the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS is explained in note 18. Previously, the Company's annual financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. They also have been applied in preparing an opening IFRS statement of financial position at the date of the transition to IFRS.

These financial statements were authorized for issuance by the Board of Directors of the Company on January 25, 2013.

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

2. Basis of Preparation (Continued)

Basis of Preparation and Presentation

These financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

3. Significant Accounting Policies

CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- **Assets' carrying values and impairment charges**
In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- **Income taxes and recoverability of potential deferred tax assets**
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.
- **Share-Based Payments**
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based share awards are determined at the date of grant using generally accepted

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

3. Significant Accounting Policies (Continued)

valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Commitments and contingencies
Refer to Note 15.

(a) Inventory

Inventory is valued at the lower of cost and net realizable value, based on the "first in, first out" principle. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any required provision for obsolescence.

(b) Equipment

Items of property and equipment are measured at cost less accumulated depreciation and any recognized impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When components of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

The Company commences recognition of depreciation when the item of equipment is ready for its intended use. Depreciation is recognized on the following bases:

Furniture and equipment	20%	Computer equipment	45%
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Leasehold improvements - lesser of lease term or useful life, straight line

Depreciation methods and useful lives are reviewed at each reporting date.

Intangible Assets - License

Intangible assets that are acquired by the Company which have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Amortization is provided for to amortize the license over its estimated useful life as follows:

Straight-line over the license term.

Impairment

None of the Company's non-financial assets generate independent cash inflows and therefore all non-financial assets are allocated to cash generating units ("CGU") for purposes of assessing impairment. CGUs are defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

3. Significant Accounting Policies (Continued)

Impairment losses are recognized when the carrying amount of a CGU exceeds the recoverable amount, which is the greater of the CGU's fair values less cost to sell and its value in use. Value in use is the present value of the estimated future cash flows from the CGU discounted using a pre-tax rate that reflects current market rates and the risks inherent in the business of each CGU. If the recoverable amount of the CGU is less than its carrying amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is allocated to reduce the carrying amount of the assets of the unit, allocated pro-rata on the basis of the carrying amount of each asset.

Impairment losses of continuing operations are recognized in the income statement. A previously recognized impairment loss for non-financial assets, excluding goodwill, is reversed if there has been a change in the assumptions used to determine recoverable amount since the previous impairment loss was recognized. The carrying amount after the reversal cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

(c) Foreign currency translation

The functional currency of the Company is the Canadian dollar. Monetary assets and liabilities of the Company are translated into Canadian dollars at exchange rates in effect at the reporting dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the transaction date. Foreign exchange gains and losses arising are included in net loss for the year.

(d) Income taxes

Current tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

3. Significant Accounting Policies (Continued)

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(e) Share capital

Shares issued by the Company are recorded in the amount of the proceeds received, net of the after tax cost of issuance.

The Company, from time to time, may repurchase its shares. When shares are repurchased, the amount of the consideration paid, which includes directly attributable costs and is net of any tax effects, is recognized as a deduction from share capital. Any repurchased shares will be cancelled.

(f) Earnings (loss) per Share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for its own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares. The Diluted EPS calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

As at September 30, 2012 and 2011, potentially dilutive securities excluded from the calculation of EPS included all outstanding options and warrants as the conversion of these securities at September 30, 2012 and 2011 would not be dilutive to earnings.

(g) Financial instruments

All financial instruments are classified into one of the following five categories: fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. FVTPL financial instruments are measured at fair value and all changes in those fair values recognized in net loss. Available-for-sale financial instruments are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income ("OCI"). Loans and receivables, investments held-to-maturity and other financial liabilities are measured at amortized cost using the effective interest method.

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

3. Significant Accounting Policies (Continued)

The Company has made the following classifications:

Cash	Loans and receivables
Amounts receivable	Loans and receivables
Loan receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Loan payable	Other financial liabilities

Transaction costs are expensed as incurred for financial instruments classified as FVTPL. For other financial instruments, transaction costs are netted against the carrying value and are then recognized over the expected life using the effective interest method.

The Company has determined that it does not have derivatives or embedded derivatives.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted. For financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of estimated, discounted future cash flows. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account and changes in the carrying amount of the allowance account are recognized in profit or loss.

(h) Stock-based compensation

Stock-based awards and payments

The Company grants stock options to directors, officers and employees. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. The grant date fair value of options is recognized as share-based payment expense, with a corresponding increase in equity, over the period that the individual becomes unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the number of share options for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date. Charges for options that are forfeited before vesting are reversed from share-based payment reserve. Upon the expiry of unexercised options or warrants, the amount expensed to the expiry date is transferred to retained earnings (deficit).

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

3. Significant Accounting Policies (Continued)

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

4. Future Changes in Accounting Policies

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt those standards when they become effective.

IFRS 9 - Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Company is currently assessing the impact of IFRS 9 on its results of operations and financial position.

IFRS 10 Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 *Consolidated and Separate Financial Statements*. The Company has not yet determined the impact of IFRS 10 on its financial statements.

IFRS 11 Joint Arrangements

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial

Biosenta Inc.

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For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

4. Future Changes in Accounting Policies (Continued)

statements for the annual period beginning on October 1, 2012. The Company has not yet determined the impact of IFRS 11 on its financial statements.

IFRS 13 – Fair Value Measurement

IFRS 13, Fair Value Measurement (“IFRS 13”) was issued by the IASB on May 12, 2011. The new standard converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is currently assessing the impact of IFRS 13 on its results of operations and financial position.

IAS 1 – Presentation of Financial Statements

IAS 1, Presentation of Financial Statements (“IAS 1”) amendment, issued by the IASB in June 2011, requires an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Company is assessing the impact of IAS 1 on its financial statements.

5. Loan Receivable

	As at September 30 2012 \$	As at September 30 2011 \$	As at October 1 2010 \$
Loan receivable	60,000	100,000	-

Loan balance is unsecured, non-interest bearing, and has no specific terms of repayment. See Note 9 (iii).

6. Intangible Assets

The intangible assets are comprised as follows:

Balance October 1, 2010	-
Interim license fee	\$ 150,000
Amortization	(25,000)
Balance, September 30, 2011	125,000
Acquisition of license	3,060,000
Impairment of Interim license	(125,000)
Balance, September 30, 2012	\$ 3,060,000

Biosenta Inc.

Notes to the Financial Statements

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(Expressed in Canadian dollars)

6. Intangible Assets (Continued)

On June 7, 2011, the Company entered into an exclusive world-wide interim license agreement with Marcus Martin, a Director of the Company, with respect to certain intellectual property rights held by Mr. Martin relating to a process for the manufacture of anti-microbial filler product (the "MM License Agreement"). Effective October 3, 2011, the MM License Agreement was amended and restated to add Edward Pardiak, a Director of the Company as a co-licensor and was again amended and restated on April 10, 2012 to add 2320696 Ontario Inc. and 2262554 Ontario Inc. as co-licensors. Marcus Martin and Edward Pardiak, control 2320696 Ontario Inc. and 2262554 Ontario Inc, through holding companies controlled by them. The consideration payable for the acquisition of the MM License Agreement was \$150,000 payable in installments of \$50,000 (\$50,000 paid). The consideration payable was superseded by the Amended and Restated License Agreement dated May 1, 2012 to an aggregate payment of \$300,000, \$50,000 having been paid in 2011, \$100,000 payable on or before the date that is 30 days after the Company receives payment for its first shipment having an aggregate purchase price in excess of \$200,000, with the balance of \$150,000 payable on the date that is 90 days after the Company receives payment for such first shipment.

The Company exercised its right to convert the interim license granted on June 7, 2011, as amended and restated, into an assignable, transferable, perpetual, world-wide exclusive license (the "License"). In connection with the exercise of the right to acquire the License, and in accordance with the terms of the MM License Agreement, the Company issued 20,000,000 fully paid and non-assessable Class A shares of the Company to the Licensors valued at \$3,060,000 based on the value of the most recently completed private placement share price of \$0.153. The effective date for the issuance of the Class A shares and the acquisition of the License was April 10, 2012. The License is subject to a royalties payable equal to 7% to 25% of the amount the gross margin actually received by the Company on the sale of the licensed products based on gross margin as a percentage.

As a result of the exercise of the License, the interim license was impaired as it was replaced by the License and therefore, the Company charged the balance of \$125,000 to the statement of operations during 2012.

On November 26, 2010, the Company entered into an exclusive License Agreement with Rx 110 Inc. to manufacture, import, market and sell in Canada filler products for stopping mould at source. Pursuant to the terms of the License Agreement the Company issued 10,000,000 Class A shares in the capital of the Company as directed by Rx 110 Inc. with a fair value of \$200,000 and granted an ongoing royalty equal to 3% of all revenues generated from the sale of products under the license. On June 3, 2011 the Company received notice of revocation of the License Agreement from Rx 110 Inc. The Company had not received any prior notice of any breach or default under the License Agreement, therefore an impairment charge was recognized for the full carrying amount of the License Agreement during the year. Mr. Meade agreed to surrender his director position for a payment of \$25,000, which is included in management and consulting fees. Of the 10,000,000 Class A shares issued as consideration for the license, 854,824 were issued to current directors of the Company on Rx 110 Inc.'s direction. These shares were purchased for cancellation as described in Note 11(ii).

The 20,000,000 Class A shares have been held in escrow subject to an escrow agreement, dated April 10, 2012. The Class A shares shall not be released from escrow prior to the third anniversary of the date of the agreement and following the third anniversary of the date, they shall be released as to 1/8 of the original number of escrowed Class A shares on the first day of the commencement of each financial quarter of the Company.

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

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7. Equipment

Equipment consists of the following:

Cost	Furniture and equipment	Leasehold improvements	Computer equipment	Total
Balance October 1, 2010	\$ -	\$ -	\$ -	\$ -
Additions	69,348	-	3,151	72,499
Balance September 30, 2011	\$69,348	-	\$3,151	72,499
Additions	169,019	187,955	5,827	362,801
Balance, September 30, 2012	\$238,367	\$187,955	\$8,978	\$435,300

Accumulated Amortization	Furniture and equipment	Leasehold improvements	Computer equipment	Total
Balance October 1, 2010	\$ -	\$ -	\$ -	\$ -
Additions	935	-	709	1,644
Balance September 30, 2011	935	-	709	1,644
Additions	1,682	-	2,410	4,092
Balance, September 30, 2012	\$2,617	\$ -	\$3,119	\$5,736

Net book value at October 1, 2010	\$ -	\$ -	\$ -	\$ -
Net book value at September 30, 2011	\$ 68,413	\$ -	\$ 2,442	\$ 70,855
Net book value at September 30, 2012	\$ 235,750	\$ 187,955	\$5,859	\$ 429,564

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	As at September 30, 2012 \$	As at September 30, 2011 \$	As at October 1, 2010 \$
Trade payables	557,109	285,108	15,026
Accrued payroll	11,511	9,832	-
Accrued liabilities other	263,369	194,082	-
Shares subscriptions received (i)	721,062	72,500	-
Total	1,553,051	561,522	15,026

(i) See subsequent event note 18(i).

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

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9. Related Party Transactions

- (i) The Company announced that it exercised its right to convert the interim license granted under an intellectual property license agreement as amended and restated, into an assignable, transferable, perpetual, world-wide exclusive license (the "License"). In connection with the exercise of the right to acquire the License and in accordance with the terms of the license agreement, the Company issued 20,000,000 fully paid and non-assessable Class A shares of the Company to the Licensors. The Company and the Licensors entered into an escrow agreement in respect of the 20,000,000 Class A shares issued in consideration of the License as well as a securities pledge agreement in respect of the Licensors' obligations under the MM License Agreement. Two of the licensors are also directors of the Company. See note 6.
- (ii) Included in accounts payable and accrued liabilities as at September 30, 2012 is \$163,590 (September 30, 2011 - \$206,131; October 1, 2010 - \$Nil) owing to directors and companies controlled by directors of the Company for management consulting fees for services rendered. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.
- (iii) The loan receivable (note 5) is from close relatives of certain directors of the Company.
- (iv) During the year ended September 30, 2011, the Company recognized an expense of \$25,000 and an impairment charge related to a license agreement entered into with Rx 110 Inc., a company controlled by a former director of the Company. The Company also recognized a bad debt expense for a receivable balance of \$65,447 due from Rx 110 Inc.
- (v) During the year ended September 30, 2011, a receivable balance of \$5,071 due from a company controlled by a director and shareholder of the Company was expensed as a bad debt because the debtor company ceased operations.
- (vi) During the year ended September 30, 2011, the Company paid rent of \$10,000 to and purchased equipment for \$4,220 from a company controlled by a director and shareholder of the Company.

Compensation of key management personnel of the Company

The remuneration of directors and other key management personnel during the period was as follows:

	2012	2011
Short-term compensation (i)	\$ 694,275	\$ 367,333
Other long-term benefits	-	-
Stock-based compensation (ii)	173,752	68,632
	<u>\$ 868,027</u>	<u>\$ 435,965</u>

(i) Short-term compensation includes salaries, bonuses and allowances, employment benefits and directors' fees.

(ii) Stock-based compensation represents the amount expensed by the Company for options issued.

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

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9. Related party transactions (Continued)

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the compensation committee, having regard to the performance of individuals and market trends.

10. Income Taxes

a) Provision for Income Taxes - Current

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 26.25% (2011 – 28.25%) were as follows:

	2012	2011
Loss before recovery of income taxes	\$ (2,324,004)	\$ (1,436,890)
Statutory rate applied to loss for the year before income taxes	\$(621,700)	\$ (405,900)
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	48,500	64,600
Deductible share issue costs	(8,900)	(40,700)
Other items	3,800	-
Change in tax rates	37,300	-
Tax benefits not realized	541,000	382,000
Deferred income tax recovery (expense)	\$ -	\$ -

b) Deferred Income Taxes

Deductible temporary differences and unused tax losses for which no deferred tax assets have not been recognized are attributable to the following:

	2012	2011
Equipment	\$ 31,000	\$ (1,200)
Non-capital losses	856,300	346,500
Share issue costs	31,500	32,500
Cumulative eligible capital	47,400	47,400
Capital losses	800	800
Deferred income tax assets not recognized	967,000	426,000

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

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10. Income taxes (Continued)

c) Tax Loss Carry-Forwards

Any non-capital losses that may be utilized to reduce taxable income in Canada in future years expire at the end of the following years:

2025	\$52,600
2026	26,100
2027	68,300
2028	77,000
2030	92,300
2031	1,069,700
2032	2,039,400

\$ 3,425,400

11. Share Capital

Authorized:

The Company can issue an unlimited number of:

Class A shares, voting and participating.

Class B shares, voting, redeemable at any time at the option of the corporation for an amount equal to the fair value of the consideration received at issuance.

Class C preferred shares issuable in series with the following to be fixed with each series: number of shares, designation, rights, privileges, restrictions and conditions including dividend rate and calculation method and payment dates, the redemption, purchase and/or conversion prices, terms of redemption, purchase and/or conversion, any sinking fund or other provisions, may be convertible into Class A shares and voting unless otherwise determined.

Issued and outstanding, Class A shares:

	Number of shares	Amount
Balance, October 1, 2010	17,470,003	\$ 752,063
Balance, September 30, 2011	36,772,503	\$2,204,574
Balance, September 30, 2012	51,314,320	\$5,515,506

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

11. Share Capital (Continued)

- (i) The Company entered into an exclusive license agreement (the “RX License Agreement”) with RX 110 Inc. (“RX”) to manufacture, import, market and sell in Canada filler products for stopping mould at source (the “RX Products”). Pursuant to the terms of the RX License Agreement, and as partial consideration for RX entering into the RX License Agreement, the Company issued 10,000,000 Class A shares with a fair value of \$200,000 based on the fair market value of \$0.02 per Class A shares and granted an ongoing royalty equal to 3% of revenues generated by the Company from the sale of RX Products. The term of the RX License Agreement was to expire upon the expiration of the last of the RX patents.

The Company announced that it had received notice of revocation of the RX License Agreement from RX. The Company announced that they had not received any prior notice of any breach of default under the RX License Agreement. The Company announced it had commenced legal proceedings against Donald Mark Meade, RX, RX100 Inc. and certain other persons and entities (the “Defendants”) in connection with the revocation of the RX License Agreement (the “Meade Litigation”). In the statement of claim, the Company sought, among other remedies, damages and the return and cancellation of the shares issued by the Company in consideration for the RX License Agreement. The Company obtained an interim order of the Ontario Superior Court of Justice – Commercial List, on a without notice basis, in the form of a temporary injunction restraining the Defendants from selling, encumbering or otherwise dealing with any shares of the Company in their possession or control. The injunction was subsequently extended by the court until further notice.

On March 7, 2012, the Company announced that it had reached a binding settlement of this litigation in respect of the intellectual property license granted by RX110 Inc. to the Company. Pursuant to the terms of the settlement agreement, the Defendants agreed to deliver to the Company 8,412,506 Class A shares for cancellation. During 2012, 8,398,359 of these shares were cancelled.

- (ii) In December 2011, 854,824 Class A shares were purchased for cancellation for consideration of \$30 cash and cancellation of the \$100,000 loan receivable to current directors of the Company.
- (iii) In April 2011, the Company closed a private placement for gross proceeds of \$225,625. Under the terms of the private placement, the Company issued 902,500 units with a unit price of \$0.25. Each unit was comprised of one Class A share and one Class A share purchase warrant. Each Class A share purchase warrant entitles the holder to acquire one Class A share at a price of \$0.35 per for a period of 18 months from date of closing.
- (iv) In July 2011, the Company closed a private placement for gross proceeds of \$1,580,000. Under the terms of the private placement, the Company issued 7,900,000 units with a unit price of \$0.20. Each unit was comprised of one Class A share and one Class A share purchase warrant. Each Class A share purchase warrant entitles the holder to acquire one Class A share at a price of \$0.30 per for a period of 18 months from date of closing.

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

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11. Share Capital (Continued)

- (v) During the year ended September 30, 2011, the Company issued 500,000 Class A shares to close relatives of Mr. Martin and Mr. Pardiak, directors of the Company, for fair value consideration of \$100,000, which was unpaid at September 30, 2011. The shares were subsequently cancelled in the year ended September 30, 2012.
- (vi) In November 2011, the Company issued and sold 62,500 units at \$0.20 per unit for aggregate consideration of \$12,500, each unit consisting of one Class A Share and one Class A share purchase warrant. Each warrant entitles the holder to purchase one additional Class A share in the capital of the Corporation at an exercise price of \$0.30 per warrant to the extent such warrant is exercised on or before the date that is 18 months from the closing of the Offering.
- (vii) On February 22, 2012, the Company issued and sold 1,830,000 units at \$0.20 per unit for aggregate consideration of \$366,000, each unit consisting of one Class A share and one Class A share purchase warrant. Each warrant entitles the holder to purchase one additional Class A share in the capital of the Corporation at an exercise price of \$0.30 per warrant to the extent such warrant is exercised on or before the date that is 18 months from the closing of the Offering.

In connection with the issue and sale of certain of the Units in the Offering, the Company paid a finder's fee consisting of 57,500 Units valued at \$11,500.

- (viii) On April 2, 2012, the Company issued and sold 1,782,500 units at \$0.20 per unit for aggregate consideration of \$356,500, each unit consisting of one Class A share and one Class A share purchase warrant ("Units"). Each warrant entitles the holder to purchase one additional Class A share in the capital of the Corporation at an exercise price of \$0.30 per warrant to the extent such warrant is exercised on or before the date that is 18 months from the closing of the Offering.

In connection with the issue and sale of certain of the Units in the Offering, the Company paid a finder's fee consisting of 62,500 Units valued at \$12,500.

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

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12. Warrant Reserve

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants are as follows:

	September 30, 2012		September 30, 2011	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of the year	9,422,500	\$0.30	-	-
Issued	3,795,000	0.30	9,422,500	\$0.30
Balance, end of year	13,217,500	\$0.30	9,422,500	\$0.30

The exercise price, expiry date, and the outstanding warrants issued and outstanding as at September 30, 2012 are as follows:

Expiry Date	Weighted Average Exercise Price	Grant date fair value	Warrants Outstanding	Contractual Life (years)
	\$	\$		
October 13, 2012 **	0.35	49,399	800,000	0.04
November 10, 2012 **	0.35	6,175	100,000	0.11
January 29, 2013**	0.35	154	2,500	0.33
January 22, 2013*	0.30	376,233	7,900,000	0.31
January 22, 2013*	0.20	58,528	620,000	0.31
May 5, 2013	0.30	2,969	62,500	0.59
August 17, 2013	0.30	89,692	1,887,500	0.88
October 2, 2013	0.30	87,764	1,845,000	1.01
	0.30	670,914	13,217,500	0.47

* See Note 18 (iii)

** Expired unexercised subsequent to September 30, 2012

The fair value of the warrants issued during the years ended September 30, 2011 and September 30, 2012 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2012	2011
Risk free interest rate	1.07%	1.49%
Expected dividend yield	Nil	Nil
Expected volatility	105%	102%
Expected life	1.5 years	1.5 years

Option pricing models require the input of subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the estimate of fair value, and therefore, use of Black-Scholes option pricing model, may not provide a realistic measure of the fair value of the Company's warrants at the date of issue.

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

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13. Equity Reserve and Stock-Based Compensation

The Company has a stock option plan (the “Plan”), under which the Company may grant options to directors, officers, employees, and third party service providers. Under the terms of the Plan that was approved by the shareholders, the Company is authorized to issue a maximum of 10% of the issued and outstanding shares.

The purpose of the Plan is to attract, retain and motivate directors, officers, and certain third party service providers by providing them with the opportunity to acquire a proprietary interest in the Company and benefit from its growth. The options granted under the Plan are non-assignable, have a term of 5 years and vest over periods of up to three years from the date of issue.

Share based payment activity for the years ended September 30, 2012 and 2011 are summarized as follows:

	September 30, 2012		September 30, 2011	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of the year	2,750,000	\$0.22	-	-
Granted	1,400,000	0.20	2,750,000	\$ 0.22
Balance, end of year	4,150,000	\$0.21	2,750,000	\$0.22

Options to purchase common shares outstanding at September 30, 2012 carry exercise prices and remaining terms to maturity as follows:

Expiry Date	Exercise Price \$	Options Outstanding	Options Exercisable	Grant date weighted average fair value per option	Weighted Average Remaining Contractual Life (years)
April 13, 2016	0.25	1,000,000	1,000,000	0.1399	3.54
August 16, 2016	0.20	1,750,000	875,000	0.128	3.88
November 8, 2016	0.20	100,000	33,333	0.11	4.11
August 8, 2017	0.20	1,000,000	333,333	0.15	4.86
August 23, 2017	0.20	300,000	-	0.15	4.90
	0.21	4,150,000	2,241,666		4.11

During the year ended September 30, 2012, the Company granted 1,400,000 new options (2011 – 2,750,000) with a weighted-average exercise price of \$0.20 per share (2011 - \$0.22). The fair value of the options issued during the year ended September 30, 2011 and year ended September 30, 2012 were estimated using the Black-Scholes option pricing model with the following assumptions:

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

13. Equity Reserve and Stock-Based Compensation (Continued)

	2012	2011
Risk free interest rate	1.31%	1.35%
Expected dividend yield	Nil	Nil
Expected volatility	105%	62%
Expected life	5 years	5 years

Option pricing models require the input of subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the estimate of fair value, and therefore, use of Black-Scholes option pricing model, may not provide a realistic measure of the fair value of the Company's options at the date of issue.

14. Commitments and Contingencies

Operating Lease Commitments

Minimum payments due under operating leases in respect of office space and office equipment are set out below.

2013	\$	88,601
2014		85,660
2015		53,307
2016		48,865
	\$	276,433

Amounts recognized as expense were as follows:

2012	2011
\$35,131	\$5,070

The Company currently has an employment agreement with the provision of termination and change of control benefits with an officer of the Company. The agreement for the officer provides that in the event that their employment is terminated by the Company other than for cause then the officer shall be entitled to a lump sum payment amount equal to the greater of (i) the annual base salary plus the annual bonus received by the Officer during the year multiplied by the number of remaining years of the then current term of the employment agreement and (ii) three times the annual compensation of the Officer plus continuation of employment benefits for the remainder of the term of the employment agreement in effect immediately prior to termination. The additional commitments total approximately \$1,062,500. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements

See Note 6.

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

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15. Financial Risk Factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to other receivables and receivable from the refund of sales taxes. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to financial instruments included in other is remote. No balances are considered past due or impaired.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet current liabilities when due. As at September 30, 2012, the Company had a cash balance of \$19,536 (September 30, 2011 - \$800,421, October 1, 2010 - \$242) to settle current liabilities of \$836,989 (September 30, 2011 - \$524,022, October 1, 2010 - \$47,159). The Company may not have sufficient cash reserves to fund its product development programs, administrative costs and other obligations for the coming fiscal year. Management is actively involved in developing and bringing their products to market, and in seeking new equity financing to enable it to service the Company's liabilities and its ongoing administrative costs. There can be no assurance that the Company will be successful in these initiatives. All of the Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. See note 19.

Market risk

(a) Interest rate risk

The Company has no indebtedness to lenders or financial institutions, except for a loan payable of \$5,000. The Company's current policy is to invest excess cash in investment-grade, short-term deposit certificates issued by its banking institutions.

16. Capital Management

Capital is defined as share capital, warrants reserve and equity reserve. The Company's objectives when managing capital are to maintain an appropriate balance between holding a sufficient amount of capital to support its operations as a going concern, and providing shareholders with a prudent amount of leverage, as and when required, to enhance returns.

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

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16. Capital Management

The intellectual property in which the Company has acquired through a license agreement is currently in the development stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurances that the Company will be able to continue raising equity capital in this manner. The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term guaranteed deposits, all held with major Canadian financial institutions.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the years ended September 30, 2012 and 2011.

17. Transition to IFRS and Restatement

As stated in Note 2, these are the Company's first set of annual financial statements prepared in accordance with IFRS, as issued by the IASB, including the application of IFRS 1. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP" or previous "GAAP"). IFRS 1 requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was October 1, 2010. IFRS requires first-time adopters to retrospectively apply all IFRS's that will be in effect at its September 30, 2012 reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time adopters. The Company has applied certain of these exemptions to its opening statement of financial position dated October 1, 2010, as described below.

First time adoption mandatory exceptions and optional exemptions to retrospective application of IFRS

In preparing these financial statements in accordance with IFRS 1, the Company has applied certain mandatory exceptions and certain optional exemptions from full retrospective application of IFRS as described below.

Mandatory exceptions

Estimates

Hindsight was not used to create or revise estimates. The estimates made under IFRS at the date of transition are consistent with those previously made under Canadian GAAP.

Optional exemptions

The Company has applied the following optional transition exemptions to full retrospective application of IFRS:

Biosenta Inc.

Notes to the Financial Statements

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17. Transition to IFRS and Restatement (Continued)

- IFRS 3 “Business Combinations” has not been applied to acquisitions of subsidiaries that occurred before November 1, 2010.

- IFRS 2 “Share-based payments” has not been applied to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before October 1, 2010. The Company has elected not to apply IFRS 2 to awards that vested prior to October 1, 2010, which has been accounted for in accordance with Canadian GAAP.

Changes in accounting policies

1. Share-based payments

Forfeitures

- Canadian GAAP - Forfeitures of awards are recognized as they occur.

- IFRS - An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. No adjustments were required on transition to IFRS.

2. Impairments

Recoverable amount

- Canadian GAAP - A recoverability test is performed by first comparing the undiscounted expected future cash flows to be derived from the asset to its carrying amount. If the asset does not recover its carrying value, an impairment loss is calculated as the excess of the asset's carrying amount over its fair value.

- IFRS - The impairment loss is calculated as the excess of the asset's carrying amount over its recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value. No adjustments were required.

Canadian GAAP - Reversal of impairment losses is not permitted.

- IFRS - Reversal of impairment losses is required for assets other than goodwill if certain criteria are met. No adjustments were required.

Explanation of differences impacting the Company's financial statements including IFRS 1 First-Time Adoption of International financial Reporting Standards

IFRS 1 requires the Company to reconcile equity, comprehensive income and cash flows for prior periods. In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. A reconciliation of the impact of the transition from Canadian GAAP to IFRS on the Company's financial position and financial performance is set out in the following tables and the additional notes that, accompany the tables. The transition to IFRS did

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

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17. Transition to IFRS and Restatement (Continued)

not have a significant impact on the Company's statement of cash flows for the year ended September 30, 2011, therefore a reconciliation has not been prepared.

a) Share-based payments

IFRS 2 requires stock options issued with vesting terms to be expensed using the graded-vesting method whereby each vesting amount is treated as an individual option grant. As a result, the Company was required to restate the value of certain share-based payments issued to employees.

b) Restatement of deferred income tax assets, share based payments and share subscriptions received

Adjustment to correct errors in the valuation of deferred income tax assets as it is not probable that all or part of the related benefits will be realized, valuation of share based payments and classification of expected subscription proceeds.

c) Reclassification to the warrant reserve

Adjustment to reallocate the warrant valuation to the warrant reserve.

Reconciliation from Canadian GAAP to IFRS

Reconciliation of assets, liabilities and shareholder's equity (deficiency) as at October 1, 2010:

Notes	Canadian GAAP basis	Effects of IFRS transition	Restatement	IFRS
Assets	\$	\$	\$	\$
Current				
Cash	242	-	-	242
Amounts receivable	2,565	-	-	2,565
Total Current Assets	2,807	-	-	2,807
Total Assets	2,807	-	-	2,807
Liabilities				
Current				
Accounts payable and accrued liabilities	15,026	-	-	15,026
Loan payable	32,133	-	-	32,133
Total liabilities	47,159	-	-	47,159
Shareholders' Equity (Deficiency)				
Share capital	752,063	-	-	752,063
Deficit	(796,415)	-	-	(796,415)
Shareholder's Equity (Deficiency)	(44,352)	-	-	(44,352)
Total Liabilities and Shareholders' Equity (Deficiency)	2,807	-	-	2,807

Biosenta Inc.

Notes to the Financial Statements

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17. Transition to IFRS and Restatement (Continued)

Reconciliation of assets, liabilities and shareholder's equity as at September 30, 2011:

	Notes	Canadian GAAP basis	Effects of IFRS transition	Restatement	IFRS
Assets					
Current					
Cash		800,421	-	-	800,421
Amounts receivable		88,470	-	-	88,470
Prepaid expenses and other assets	b	135,726	-	(53,661)	82,065
Future income tax asset	b	441,689	-	(441,689)	-
Loan receivable		100,000	-	-	100,000
Total Current Assets		1,566,306	-	(495,350)	1,070,956
Equipment		70,855	-	-	70,855
Intangible assets		125,000	-	-	125,000
Total Assets		1,762,161	- -	495,350	1,266,811
Liabilities					
Current					
Accounts payable and accrued liabilities	b	489,022	-	72,500	561,522
Loan payable		35,000	-	-	35,000
Total Liabilities		524,022	-	72,500	596,522
Shareholders' Equity					
Share capital	b, c	2,679,224	(431,961)	(42,689)	2,204,574
Share subscriptions received	b	72,500	-	(72,500)	-
Warrant reserve	c	-	490,489	-	490,489
Equity reserve	b,c	128,478	(58,528)	138,581	208,531
Deficit	b	(1,642,063)	-	(591,242)	(2,233,305)
Shareholder's Equity		1,238,139	-	(567,850)	670,289
Total Liabilities and Shareholders' Equity		1,762,161	-	(495,350)	1,266,811

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

17. Transition to IFRS and Restatement (Continued)

Reconciliation of loss and comprehensive loss for the year ended September 30, 2011:

	Notes	Canadian GAAP basis	Effects of conversion to IFRS	Restated	IFRS
Expenses					
Management, engineering, and consulting fees	b	507,622	-	192,242	699,864
Legal and accounting		196,962	-	-	196,962
Bad debt expense		70,518	-	-	70,518
Commissions		46,000	-	-	46,000
Office and general		37,487	-	-	37,487
Advertising and promotion		33,162	-	-	33,162
Salaries and benefits		30,355	-	-	30,355
Vehicle expenses		26,047	-	-	26,047
Stock transfer fees		25,930	-	-	25,930
Travel & entertainment		24,722	-	-	24,722
Rent		19,199	-	-	19,199
Amortization		26,644	-	-	26,644
Loan impairment charges		200,000	-	-	200,000
Loss before income taxes		1,244,648	-	192,242	1,436,890
Income taxes	b	(399,000)	-	399,000	-
Net loss and comprehensive loss		845,648	-	591,242	1,436,890

18. Subsequent Events

(i) Financing

On November 30, 2012, the Company issued 6,313,003 units, each unit consisting of one Class A Share and one Class A Share purchase warrant, for total proceeds of \$1,262,600. Each warrant will entitle the holder to purchase one additional Class A Share in the capital of the Company (a "Warrant Share") at an exercise price of \$0.30 per Warrant Share to the extent such Warrant are exercised on or before the date that is 18 months from November 30, 2012. As a result, subscription receipts of \$721,062 as at September 30, 2012 were converted into units upon closing of the financing.

Biosenta Inc.

Notes to the Financial Statements

For the Years ended September 30, 2012 and 2011

(Expressed in Canadian dollars)

18. Subsequent Events (Continued)

(ii) Letter of Intent with New South Biolabs

On January 7, 2013 the Company announced that it had entered into a non-binding letter of intent with New South Biolabs pursuant to which New South Biolabs will become the Company's strategic logistics management partner responsible for enterprise resource planning [ERP], production and customer relationship management [CRM] as pertaining to all "Zeromold" products destined for the southern United States, Mexico, South America and the Caribbean. New South Biolabs will also purchase Biosenta's first scale unit ringed product system and allocate resources to establish a facility for the Company's patented ringed product in the United States. The letter of intent is non-binding and the parties are continuing their due diligence investigations. Completion of the transaction is subject to a number of conditions, including completion of satisfactory due diligence reviews by both parties, negotiation and entering into definitive documents respecting the transactions acceptable to all parties, and obtaining all required approvals upon execution of definitive documents respecting the transaction. New South Biolabs will pay the Company royalties on all Biosenta products sold and a \$600,000 non-refundable fee.

(iii) Extension of Warrants

On November 30, 2012 the Company announced that it has extended the term of 620,000 warrants issued by the Company on July 22, 2011, from January 22, 2013 to July 22, 2014. These warrants were issued as part of a private placement transaction and are exercisable into 620,000 Class A shares of the Company at a price of \$0.20 per share.

In addition, the Company announced that it has extended the term of 7,900,000 warrants issued by the Company July 22, 2011, from January 22, 2013 to July 22, 2014. These warrants were issued as part of a private placement transaction and are exercisable into 7,900,000 Class A shares of the Company at a price of \$0.30 per share.

All other terms of the warrants shall remain unchanged.