Biosenta Inc.

Condensed Interim Financial Statements

For the three months ended December 31, 2012

(Unaudited)

Notice of No Auditor Review of Condensed Interim Financial Statements

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed interim financial statements, in accordance with standards established by the Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.

Biosenta Inc.
February 27, 2013

Biosenta Inc.
Condensed Interim Statements of Financial Position
(expressed in Canadian dollars, unless otherwise stated)

	As at December 31 2012 $	As at September 30 2012 $
Assets	(unaudited)	(audited)
Current assets		
Cash	**15,527**	19,536
Amounts receivable *(note 5)*	**326,516**	45,025
Raw materials inventory	**128,379**	-
Prepaid expenses	**127,896**	131,026
Loan receivable *(note 6)*	**60,000**	60,000
Total current assets	**658,318**	255,587
Intangible assets *(note 7)*	**3,060,000**	3,060,000
Equipment *(note 8)*	**500,254**	429,564
Total assets	**4,218,572**	3,745,151
Equity and Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(note 9)*	**1,120,656**	1,553,051
Loan payable *(note 11)*	**-**	5,000
Total current liabilities	**1,120,656**	1,558,051
Capital and Reserves		
Share capital *(note 12)*	**6,465,506**	5,515,506
Warrant reserve *(note 13)*	**922,140**	670,914
Equity reserve	**464,856**	390,022
Deficit	**(4,754,586)**	(4,389,342)
Total shareholders’ equity	**3,097,916**	2,187,100
Total liabilities and shareholders’ equity	**4,218,572**	3,745,151

Commitments (note 16)
Nature of Operations and Going Concern (note 1)

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

Biosenta Inc.

Condensed Interim Statements of Income (Loss) and Comprehensive Income (Loss)

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	three months ended December 31	
	2012	2011
	$	**$**
Revenue	**248,234**	-
Cost of Sales	**83,948**	-
Gross margin	**164,286**	-
Administrative expense		
Management and consulting fees	**179,460**	192,500
Legal and accounting fees	**114,825**	164,362
Product development costs	**47,500**	-
Salaries and benefits	**66,510**	15,241
Rent and occupancy costs	**33,244**	10,146
Investor relations	**15,380**	15,000
Vehicle expense	**19,186**	15,812
Office and general	**13,739**	13,132
Travel and entertainment	**7,242**	9,153
Insurance	**3,048**	4,779
Advertizing and promotion	**21,148**	16,171
Stock transfer fees	**7,208**	4,467
Amortization	**1,040**	1,021
Total administrative expense	**529,530**	461,784
Net loss and comprehensive loss for the period	**(365,244)**	(461,784)
Basic and diluted loss per share *(note 15)*	**(0.01)**	(0.01)
Weighted average number of common shares outstanding	**53,558,943**	35,981,835

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

Biosenta Inc.
Condensed Interim Statements of Changes in Shareholders’ Equity (deficiency)
(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	Share Capital #	Share Capital $	Warrant Reserve $	Equity Reserve $		Deficit $	Total Equity $
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	62,500	9,531	2,969	-		-	12,500
Net income (loss) for the period	-	-	-	-		(461,784)	(461,784)
Balance, December 31, 2011	36,835,003	2,214,105	493,458	208,531	-	(2,695,089)	221,005
Common shares issued from private placement	3,250,000	496,544	177,456	-		-	674,000
Common shares issued for share subscription received	362,500	72,500	-	-		-	72,500
Common share canceled	(9,253,183)	(267,997)	-	-		167,967	(100,030)
Common shares issued for license agreement	20,000,000	3,060,000	-	-		-	3,060,000
Share issue costs	120,000	(59,646)	-	-		-	(59,646)
Share based payments	-	-	-	181,491		-	181,491
Net income (loss) for the period	-	-	-	-		(1,862,220)	(1,862,220)
Balance, September 30, 2012	51,314,320	5,515,506	670,914	390,022		(4,389,342)	2,187,100
Common shares issued from private placement	6,313,003	955,800	306,800	-		-	1,262,600
Expired warrants			(55,574)	55,574		-	-
Share based payments	-	-	-	19,260		-	19,260
Share issue costs	-	(5,800)	-	-		-	(5,800)
Net income (loss) for the period	-	-	-	-		(365,244)	(365,244)
Balance, December 31, 2012	57,627,323	6,465,506	922,140	464,856		(4,754,586)	3,097,916

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

Biosenta Inc.
Condensed Interim Statements of Cash Flows
(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	three months ended December 31	
	2012	2011
	$	$
Cash flow from operating activities		
Net loss from operation	**(365,244)**	(461,784)
Items not involving cash		
Share based payments	**19,260**	-
Amortization	**1,040**	1,021
	(344,944)	(460,763)
Changes in non-cash working capital		
Amounts receivable	**(281,491)**	(94,710)
Inventory	**(128,379)**	-
Shareholder receivable	**-**	-
Prepaid expenses	**3,130**	(25,759)
Accounts payable and accrued liabilities	**(432,395)**	356,151
	(1,184,079)	(225,081)
Cash flow from financing activities		
Reduction in loan payable	**(5,000)**	(30,000)
Proceeds from issue of common shares, net	**1,256,800**	12,470
	1,251,800	(17,530)
Cash flow from investing activities		
Expenditures on equipment	**(71,730)**	(254,909)
	(71,730)	(254,909)
Increase (decrease) in cash	**(4,009)**	(497,520)
Cash, beginning of period	**19,536**	800,421
Cash, end of period	**15,527**	302,901

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

1. Nature of Operations and Going Concern

Biosenta 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 2013.

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 three months ended December 31, 2012 through the use of existing cash reserves and one private placement of common shares for gross proceeds of $1.2 million. 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.

2. Basis of Consolidation and Presentation

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

These condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company reported in Note 2 and 3, in the Company's audited annual financial statements for the year ending September 30, 2012. These condensed interim financial statements do not include all of the information required for full annual financial statements.

These condensed interim financial statements were authorized for issuance by the Board of Directors of the Company on February 27, 2013.

Basis of preparation and presentation

These condensed interim financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments. In addition, these unaudited condensed interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The condensed interim financial statements are presented in Canadian dollars, which is also the Company's functional currency.

3. Significant Accounting Policies

Measurement and uncertainty

The preparation of these unaudited condensed interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited condensed interim financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods, if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates:
Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of accounts receivable;
- management's assumptions on the recoverability of the license costs, estimated useful life and term of license; and
- the fair value of share based payments.

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 assessing the impact of IFRS 9 on its results of operations and financial position.

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 assessing the impact of IFRS 13 on its consolidated results of operations and financial position.

5. Amounts receivable

	As at December 31 2012	**As at September 30 2012**
	$	**$**
Accounts receivable	280,506	-
Sales tax receivable	46,010	45,025
	326,516	45,025

6. Loan receivable

	As at December 31 2012	**As at September 30 2012**
	$	**$**
Loan receivable	60,000	60,000
	60,000	60,000

Loan balance is unsecured, non-interest bearing, and has no specific terms of repayment. See Notes 11 (iii).

7. Intangible assets

The intangible assets are comprised as follows:

	MM license Agreement	Total
Balance September 30, 2011	**$ 125,000**	**$ 125,000**
Acquisition of license	**3,060,000**	**3,060,000**
Impairment of interim license	**(125,000)**	**(125,000)**
Balance, September 30, 2012	**3,060,000**	**3,060,000**
Amortization	**-**	**-**
Balance, December 31, 2012	**$ 3,060,000**	**$ 3,060,000**

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 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 a co-licensor. 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 10,000,000Class 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 12(i).

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.

8. Equipment

Equipment and fixtures consists of the following:

Cost	Furniture & equipment	Leasehold improvements	Computer Equipment	Total
Balance September 30, 2011	**$ 69,348**	**$ -**	**$ 3,151**	**$ 72,499**
Additions	**169,019**	**187,955**	**5,827**	**362,801**
Disposals	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**
Balance September 30, 2012	**$238,367**	**$187,955**	**$8,978**	**$435,300**
Additions	**2,910**	**68,820**	**-**	**71,730**
Disposals	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**
Balance, December 31, 2012	**$241,277**	**$256,775**	**$8,978**	**$507,030**

Accumulated Amortization	Furniture & equipment	Leasehold improvements	Computer Equipment	Total
Balance September 30, 2011	**$935**	**-**	**$709**	**$1,644**
Additions	**1,682**	**-**	**2,410**	**4,092**
Disposals	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**
Balance September 30, 2012	**$2,617**	**-**	**$3,119**	**$5,736**
Additions	**300**	**-**	**740**	**1,040**
Disposals	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**
Balance, December 31, 2012	**$2,917**	**-**	**$3,859**	**$6,776**

Net book value at September 30, 2011	**$ 68,413**	**$ -**	**$ 2,442**	**$ 70,855**
Net book value at September 30, 2012	**$ 235,75**	**$ 187,955**	**$ 5,859**	**$ 429,564**
Net book value at December 31, 2012	**$ 238,360**	**$ 256,775**	**$5,119**	**$ 500,254**

9. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	As at December 31 2012	**As at September 30 2012**
	$	**$**
Trade payables	792,284	557,109
Accured payroll	27,596	11,511
Accrued liabilities other	200,776	263,369
Share subscription receipts received (i)	100,000	721,062
Total	1,120,656	1,553,051

(i) See subsequent event note 20

10. Related Party Transactions

(i) In fiscal 2012, 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.

(ii) Included in accounts payable and accrued liabilities as at December 31, 2012 is $270,003 (September 30, 2012 - $163,590) 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 6) is from close relatives of certain directors of the Company.

(iv) Compensation of key management personnel of the Company

The remuneration of directors and other key management personnel during the three month period ending December 31 is as follows:

	2012	2011
Short-term compensation (i)	$ **173,050**	$ 177,000
Stock-based compensation (ii)	**19,260**	-
	$ **192,310**	$ 177,000

(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.

11. Loan Payable

The loan payable is unsecured, non-interest bearing and has no specific terms of repayment and represents deposits received for unissued share capital subsequently refunded.

12. 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:

	Number of shares	Amount
Balance, September 30, 2011	**36,772,503**	**$ 2,204,574**
Balance, September 30 2012	**51,314,320**	**$ 5,515,506**
Balance, December 31, 2012	**57,627,323**	**$ 6,465,506**

(i) The Company entered into an exclusive license agreement (the "RX License Agreement") with RX110 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 or 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 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.

(iv) 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.

(v) 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.

(vi) On November 28, 2012, the Company issued and sold 6,313,003 units at $0.20 per unit for aggregate consideration of $1,262,600, 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.

13. Warrant Reserve

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

	December 31, 2012		September 30, 2012	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of the period	13,217,500	$0.30	9,422,500	$0.30
Issued	6,313,003	0.30	3,795,000	$0.30
Exercised	-	-	-	-
Expired	(900,000)	0.35	-	-
Balance, end of period	18,630,503	$0.30	13,217,500	$0.30

The exercise price, expiry date, and the outstanding warrants issued and outstanding as at December 31, 2012 are as follows:

Expiry Date	**Weighted Average Exercise Price $**	**Warrants Outstanding**	**Contractual Life (years)**
January 29, 2013	0.35	2,500	0.08
July 22, 2014	0.30	7,900,000	1.56
July 22, 2014	0.20	620,000	1.56
May 5, 2013	0.30	62,500	0.34
August 17,2013	0.30	1,887,500	0.63
October 2, 2013	0.30	1,845,000	0.75
May 30, 2014	0.30	6,313,003	1.41
	0.30	18,630,503	1.33

The fair value of the warrants issued during the year ended September 30, 2012 and 2011, and three months ended December 31, 2012 were estimated using the Black-Scholes option pricing model with the following assumptions:

Risk free interest rate	1.07 to 1.49%
Expected dividend yield	Nil
Expected volatility	80 - 105%
Expected life	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.

14. 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 on May 24, 2012, 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.

	December 31, 2012		September 30, 2012	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of the period	4,150,000	$0.21	2,750,000	$ 0.22
Granted	-	-	1,400,000	0.20
Expired	-	-	-	-
Balance, end of period	4,150,000	$0.21	4,150,000	$0.21

Options to purchase common shares outstanding at December 31, 2012 carry exercise prices and remaining terms to maturity as follows:

Expiry Date	Exercise Price $	Options Outstanding	Options Exercisable	Contractual Life (years)
April 13, 2016	0.25	1,000,000	1,000,000	3.28
August 16, 2016	0.20	1,750,000	875,000	3.63
November 8, 2016	0.20	100,000	33,333	3.86
August 8, 2017	0.20	1,000,000	333,333	4.61
August 23, 2017	0.20	300,000	-	4.65
	0.21	4,150,000	2,241,666	3.86

During the three months ended December 31, 2012, the Company did not grant any new options. For the year end September 30, 2012 the Company granted 1,400,000 new options with a weighted-average exercise price of $0.20 per share. The fair value of the options issued during the year ended September 30, 2012 and three months ended December 31, 2012 were estimated using the Black-Scholes option pricing model with the following assumptions:

Risk free interest rate	1.12-1.31%
Expected dividend yield	Nil
Expected volatility	80.0 to 105%
Expected life	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 options at the date of issue.

15. Income (Loss) per Share

The calculation of basic and diluted loss per share for the three months ended December 31, 2012 was based on the loss attributable to common shareholders of $365,244 (December 31, 2011 - $461,784) and the weighted average number of common shares outstanding of 53,558,943 (December 31, 2011 – 35,981,835). Diluted loss per share did not include the effect of share purchase options and warrants as they are anti-dilutive.

16. Commitments

Operating Lease Commitments

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

Balance of 2013		**66,450**
2014		**85,660**
2015		**53,307**
2016		**48,865**
	$	**254,282**

17. 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 December 31, 2012, the Company had a cash balance of $15,527 (September 30, 2012 - $19,536) to settle current liabilities of $1,120,656 (September 30, 2012 - $1,558,051). 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.

Market risk

(a) Interest rate risk

The Company has cash and cash equivalents earning interest at a variable interest rate, fixed rate for term deposits. The company has no indebtedness to lenders or financial institutions. The Company's current policy is to invest excess cash in investment-grade, short-term deposit certificates issued by its banking institutions.

18. Capital Management

Capital is defined as share capital. 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. There have been no changes since the prior year.

The Company is not subject to any regulatory or contractual capital obligations of material consequence.

19. Segmented Information

The Company operates in one segment. All of the Company's assets and operations are located in Canada.

20. Subsequent Event

Financing

On February 4, 2013, the Company completed the first tranche of a private placement. The Company issued 800,004 units at a price of $0.15 per unit for gross proceeds of $120,006. Each unit consists of one Class A Share and one half of one Class A Share purchase warrant. Each whole warrant will entitle the holder to purchase one additional Class A Share in the capital of the Corporation (a "Warrant Share") at an exercise price of $0.20 per Warrant Share to the extent such Warrant is exercised on or before the date that is 18 months from the closing of the Offering.