Biosenta Inc.

Consolidated Financial Statements
For the years ended September 30, 2014 and 2013
(Expressed in Canadian dollars)

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Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Biosenta Inc.

We have audited the accompanying consolidated financial statements of Biosenta Inc. and its subsidiary, which comprise the consolidated statements of financial position as at September 30, 2014 and 2013, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Biosenta Inc. and its subsidiary as at September 30, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company had continuing losses during the year ended September 30, 2014 and a working capital deficiency and cumulative deficit as at September 30, 2014. These conditions along with other matters 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

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
January 28, 2015

Biosenta Inc.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars, unless otherwise stated)

	As at September 30, 2014 $	As at September 30, 2013 $
Assets		
Current assets		
Cash	302,067	2,774
Amounts receivable *(notes 5 and 10)*	170,339	92,659
Inventory *(note 6)*	58,967	146,596
Prepaid expenses	124,178	15,458
Total current assets	655,551	257,487
Intangible assets *(note 7)*	1,606,500	3,060,000
Equipment *(note 8)*	665,354	614,969
Total assets	2,927,405	3,932,456
Equity and Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (*note 9*)	688,550	2,395,913
Convertible debentures *(note 11)*	1,346,937	-
Total liabilities	2,035,487	2,395,913
Shareholders' Equity (Deficiency)		
Share capital *(note 12)*	8,415,699	6,492,066
Treasury shares *(note 12)*	(240,000)	-
Warrant reserve *(note 13)*	387,182	898,965
Equity reserve *(note 14)*	603,125	654,029
Equity component of convertible debentures *(note 11)*	307,714	-
Deficit	(8,581,802)	(6,508,517)
Total shareholders' equity	891,918	1,536,543
Total liabilities and shareholders' equity	2,927,405	3,932,456

Commitments and Contingencies (note 15)
Nature of Operations and Going Concern (note 1)
Subsequent Events (note 19)

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

Approved by the Board of Directors

Signed " Ed Korhonen" Director *Signed " David Butler"* Director

Biosenta Inc.

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian dollars, unless otherwise stated)

	Year ended September 30	
	2014	2013
	$	$
Sales of Zeromold	58,367	39,780
Cost of Sales of Zeromold	111,580	96,962
Gross margin Zeromold	(53,213)	(57,182)
Biolabs Licensing fee *(note 7)*	-	300,000
Administrative expense		
Salaries, management and consulting fees	2,044,136	1,365,417
Professional fees	237,924	388,456
Product development costs	397,582	118,353
Investor relations	88,000	50,380
Office and general	278,403	174,859
Travel	73,022	90,979
Insurance	35,781	75,587
Sales and marketing	287,757	67,288
Stock transfer fees	24,547	40,250
Amortization	2,411	4,160
Total administrative expense	3,469,563	2,375,729
Other		
Accretion expense	258,701	-
Write-down of intellectual property *(note 7)*	1,453,500	150,000
Gain on settlement of debt *(note 12(x))*	(435,548)	-
Loss before income taxes	(4,799,429)	(2,282,911)
Provision for recovery of income taxes		
Income tax recovery *(note 16)*	(350,113)	-
Net loss and comprehensive loss for the year	(4,449,316)	(2,282,911)
Basic and diluted loss per share	(0.06)	(0.04)
Weighted average number of common shares outstanding – basic and diluted	75,697,051	57,202,597

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

Biosenta Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars, unless otherwise stated)

	Share Capital	Share Capital	Treasury Shares	Warrant Reserve	Equity Reserve	Equity Component of Debenture	Deficit	Total Equity
	#	$	$	$	$	$	$	$
Balance, September 30, 2012	51,314,320	5,515,506	-	670,914	390,022	-	(4,389,342)	2,187,100
Common shares and warrants issued from private placement *(notes 12(i) and (ii))*	7,113,007	1,006,160	-	376,440	-	-	-	1,382,600
Expired warrants	-	-	-	(148,389)	-	-	148,389	-
Expired options	-	-	-	-	(15,347)	-	15,347	-
Share based payments	-	-	-	-	279,354	-	-	279,354
Share issue costs	-	(29,600)	-	-	-	-	-	(29,600)
Net loss for the year	-	-	-	-	-	-	(2,282,911)	(2,282,911)
Balance, September 30, 2013	58,427,327	6,492,066	-	898,965	654,029	-	(6,508,517)	1,536,543
Common shares and warrants issued from private placement Oct 2013 *(note 12(iii))*	6,522,892	822,394	-	156,040	-	-	-	978,434
Common shares and warrants issued as compensation to finders *(note 12(iii))*	248,334	31,074	-	6,182	-	-	-	37,256
Common shares and warrants issued from private placement Jan 2014 *(note 12(iv))*	6,294,870	731,666	-	212,564	-	-	-	944,230
Common shares and warrants issued from private placement May 2014 *(note 12(v))*	2,499,999	175,000	-	-	-	-	-	175,000
Common shares issued from private placement May 2014 (note 12(v))	2,674,399	334,147	-	63,048	-	-	-	397,195
Common shares issued for services *(note 12(vi))*	8,000,000	400,000	(240,000)	-	-	-	-	160,000
Common shares issued as compensation to management *(note 12(vii))*	3,600,000	180,000	-	-	-	-	-	180,000
Exercise of options *(note 12(viii))*	300,000	60,000	-	-	-	-	-	60,000
Reallocation of exercised options *(note 12(viii))*	-	46,043	-	-	(46,043)	-	-	-
Expired options *(note 14)*	-	-	-	-	(92,027)	-	92,027	-
Expired warrants	-	-	-	(898,965)	-	-	898,965	-
Tax effect of expired warrants *(note 16)*	-	-	-	-	-	-	(119,113)	(119,113)
Cancelled warrants	-	-	-	(50,652)	-	-	50,652	-
Share based payments (note 14)	-	-	-	-	87,166	-	-	87,166
Common shares cancelled for license agreement *(note 7)*	(9,500,000)	(1,453,500)	-	-	-	-	1,453,500	-
Common shares issued as compensation to management and debt settlement *(note 12(x))*	4,700,000	658,000	-	-	-	-	-	658,000
Share issue costs	-	(61,191)	-	-	-	-	-	(61,191)
Equity component of debenture *(note 11)*	-	-	-	-	-	639,119	-	581,011
Transaction costs allocated to equity component of convertible debenture *(note 11)*	-	-	-	-	-	(100,405)	-	(100,405)
Tax effect of convertible debentures *(note 16)*	-	-	-	-	-	(231,000)	-	(231,000)
Net loss for the year	-	-	-	-	-	-	(4,449,316)	(4,449,316)
Balance, September 30, 2014	**83,767,821**	**8,415,699**	**(240,000)**	**387,182**	**603,125**	**307,714**	**(8,581,802)**	**891,918**

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

Biosenta Inc.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars, unless otherwise stated)

	Year ended September 30	
	2014	2013
	$	$
Cash flow from operating activities		
Net loss for the year	(4,449,316)	(2,282,911)
Items not involving cash		
Impairment charges	1,453,500	150,000
Share based payments	87,166	279,354
Accretion	98,701	-
Shares issued for services	160,000	-
Shares issued for compensation *(note 12 (x)(vii))*	698,000	-
Shares issued to settle debt *(note 12(x))*	140,000	-
Amortization	2,411	4,160
	(1,809,538)	(1,849,397)
Changes in non-cash working capital		
Amounts receivable	92,320	(47,634)
Inventory	87,629	(146,596)
Shareholder receivable	-	60,000
Prepaid expenses	(108,720)	435
Accounts payable and accrued liabilities	(94,287)	692,862
Total Cash (Used In) Operating Activities	**(1,832,596)**	**(1,290,330)**
Cash flow from financing activities		
Proceeds from convertible debenture financing *(note 11)*	1,950,000	-
Transaction costs for convertible debenture financing *(note 11)*	(333,050)	-
Tax impact of convertible debenture *(note 16)*	(231,000)	-
Tax impact of expired warrants *(note 16)*	(119,112)	-
Proceeds from equity financings *(note 12)*	930,747	1,353,000
Reduction in loan payable	-	(5,000)
Share issue costs *(note 12)*	(12,900)	
Total Cash Provided by Financing Activities	**2,184,685**	**1,348,000**
Cash flow from investing activities		
Expenditures on equipment *(note 8)*	(52,796)	(74,432)
Total Cash (Used In) Investing Activities	**(52,796)**	**(74,432)**
Increase (decrease) in cash	299,293	(16,762)
Cash, beginning of year	2,774	19,536
Cash, end of year	302,067	2,774

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

1. Nature of Operations and Going Concern

Biosenta Inc. (the "Company" or "Biosenta") 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, Canada, M3J 3H7. 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. The Company is currently engaged in developing sales for its Zeromold product and has commissioned a pilot facility for commercial applications of its technology (the "Parry Sound Pilot Facility").

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, may cast significant doubt over the ability of the Company to continue as a going concern. These consolidated 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, 2014 through the use of existing cash reserves, four private placements of common shares, convertible debentures and a bridge loan. 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. As at September 30, 2014, the Company has a working capital deficiency and accumulated losses. These matters represent material uncertainties that may cast significant doubt with respect to the Company's ability to continue as a going concern. Management believes the Company will continue as a going concern due to the Company's history of successfully funding operations through the issuance of debt and equity instruments. There can be no assurance that the Company will be successful in these initiatives.

2. Basis of Presentation

Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below, have been applied consistently to all periods presented in these consolidated financial statements.

The Board of Directors of the Company authorized these consolidated financial statements for issuance on January 28, 2015.

Basis of preparation and presentation

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

2. Basis of Presentation (Continued)

Basis of consolidation

These consolidated financial statements include the accounts of the Company, which is incorporated in Canada and its wholly owned subsidiary, Biosenta U.S.A. Inc. which is incorporated in the United States. All inter-company balances and transactions are eliminated on consolidation. The consolidated financial statements include all assets, liabilities, expenses and cash flows of the Company and its subsidiary after eliminating inter-company balances and transactions.

3. Significant Accounting Policies

Significant accounting judgments, estimates and assumptions

The preparation of consolidated 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 consolidated financial statements and related notes to the consolidated 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.

3. Significant Accounting Policies (Continued)

- 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 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.

- Inventory Provision
  Management makes estimates of the future customer demand for the Company's products when establishing appropriate provision for inventory. In making these estimates, management considers product life of inventory and the profitability of recent sales of inventory. In many cases, product sold by the Company turns over quickly and inventory on-hand values are lower, thus reducing the risk of material misstatement. To the extent that actual losses on inventory differ from those estimated, both inventory and net earnings will be affected.

(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%
- Leasehold improvements - lesser of lease term or useful life, straight line

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

3. Significant Accounting Policies (Continued)

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 on a straight-line basis 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.

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 consolidated statement of operations. 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 consolidated 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.

3. Significant Accounting Policies (Continued)

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated 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.

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) <u>Share capital</u>

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) <u>Earnings (loss) per Share</u>

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, 2014 and 2013, potentially dilutive securities excluded from the calculation of EPS included all outstanding options and warrants as the conversion of these securities at September 30, 2014 and 2013 would not be dilutive to earnings.

3. Significant Accounting Policies (Continued)

(g) Reclassifying amounts

During 2014, the Company reclassified certain amounts on the statement of operations in order to conform to current year presentation.

(h) 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.
The Company has made the following classifications:

Cash	Loans and receivables
Amounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Convertible debentures	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 the consolidated statement of operations.

3. Significant Accounting Policies (Continued)

(i) 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).

(j) Revenue recognition policy

Revenue is recognized when it is earned, specifically, when products are shipped to customers, there is clear evidence that an arrangement exists, amounts to be received are fixed or determinable and the ability to collect is reasonably assured. At these points, the risks and rewards of ownership have transferred to the buyer, revenue can be reliably measured and it is probable that the economic benefits will flow to the Company. Sales returns and allowances are treated as reductions to revenue and are provided for based on historical experience and current estimates.

License fees are earned based on the terms of the contract defined there and the non-refundable nature of payments made.

4. Changes in Accounting Policies and Recent Accounting Pronouncements

Changes in Accounting Policies

The Company has adopted the following new standards, along with any consequential amendments, effective October 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") was issued by the IASB in May 2011 and will replace IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect returns. The adoption of this standard did not result in any changes in the consolidation status of the Company's subsidiary.

IFRS 11 – Joint Arrangements ("IFRS 11") was issued by the IASB in May 2011 and will replace IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: joint operations and joint ventures. A joint operation exists when the parties have rights to the assets and obligations for the liabilities of a joint

4. Changes in Accounting Policies and Recent Accounting Pronouncements (Continued)

arrangement. A joint venture exists when the parties have rights to the net assets of a joint arrangement. Assets, liabilities, revenues and expenses in a joint operation are accounted for in accordance with the arrangement. Joint ventures are accounted for using the equity method. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles and off balance sheet vehicles. The adoption of this standard did not not have a material impact on the Company's consolidated financial statements.

IFRS 13 – Fair Value Measurement ("IFRS 13") was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRS. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. The adoption of this standard did not result in any significant changes to the Company's disclosures of its financial instruments.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011. As a result of the amendment, items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The adoption of this standard has not resulted in any disclosure requirements as the Company's net loss is equal to the Company's comprehensive loss.

IAS 27 - Separate Financial Statements ("IAS 27") was amended during 2011 and replaces IAS 27 Consolidated and Separate Financial Statements. IAS 27 has been reissued to reflect the change of including the consolidation guidance in IFRS 10. In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. The adoption of this standard did not result in any changes to the Company's consolidated financial statements.

IAS 28 - Investments in Associates and Joint Ventures ("IAS 28") was issued by the IASB in May 2011 and supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. IAS 28 also provides guidance on how the equity method of accounting is to be applied and also prescribes how investments in associates and joint ventures should be tested for impairment. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

4. Changes in Accounting Policies and Recent Accounting Pronouncements (Continued)

Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2014 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 8 - Operating Segments ("IFRS 8") was amended to require an entity to disclose the judgments made by management in aggregating segments. IFRS 8 was also amended to clarify that an entity needs to present a reconciliation between the total reporting segment's assets to the entities' total assets if this information is usually provided to the chief operating decision maker. The amendments are effective for annual periods beginning on or after July 1, 2014.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. 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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. 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, 2018. Earlier adoption is permitted.

IFRS 11 - Joint Arrangements ("IFRS 11") was amended in May 2014 to require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

IFRS 13 – Fair Value Measurement ("IFRS 13") was amended to clarify that the exception which allows fair value measurements of a group of financial assets and liabilities on a net basis applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or liabilities as defined in IAS 32. The amendment is effective for annual periods beginning on or after July 1, 2014.

IAS 24 – Related Party Disclosures ("IAS 24") was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. The amendments to IAS 24 are effective for annual periods beginning on or after July 1, 2014.

IAS 32 – Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014.

(Expressed in Canadian dollars, unless otherwise stated)

4. Changes in Accounting Policies and Recent Accounting Pronouncements (Continued)

IAS 36 – Impairments of Assets ("IAS 36") was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014.

IAS 38 – Intangible Assets and IAS 16, Property, Plant and Equipment were amended in May 2014 to introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. The amendment is effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") was issued by the IASB on May 28, 2014. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract based, five-step analysis of transactions to determine whether, how much, and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

5. Amounts receivable

	As at September 30 2014	As at September 30 2013
	$	$
Accounts receivable	**339**	3,335
Loan receivable from related party *(note 10(v))*	**170,000**	-
Sales tax receivable	**-**	89,324
	170,339	92,659

6. Inventory

	As at September 30 2014	As at September 30 2013
	$	$
Finished goods	**3,765**	134,750
Raw materials	**55,202**	11,846
	58,967	146,596

(Expressed in Canadian dollars, unless otherwise stated)

6. Inventory (Continued)

The inventory shown above is net of a provision for obsolescence of $14,100 (2013 - $42,800). The amount of inventories expensed during the year was $97,480 (2013 - $54,163). As at September 31, 2014 and September 30, 2013, all inventory is recorded at cost.

7. Intangible assets

The intangible assets are comprised as follows:

	Total
Balance, September 30, 2012	**3,060,000**
Payment accrued under interim licenses	150,000
Impairment of interim license	(150,000)
Balance, September 30, 2013	**3,060,000**
Impairment of interim license	(1,453,500)
Balance, September 30, 2014	**1,606,500**

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 former 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 accrued the full amount as of September 30, 2013 and paid the full amount outstanding during the year ended September 30, 2014 by the issuance of units (See note 12(iii)).

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 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 deemed impaired as it was replaced by the License and therefore, the Company charged the balance of $150,000 to the statement of operations during the year ended September 30, 2013.

(Expressed in Canadian dollars, unless otherwise stated)

7. Intangible assets (Continued)

On June 23, 2014, the License was amended to effectively reduce the number of shares issued to acquire the License from 20,000,000 to 10,500,000 to be held in escrow. The escrowed shares will be released in equal quarterly installments beginning December 31, 2015. Under the terms of the agreement, all patents, know-how and patent applications were immediately assigned to the Company. All provisions of the License to which the Company is obligated to make payments to any of the licensors, including royalty payments are void and the parties acknowledge that no further payments will be made in respect of the License. A final termination payment of $50,000 was paid to Edward Pardiak and charged to the consolidated statement of operations and comprehensive loss during the year ended September 30, 2014. If the Company fails to obtain adequate funding for the Parry Sound Pilot facility and fails to achieve sufficient sales revenue by December 31, 2015, the patents will revert back to the licensors.

In January 2013, the Company announced that it had entered into a non-binding contract with New South Biolabs (“Biolabs”) pursuant to which Biolabs would become the Company's strategic logistics management partner responsible for enterprise resource planning, production and customer relationship management as pertaining to all "Zeromold" products destined for the southern United States, Mexico, South America and the Caribbean. 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. 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 document respecting the transaction. Biolabs will pay Biosenta royalties on all products sold and a $600,000 non-refundable fee, of which $350,000 has been received to date. Of this amount, $300,000 was reflected as revenue during the year ended September 30, 2013 and the remaining $50,000 is an advance of the remaining fee which will be earned upon obtaining approval to sell the product in the United States.

8. Equipment

Equipment consists of the following:

Cost	**Furniture & Equipment**	**Leasehold Improvements**	**Computer Equipment**	**Total**
Balance September 30, 2012	**$238,367**	**$187,955**	**$8,978**	**$435,300**
Additions	**118,044**	**71,521**	**-**	**189,565**
Balance September 30, 2013	**$356,411**	**$259,476**	**$8,978**	**$624,865**
Additions	**52,034**	**-**	**761**	**52,795**
Balance, September 30, 2014	**$408,445**	**$259,476**	**$9,739**	**$677,660**

(Expressed in Canadian dollars, unless otherwise stated)

8. Equipment (Continued)

Accumulated Amortization	Furniture & Equipment	Leasehold Improvements	Computer Equipment	Total
Balance September 30, 2012	$2,617	-	$3,119	$5,736
Additions	1,200	-	2,960	4,160
Balance September 30, 2013	$3,817	-	$6,079	$9,896
Additions	1,105	-	1,305	2,410
Balance, September 30, 2014	$4,922	-	$7,384	$12,306
Net book value at September 30, 2012	$ 235,750	$ 187,955	$ 5,859	$ 429,564
Net book value at September 30, 2013	$ 352,594	$ 259,476	$2,899	$ 614,969
Net book value at September 30, 2014	$ 403,523	$ 259,476	$2,355	$ 665,354

9. Accounts Payable and Accrued Liabilities

Accounts payable and accruals consist of the following:

	As at September 30, 2014 $	As at September 30, 2013 $
Trade payables	**510,871**	1,947,013
Payroll government remittances	**-**	60,546
Sales tax payable	**25,648**	-
Accrued liabilities and other	**152,031**	130,104
Share subscription receipts received	**-**	258,250
Total	**688,550**	2,395,913

10. Related Party Transactions

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") see Note 7. 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 were also directors of the Company. The remaining obligation of $250,000 for the interim license fee was accrued as of September 30, 2013 and subsequently settled by the issuance of units during the year ended September 30, 2014. Each unit consisting of one Class A share and one half of a Class A share purchase warrant.

(Expressed in Canadian dollars, unless otherwise stated)

10. Related Party Transactions (Continued)

On June 23, 2014, the License was amended to effectively reduce the number of shares issued to acquire the License from 20,000,000 to 10,500,000. Consequently, 9,500,000 shares at a value of $1,453,500 held by directors of the Company were cancelled.

(i) Included in accounts payable and accrued liabilities as at September 30, 2014 is $6,780 (September 2013 - $1,284,995) owing to directors and companies controlled by directors of the Company. These amounts are unsecured, non-interest bearing with no fixed terms of repayment. Also, included in accrued liabilities as at September 30, 2014 is $75,000 (September 2013 - $nil) for severance payments owing to management that left the Company during 2014. This amount is payable in equal, bi-weekly payments commencing October 1, 2014 and ending March 31, 2015.

(ii) Compensation of key management personnel of the Company

The remuneration of directors and other key management personnel during 2014 is as follows:

	2014	2013
Short-term compensation (i)	$ 638,249	$ 771,417
Stock-based compensation (ii)	57,013	189,248
Severance payments	125,000	-
	$ 820,262	$ 960,665

(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.

(iii) Compensation for closing convertible debenture financing

Directors and companies controlled by directors were paid $162,650 for their efforts in closing the convertible debenture financing during 2014.

(iv) Shares and units issued

During 2014, directors and companies controlled by directors were issued 15,300,000 shares at a value of $778,000 as compensation and 1,000,000 shares at a value of $140,000 to settle outstanding debt. As at September 30, 2014, 4,800,000 shares issued are in escrow pending the outcome of a dispute between the Company and a company controlled by a director (see Note 15).

As part of the private placements that closed during 2014, directors and companies controlled by directors were issued 8,993,766 units at a value of $1,349,065 and 666,667 shares at a value of $100,000. Each unit is comprised of one Class A common share and one half Class A common share purchase warrant.

(Expressed in Canadian dollars, unless otherwise stated)

10. Related Party Transactions (Continued)

(v) Loan receivable

As at September 30, 2014, there was an amount owing from a director of the Company totaling $170,000. This receivable is unsecured, non-interest bearing and due on demand.

11. Convertible Debentures

During the year ended September 30, 2014, the Company closed five tranches totaling $2,120,000 of Convertible Debentures (“Debentures”). Each Debenture has a term of 2 years and bears interest at a fixed rate of 6% per year payable quarterly starting September 30, 2014. Under the terms of the 2 year Debentures, the Company has the option to convert the Debentures into common shares at anytime after the Company’s common shares have traded at $0.50 or higher for 30 or more consecutive trading days, at a price of $0.40 per share. Upon conversion, for each share issued, a full warrant exercisable for one common share at a price of $1 per common with a term of two years from the date of conversion will be issued.

The Company used the residual value method to allocate the proceeds between the liability and equity components. Under this method, the fair value of the liability component (the "Debenture Liability") of $1,346,937 was computed as the present value of future principal and interest payments discounted at a rate of 25% per annum. The residual value of $639,119 was attributed to the equity component. The transaction costs totaling $333,050, comprised of a cash commission and Class A shares issued as compensation were also allocated to the Debenture Liability and Equity Component of Convertible Debt. The resulting fair value of the liability component of the debentures is accreted to their face value through the recording of accretion expense until maturity using the effective interest rate of 33%.

Directors and companies controlled by directors were paid $162,650 for their efforts in closing the convertible debenture financing during 2014.

	As at September 30 2014	As at September 30 2013
	$	$
Face value of debentures	**2,120,000**	-
Equity component of debentures	**(639,119)**	-
Transactions costs allocated to debentures	**(333,050)**	-
Accumulated accretion	**199,106**	-
Balance	**1,346,937**	-

12. Share Capital

Authorized:

The Company can issue an unlimited number of:

Class A shares, voting and participating.

(Expressed in Canadian dollars, unless otherwise stated)

12. Share Capital (Continued)

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, September 30 2012	**51,314,320**	**$ 5,515,506**
Balance, September 30, 2013	**58,427,327**	**$ 6,492,066**
Balance, September 30, 2014	**83,767,821**	**$ 8,415,699**

(i) On November 28, 2012, the Company issued 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. 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.

A fair value of $355,800 was estimated and assigned to the warrants. In connection with the issue and sale of certain of the Units in the Offering, the Company incurred cash share issue costs of $5,800.

(ii) On February 4, 2013, the Company issued 800,004 units at a price of $0.15 per unit for gross proceeds of $120,000. 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 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.

A fair value of $17,355 was estimated and assigned to the warrants. In connection with the issue and sale of certain Units in the Offering, the Company issued finder's warrants at a value of $3,285 and incurred cash share issue costs of $8,800.

(iii) On October 10, 2013, the Company issued 6,522,892 units at $0.15 per unit for aggregate consideration of $978,434 with $734,185 of the total consideration used to offset existing debt. Each unit consisted of one Class A share and one half of one Class A share purchase warrant. Each whole warrant entitles the holder to purchase one additional Class A share at an exercise price of $0.20 per warrant to the extent such warrant is exercised on or before the date that is 18 months from the closing of the Offering.

A fair value of $156,040 was estimated and assigned to the warrants. In connection with the issue and sale of certain Units in the Offering, the Company paid a finder's fee consisting of 248,334 Units valued at $37,256.

12. Share Capital (Continued)

(iv) On January 28, 2014, the Company issued 6,294,870 units at $0.15 per unit for aggregate consideration of $944,230 with $626,231 of the total consideration used to offset existing debt. Each unit consisted of one Class A share and one half of one Class A share purchase warrant. Each whole warrant entitles the holder to purchase one additional Class A share at an exercise price of $0.20 per warrant to the extent such warrant is exercised on or before the date that is 18 months from the closing of the Offering.

A fair value of $212,564 was estimated and assigned to the warrants.

(v) On May 24, 2014, the Company issued 2,499,999 Class A shares at $0.07 per share for aggregate consideration of $175,000.

The Company also issued 666,667 Class A shares valued at $100,000 to the Chairman of the Company as compensation for 12 months of service and 157,733 Class A shares to settle existing debt of $23,660. In addition, the Company issued 1,749,999 units at $0.15 per unit for aggregate consideration of $262,500, each unit consisting of one Class A share and one half of a Class A share purchase warrant. Each whole warrant entitles the holder to purchase one additional Class A share at an exercise price of $0.20 per warrant to the extent such warrant is exercised on or before the date that is 18 months from the closing of the Offering.

A fair value of $63,048 was estimated and assigned to the warrants. In connection with the issue and sale of certain Units in the Offering, the Company issued 100,000 Class A shares at a value of $11,036 as compensation to finders and incurred cash share issue costs of $12,900.

(vi) On March 26, 2014, the Company issued 8,000,000 Class A shares to Bassett Financial Corp. at the market price of $0.05 per share for a total value of $400,000. The shares were issued as part of the fee for providing various financial and consulting services including completing three stages of funding. The shares were placed in escrow and released upon certain conditions being met. Upon the funding of a bridge loan in May 2014, 3,200,000 shares were released from escrow. The remaining shares were to be released upon completion of future financing. In October 2014, the agreement with Bassett Financial was cancelled. The remaining shares held in escrow have been classified as treasury shares as the second and third financing arrangements per the agreement were not completed. Refer to note 15 for additional information.

(vii) On March 31, 2014, the Company issued 3,600,000 shares to the Chairman of the Company at the market price of $0.05 per share for a total value of $180,000 as compensation for financial and consulting services. The value was charged to the consolidated statement of operations as salaries, management and consulting fees.

(viii) During the year, 300,000 stock options were exercised for gross proceeds of $60,000. The value of the options exercised was $46,043 and was reallocated to share capital.

(ix) On June 23, 2014 the Company amended its intangible asset License which included the cancellation of 9,500,000 Class A shares that were issued at $0.153. Refer to note 7 for additional information.

(Expressed in Canadian dollars, unless otherwise stated)

12. Share Capital (Continued)

(x) On June 26, 2014, the Company issued 3,700,000 Class A shares at a value of $518,000, based on the current market value, to management and directors of the Company for providing various financial and consulting services and 1,000,000 Class A shares at a value of $140,000, based on the current market value, to directors and officers of the Company in settlement of debt of $575,548. The Company realized a gain on settlement of debt of $435,548 during the year ended September 30, 2014.

13. Warrant Reserve

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

	September 30, 2014		September 30, 2013	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of the year	17,136,671	$0.29	13,217,500	$0.30
Issued	7,408,049	0.20	6,771,671	0.29
Expired/Cancelled	(17,886,671)	0.29	(2,852,500)	0.32
Balance, end of year	6,658,049	$0.20	17,136,671	$0.29

The exercise price, expiry date, and the outstanding warrants issued and outstanding as at September 30, 2014 are as follows:

Expiry Date	**Weighted Average Exercise Price $**	**Grant Date Fair Value $**	**Warrants Outstanding**	**Contractual Life (years)**
April 10, 2015	0.20	156,040	3,261,446	0.53
April 10, 2015	0.20	6,181	124,166	0.53
July 18, 2015	0.20	161,913	2,397,435	0.82
November 30, 2015	0.20	63,048	875,001	1.17
	0.20	387,182	6,658,049	0.72

The fair value of the warrants issued during the year ended September 30, 2014 and 2013 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2014	**2013**
Risk free interest rate	1.04%	1.06%
Expected dividend yield	Nil	Nil
Expected volatility	141%	125%
Expected life	1.5 years	1.5 years

Option pricing models require the input of subjective assumptions regarding the expected volatility based on historical share price. 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.

(Expressed in Canadian dollars, unless otherwise stated)

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.

Share based payment activity for the years ended September 30, 2014 and 2013 are summarized as follows:

	September 30, 2014		September 30, 2013	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of the year	4,930,000	$0.21	4,150,000	$0.21
Granted	450,000	0.20	1,080,000	0.20
Exercised	(300,000)	0.20	-	-
Expired	(680,000)	0.20	(300,000)	0.20
Balance, end of year	4,400,000	$0.21	4,930,000	$0.21

Options to purchase common shares outstanding at September 30, 2014 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	0.139	1.54
August 16, 2016	0.20	1,750,000	1,750,000	0.128	1.88
November 8, 2016	0.20	100,000	100,000	0.110	2.11
August 8, 2017	0.20	700,000	700,000	0.150	2.86
March 22, 2018	0.20	500,000	125,000	0.130	3.48
January 29, 2019	0.20	350,000	116,667	0.05	4.33
	0.21	4,400,000	3,791,667	0.128	2.34

During the year ended September 30, 2014, the Company granted 450,000 (2013 – 1,080,000) new options with a weighted-average price of $0.20 per share (2013 – $0.20). The fair value of the options issued during the years ended September 30, 2014 and 2013 were estimated using the Black-Scholes option pricing model with the following assumptions:

(Expressed in Canadian dollars, unless otherwise stated)

	2014	2013
Risk free interest rate	1.57%	1.77%
Expected dividend yield	Nil	Nil
Expected volatility	141%	140%
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.

15. Commitments and Contingencies

Operating Lease Commitments

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

2015	**$**	**70,117**
2016		**66,000**
2017		**16,012**
2018		**3,664**
2019		**305**
	$	**156,098**

Amounts recognized as expense were as follows:

For the year September 30, 2014	For the year September 30, 2013
$90,417	$88,601

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 $940,000. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

(Expressed in Canadian dollars, unless otherwise stated)

15. Commitments and Contingencies (Continued)

The Company also has employment agreements with the provision of termination benefits with employees of the Company. The agreements provide that in the event that the employees' employment is terminated by the Company other than for cause then the employees shall be entitled to a lump sum payment. These commitments total approximately $67,000. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

The Company is party to various claims and proceedings arising in the normal course of business. Currently, the Company is seeking damages from and want to void a consulting arrangement signed in 2011. The Defendants have counterclaimed against the Company for breach of contract and misrepresentation. Management's position is that the counter claim is without merit that and the Company has a meritorious claim against the Defendants and meritorious defense to the counterclaim.

Currently, the Company is seeking to void an advisory agreement signed in 2014. Compensation shares totaling 4,800,000 to be issued in accordance with this agreement are held in escrow as at September 30, 2014 and will not be released until the dispute is resolved.

16. Income Taxes

a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2013 - 26.5%) were as follows::

	2014	2013
Loss before recovery of income taxes	$ (4,799,429)	$ (2,282,911)
Expected income tax recovery based on statutory rate	$ (1,272,000)	$ (605,000)
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	23,100	74,000
Deductible share issue costs	(147,900)	(8,700)
Tax on expired warrants	119,100	
Expenses not deductible for tax purpose	104,800	
Other items	(687)	3,700
Change in tax rates	-	(38,500)
Tax benefits not realized	1,523,700	574,500
Deferred income tax recovery	$ 350,113	$ -

(Expressed in Canadian dollars, unless otherwise stated)

16. Income Taxes (Continued)

b) Deferred Income Taxes Assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2014	2013
Equipment	$ 131,000	$ 128,000
Non-capital losses	7,897,000	5,233,000
Share issue costs	513,000	113,000
Cumulative eligible capital	1,793,000	339,000
Convertible debt	773,000	-
Capital losses	7,000	6,000
Deductible temporary differences	$ 11,114,000	$ 5,819,000

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company and its subsidiary will be able to utilize the benefits.

As at September 30, 2014, non-capital losses totalling $7,897,000 (September 30, 2013 - $5,233,000) will expire in at various dates through 2034.

All other temporary differences can be carried forward indefinitely.

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.

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, 2014, the Company had a cash balance of $302,067 (2013 - $2,774) to settle current liabilities of $688,550 (2013 - $2,395,913). 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. The Company's accounts payable and accrued liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

(a) Interest rate risk

The Company's current policy is to invest excess cash in investment-grade, short-term deposit certificates issued by its banking institutions. The convertible debentures bear fixed interest rates and therefore are not subject to interest rate risk. Currently, the Company does not hedge against interest rate risk.

18. Capital Management

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

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

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

19. Subsequent events

The Company granted a total of 5,000,000 stock options to purchase Class A shares of the company to an employee of the Company. The stock options have an exercise price of $0.20 cents per share, they vest equally over 50 months, and have a term of five years.

In January 2015, certain directors who received shares from the Company as noted in Note 12 (x), returned a total of 1,600,000 shares for cancellation to the Company.