

Biosenta Inc.

Condensed Consolidated Interim Financial Statements
For the three and six months ended March 31, 2016 and 2015
(Unaudited, expressed in Canadian dollars)

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

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

Biosenta Inc.
May 29, 2016

Biosenta Inc.

Condensed Consolidated Interim Statements of Financial Position

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

	As at March 31 2016 \$	As at September 30 2015 \$
Assets		
Current assets		
Cash	15,708	16,700
Amounts receivable (note 5 and 11)	16,687	8,364
Inventory (note 6)	64,184	55,201
Prepaid expenses	66,144	28,654
Total current assets	162,723	108,919
Intangible assets (note 7)	1,606,500	1,606,500
Equipment (note 8)	760,041	761,269
Total assets	2,529,264	2,476,688
Equity and Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	2,127,141	1,986,088
Secured loan (note 10)	463,394	18,000
Current portion of convertible debentures (note 12)	2,983,000	2,983,000
	5,573,535	4,987,088
Convertible debentures (note 12)	-	-
Total liabilities	5,573,535	4,987,088
Shareholders' Equity (Deficiency)		
Share capital (note 13)	8,331,699	8,331,699
Treasury shares (note 13)	(240,000)	(240,000)
Warrant reserve (note 14)	-	63,048
Equity reserve (note 15)	201,652	201,652
Equity component of convertible debentures (note 12)	498,658	498,658
Deficit	(11,836,280)	(11,365,457)
Total shareholders' equity (deficiency)	(3,044,271)	(2,510,400)
Total liabilities and shareholders' equity (deficiency)	2,529,264	2,476,688

Nature of Operations and Going Concern (note 1)

Commitments and Contingencies (note 16)

Subsequent Events (note 19)

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

Approved by the Board of Directors
Signed "Ed Korhonen" Director

Signed "Dene Rogers" Director

Biosenta Inc.**Condensed Consolidated Interim Statements of Operations and Comprehensive Loss**

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

	Three months ended December 31		Six months ended December 31	
	2015	2015	2015	2015
	\$	\$	\$	\$
Sales	8,821	43,975	45,942	64,300
Cost of Sales	5,049	22,019	27,584	35,404
Income before administrative expenses and other	3,772	21,956	18,358	28,896
Administrative expense				
Salaries, management and consulting fees	142,505	217,356	280,408	618,672
Professional fees	80,248	131,154	133,452	229,260
Product development costs	12,304	82,541	21,442	256,887
Investor relations	-	(4,098)	-	21,000
Office and general	13,863	64,788	39,636	95,880
Travel	6,356	15,760	10,936	41,774
Insurance	4,344	5,467	7,027	13,789
Sales and marketing	884	17,180	3,418	78,017
Stock transfer fees	5,017	6,752	8,042	10,850
Amortization	614	486	1,228	972
Total administrative expense	262,363	537,386	505,589	1,367,101
Net loss before other items	(262,363)	(515,430)	(487,231)	(1,338,205)
Other				
Interest expense	(496)	(50,721)	(46,640)	(83,828)
Accretion expense (note 12)	-	(113,500)	-	(203,040)
Net loss and comprehensive loss for the period	(262,859)	(679,651)	(533,871)	(1,625,073)
Basic and diluted loss per share				
	0.00	(0.01)	(0.01)	(0.02)
Weighted average number of common shares outstanding – basic and diluted				
	83,167,821	83,767,821	83,167,821	83,767,821

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

Biosenta Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)

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

	Share Capital #	Share Capital \$	Treasury Shares \$	Warrant Reserve \$	Equity Reserve \$	Equity Component of Debtenture \$	Deficit \$	Total Equity \$
Balance, September 30, 2014	83,767,821	8,415,699	(240,000)	387,182	603,125	307,714	(8,581,802)	891,918
Equity component of debenture (<i>note 12</i>)	-	-	-	-	-	244,000	-	244,000
Tax effect of convertible debentures	-	-	-	-	-	(4,000)	-	(4,000)
Expired options	-	-	-	-	(108,860)	-	108,860	-
Net loss for the period	-	-	-	-	-	-	(1,625,073)	(1,625,073)
Balance, March 31, 2015	83,767,821	8,415,699	(240,000)	387,182	494,265	547,714	(10,098,015)	(493,155)
Common shares cancelled (<i>note 13 (i)</i>)	(600,000)	(84,000)	-	-	-	-	84,000	-
Equity component of debenture (<i>note 12</i>)	-	-	-	-	-	15,744	-	15,744
Tax effect of convertible debentures	-	-	-	-	-	(64,800)	-	(64,800)
Expired warrants	-	-	-	(324,134)	-	-	324,134	-
Tax effect of expired warrants	-	-	-	-	-	-	(42,948)	(42,948)
Expired options	-	-	-	-	(270,459)	-	270,459	-
Share based payments	-	-	-	-	(22,154)	-	-	(22,154)
Net loss for the period	-	-	-	-	-	-	(1,903,087)	(1,903,087)
Balance, September 30, 2015	83,167,821	8,331,699	(240,000)	63,048	201,652	498,658	(11,365,457)	(2,510,400)
Expired warrants	-	-	-	(63,048)	-	-	63,048	-
Net loss for the period	-	-	-	-	-	-	(533,871)	(533,871)
Balance, March 31, 2016	83,167,821	8,331,699	(240,000)	-	201,652	498,658	(11,836,280)	(3,044,271)

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

Biosenta Inc.**Condensed Consolidated Interim Statements of Cash Flows**

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

	Six months ended December 31	
	2015	2015
	\$	\$
Cash flow from operating activities		
Net loss for the period	(533,871)	(1,625,073)
Items not involving cash		
Accretion	-	203,040
Amortization	1,228	972
	(532,643)	(1,421,061)
Changes in non-cash working capital		
Amounts receivable	(8,323)	(38,386)
Inventory	(8,983)	(13,918)
Prepaid expenses	(37,490)	74,791
Accounts payable and accrued liabilities	141,053	445,249
Total cash used in operating activities	(446,386)	(953,325)
Cash flow from financing activities		
Proceeds from convertible debenture financing	-	800,000
Transaction costs for convertible debenture financing	-	(38,400)
Proceeds from secured loan (<i>note 10</i>)	445,394	-
Total cash provided by financing activities	445,394	261,600
Cash flow from investing activities		
Expenditures on equipment (<i>note 8</i>)	-	(97,859)
Total cash used in investing activities	-	(97,859)
Decrease in cash	(992)	(289,584)
Cash, beginning of period	16,700	302,067
Cash, end of period	15,708	12,483

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

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Notes to the Condensed Consolidated Interim Financial Statements
For the three and six months ended March 31, 2016 and 2015
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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 3080 Yonge Street, Suite 6020, Toronto, Ontario, Canada, M4N 3N1. 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™ and True product lines and has commissioned a production facility for commercial applications of its technology to produce an anti-microbial Tri-Filler product (the “Parry Sound Production Facility”).

Financial Restructuring

On November 19, 2015, the Company filed a Restructuring Proposal to creditors (“Restructuring Proposal”) under the Canadian Bankruptcy and Insolvency Act (“CBIA”) and has appointed a trustee. The proposal has been approved by the Board of Directors of the Company and by a majority of its creditors. The Company instituted proceedings under the CBIA to provide an opportunity for the orderly restructuring of the Company's business and financial affairs, so as to enable the Company to emerge with a viable business in the most favourable position to secure additional financing(s) to proceed with the development of the Company's consumer and industrial products lines. There can be no assurances that the Company will emerge from the Restructuring Proposal with a viable business or be able to secure additional financing(s).

Under the Restructuring Proposal, eligible creditors were given the choice of: (i) receiving up to 50 per cent of their eligible claim amount in cash (with 15 per cent up front, subject to proration if total payments thereunder would exceed \$215,000, and 35 per cent payable contingent on there being sufficient cash flow over time), or (ii) in common shares equal in number to 1/700 of the total (fully diluted) issued and outstanding common shares of the Corporation, following all issuances under this Proposal in settlement for each \$10,000 of a creditors' claim.

A meeting of eligible creditors was held on December 7, 2015 at the trustee's office where the Restructuring Proposal was accepted by the majority of creditors. A court date had been scheduled for February 2, 2016 to proceed with the next step of the Restructuring Proposal. Since then the Company has had several more court proceedings to further the Restructuring Proposal process. At the time of writing this report, the court had not rendered its decision on the Restructuring Proposal.

The Restructuring Proposal under the CBIA allows the Company to carry on business in a manner consistent with the preservation of its business and property. Among other things, the Company is authorized and empowered to continue corporate and site standby activities and to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons considered necessary by the Company in the ordinary course of business.

These condensed consolidated interim financial statements do not give effect to any adjustments which may be required as a result of the Company's CBIA filing. Subsequent to March 31, 2016, the Company received approval to proceed with the Restructuring Proposal based on claims filed to date. Such adjustments from the Restructuring Proposal, if any, will be reflected in the condensed consolidated interim financial statements of a later period.

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Going Concern

During the three and six month period ended March 31, 2016, the Company reported a net loss of \$533,871 (2015 - \$1,625,073) and a working capital deficit of \$5,410,812 (September 30, 2015 - \$4,878,169). As at March 31, 2016, the Company had a very significant working capital deficit and had not met certain financial obligations. As a result of the Company's continuing losses, negative operating cash flows and significant working capital deficit, the Company filed a Restructuring Proposal to Creditors under the CBIA.

Notwithstanding the negative financial results and the working capital deficit for the three and six months ended March 31, 2016, the Company believes it has sufficient resources to complete the CBIA process and continue its corporate and site standby activities. This belief is based on the Company's expectation that it will successfully complete a settlement of the Company's liabilities and satisfactorily restructure its major contracts by means of a plan of compromise or arrangement. Accordingly, the condensed consolidated interim financial statements for the three and six months ended March 31, 2016 have been prepared on a going concern basis, using the historical cost convention.

The Company needs to secure additional financing and complete a financial restructuring in order to continue as a going concern. Both a refinancing and financial restructuring are required to manage the Company's working capital deficit and to fund continuing operations, planned development programs and corporate administration.

With a successful financial restructuring within the CBIA process would favourably position the Company to secure additional financing for the development of its business units. The Company's ability to secure such additional development financing will depend on several factors, including, among other things, a successful settlement of the Company's liabilities. The Company's ability to develop its business units is dependent on completing additional financing(s). Even if the Company is successful in completing a settlement of liabilities, if the Company is unable to obtain additional financing on a timely basis or on reasonable or acceptable terms, the Company will be unable to pursue development of its business units and unable to continue as a going concern.

There are no assurances that the Company will be successful in completing its required settlement of liabilities under the CBIA process or otherwise and then obtain additional financing. If the Company is unable to successfully complete a settlement of liabilities and restructuring of major contracts, the Company could be required to curtail its operations and discontinue as a going concern. These material uncertainties cast doubt about the Company's ability to continue as a going concern. If the going concern assumption were not appropriate, adjustments would be necessary to the carrying values of the assets and liabilities, reported revenues and expenses, and statement of financial position classifications in these condensed consolidated Interim financial statements. Such adjustments could be material.

2. Basis of Presentation

Statement of Compliance

These condensed consolidated 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 Notes 2 and 3, in the Company's audited annual financial statements for the year ending September 30,

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2015. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

The Board of Directors of the Company authorized these condensed consolidated interim financial statements for issuance on May 29, 2016.

Basis of preparation and presentation

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

Basis of consolidation

These condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements and related notes to the condensed consolidated interim 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

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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 incomes are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- Share-based payments:

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based share awards are determined at the date of grant using generally accepted 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.

- Convertible debentures:

The Company has issued convertible debentures that are accounted for as compound financial instruments. The fair value of the embedded derivative in the convertible debentures (the conversion option) is estimated at the date of the transaction date using generally accepted valuation techniques. Assumptions are made and judgments are used in applying valuation techniques.

- Commitments and contingencies:

Refer to Note 15.

- Going concern

Refer to Note 1.

- 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.

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4. Recent Accounting Pronouncements

Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after October 1, 2015 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 7 – Financial Instruments: Disclosures (“IFRS 7”) was amended in September 2014 to clarify whether a servicing contract is continuing involvement in a transferred asset for purposes of determining the disclosures required. IFRS 7 was also amended to clarify that the additional disclosures relating to offsetting are not specifically required for interim periods unless required by IAS 34. The amendments are effective for annual periods beginning on or after January 1, 2016.

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 10 – Condensed Consolidated Interim Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early 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.

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.

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, 2018. Earlier adoption is permitted.

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IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 12 – Income Taxes (“IAS 12”) was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

IAS 38 - Intangible Assets (“IAS 38”) and IAS 16 – Property, Plant and Equipment (“IAS 16”), were amended in May 2014 to introduce a rebuttable presumption that the use of revenue-based amortization methods is inappropriate. The amendments are effective for annual periods beginning on or after January 1, 2016.

5. Amounts receivable

	As at March 31 2016 \$	As at September 30 2015 \$
Accounts receivable	1,937	102
Loan receivable from related party (<i>note 11(iv)</i>)	-	-
Sales tax receivable	14,750	8,262
	16,687	8,364

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As at September 30, 2015, there was an amount owing from a former officer and director of the Company totaling \$170,000. This receivable was unsecured, non-interest bearing and due on demand. This amount has now been written down to nil as the director is no longer with the Company and collection of the receivable is unlikely. The bad debt of \$180,322 includes the write off of \$170,000 as well as other miscellaneous amounts that were receivable from the former officer and director that is no longer with the Company. The expense was recorded in fiscal 2015.

6. Inventory

	As at March 31 2016 \$	As at September 30 2015 \$
Finished goods	20,934	2,816
Raw materials	43,250	52,385
	64,184	55,201

The inventory shown above is net of a provision for obsolescence of \$ nil (2015 - \$ nil). As at March 31, 2016 and September 30, 2015, all inventories are recorded at cost.

7. Intangible assets

The intangible assets are comprised as follows:

	Total
Balance, September 30, 2014	\$1,606,500
Balance, September 30, 2015 and March 31, 2016	\$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 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 was 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.

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 were released in fiscal 2015 according to the conditions of the escrow agreement. Under the terms of the agreement, all patents, know-how

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and patent applications were 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 condensed consolidated interim statement of operations and comprehensive loss during the year ended September 30, 2014. If the Company had failed to obtain adequate funding to build the Parry Sound production facility by December 31, 2015, the patents could revert to the licensors, however as at September 30, 2015, management believes this requirement has been met. The plant was finished such that material was produced from the plant for testing by prospective customers.

8. Equipment

Equipment consists of the following:

Cost	Furniture & Equipment	Leasehold Improvements	Computer Equipment	Total
Balance September 30, 2014	\$408,445	\$259,476	\$9,739	\$677,660
Additions	97,859	-	-	97,859
Balance, September 30, 2015	\$506,304	\$259,476	\$9,739	\$775,519
Additions	-	-	-	-
Balance, March 31, 2016	\$506,304	\$259,476	\$9,739	\$775,519

Accumulated Amortization	Furniture & Equipment	Leasehold Improvements	Computer Equipment	Total
Balance September 30, 2014	\$4,922	-	\$7,384	\$12,306
Additions	884	-	1,060	1,944
Balance, September 30, 2015	\$5,806	-	\$8,444	\$14,250
Additions	580	-	648	1,228
Balance, March 31, 2016	\$6,386	-	\$9,092	\$15,478

Net book value at September 30, 2015	\$ 500,498	\$ 259,476	\$1,295	\$ 761,269
Net book value at March 31, 2016	\$ 499,918	\$ 259,476	\$ 647	\$ 760,041

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9. Accounts Payable and Accrued Liabilities

Accounts payable and accruals consist of the following:

	As at March 31 2016	As at September 30 2015
Trade payables	\$667,699	\$859,398
Director loans	56,000	56,000
Payroll Taxes payable	64,575	65,042
Sales tax payable	-	-
Payable to MVB	160,000	160,000
Accrued liabilities and other	1,178,867	845,648
Total	\$2,127,141	\$1,986,088

The Company is party to various claims and proceedings arising in the normal course of business. During fiscal 2015, the Company obtained a preliminary settlement regarding a consulting arrangement signed in 2011 with MVB Asset Management Inc. (“MVB”). The settlement includes an amount of \$160,000 to be paid over a period of three and six years. As a result, a liability has been set up to recognize the commitment to pay this settlement amount and the expense was recorded for the year ended September 30, 2015.

Loans to the Company from related parties (director loans) are unsecured, non-interest bearing with no fixed terms of repayment.

10. Secured Loan

To finance the Company through this Restructuring Proposal process, secured creditors have invested \$647,394 as of May 2016 under the terms of a Grid Note. The Grid Note is on a secured basis and the Company has entered into a general security agreement, which include all assets of the Company as security.

The terms of the Grid Note include an interest rate of one per-cent (1%) per annum, calculated daily, paid semi-annually starting April 1, 2016. The loan is due on the earlier of October 28, 2017 or upon the Company declaring bankruptcy or proceeding with insolvency proceedings.

The Grid Note will be mandatorily converted into Class A shares of the Company, based on the same conversion ratio as applied to unsecured creditors, immediately following the Company giving full effect to the Proposal to Creditors with the final court approval.

There can be no assurances that the various financing proposals being discussed will be competed on terms acceptable to the Company or at all.

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11. 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 at that time. 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 March 31, 2016 is \$738,986 (September 30, 2015 - \$523,741) owing to directors and companies controlled by directors of the Company. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.
- (ii) Compensation of key management personnel of the Company

The remuneration of directors and other key management personnel for the three and six months ended:

	March 31 2016	March 31 2015
Short-term compensation (i)	\$450,090	\$411,300
Share based payments (ii)	-	-
Total	\$450,090	\$411,300

- (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) 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, 2015 and 2014, 4,800,000 shares issued are in escrow pending the outcome of a dispute between the Company and a company controlled by former director of the Company. For further information see Note 13 – Treasury Shares.
- (iv) Loan Receivable
As at March 31, 2016 and September 30, 2015 and 2014, there was an amount owing from an officer and director of the Company totaling \$170,000. This receivable is unsecured, non-interest bearing and due on demand. This amount has now been written down to nil as the officer and director is no longer with the Company and collection of the receivable is unlikely.

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(v) Convertible Debentures and Loan payable to Director

As at September 30, 2015, there was an amount loaned from a director of the Company totaling \$56,000. This payable is unsecured, non-interest bearing and due on demand. In addition, certain directors of the Company participated in the convertible debenture financing (Note 13) under the same terms as other debenture holders in the amount of \$28,000.

12. Convertible Debentures

Total gross proceeds from the Debenture financing as of September 30, 2015 was \$2,983,000. There were no new debentures entered into for the six months ended March 31, 2016. Debentures range in terms of 2 or 3 years and bears interest at a fixed rate of 6% per year, payable quarterly. Under the terms of the Debentures, the Company has the option to automatically convert the Debentures into common shares under two scenarios. For the majority of the Debentures they have an automatic conversion at a price of \$0.40, upon which the Company's common shares have traded at \$0.50 for a period of thirty or more consecutive trading days. Some Debentures have an automatic conversion at a price of \$0.15 upon which the Company's common shares have traded at \$0.20 for a period of thirty or more consecutive trading days. Upon conversion, for each share issued, a full warrant exercisable for one common share at a price of \$1 per common shares with a term of two years from the date of conversion will be issued.

During the year ended September 30, 2015, 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 \$603,256 was computed as the present value of future principal and interest payments discounted at a rate of 25% per annum. The residual value \$259,744 was attributed to the equity component. 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 23%.

Directors and companies controlled by directors were paid for their efforts in closing the convertible debenture financing during. Refer to note 10 for additional information.

	As at March 31, 2016 \$	As at September 30, 2015 \$
Face value of debentures	2,983,000	2,983,000
Equity component of debentures	(898,863)	(898,863)
Transactions costs allocated to debentures	(333,050)	(333,050)
Accumulated accretion	1,231,913	1,231,913
Balance	2,983,000	2,983,000

As at September 30, 2015 and March 31, 2016, the convertible debentures are in default as per the terms of the Debentures as the required quarterly interest payments are in arrears and the Company has initiated the Restructuring Proposal. Therefore the debentures are due upon demand and shown as current liabilities on the condensed consolidated interim statement of financial position.

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13. Share Capital

Authorized:

The Company can issue an unlimited number of:

Class A shares, voting and participating.

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

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

Issued and outstanding: Class A Shares

	Number of shares	Amount
Balance, September 30, 2014	83,767,821	\$ 8,415,699
Balance, September 30, 2015	83,167,821	\$ 8,331,699
Balance, March 31, 2016	83,167,821	\$ 8,331,699

- (i) During the year ended September 30, 2015, two directors returned their Class A shares for cancellation totaling 600,000 shares from the 3,700,000 Class A share issue on June 26, 2014.

Treasury Shares

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 16 for additional information.

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14. Warrant Reserve

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants for the six months ended March 31, 2016 and the year ended September 30, 2015 are summarized as follows:

	March 31, 2016		September 30, 2015	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of the year	875,001	\$0.20	6,658,049	\$0.20
Issued	-	-	-	-
Expired/Cancelled	(875,001)	\$0.20	(5,783,048)	\$0.20
Balance, end of period	-	-	875,001	\$0.20

15. 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 six months ended March 31, 2016 and the year ended September 30, 2015 are summarized as follows:

	March 31, 2016		September 30, 2015	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of the year	1,150,000	\$0.20	4,400,000	\$0.21
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	(3,250,000)	0.22
Balance, end of year	1,150,000	\$0.20	1,150,000	\$0.20

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Options to purchase common shares outstanding at March 31, 2016 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 (three and six months)
November 8, 2016	0.20	100,000	100,000	0.11	0.61
August 8, 2017	0.20	700,000	700,000	0.15	1.36
January 29, 2019	0.20	350,000	233,334	0.05	2.83
	0.20	1,150,000	1,033,334	0.117	1.74

During the six months ended March 31, 2016, the Company did not grant any new options (year ended September 30, 2015 – nil) with a weighted-average price of \$ nil per share (2015 – \$ nil).

16. 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.

2016	\$ 92,287
2017	36,557
	\$ 128,844

Employment Agreements

The Company had an employment agreement with the provision of termination and change of control benefits with a former 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 annual base salary and an additional one month's salary and bonus for each additional full year of employment after the second year plus \$24,000 compensation for loss of benefits. The change of control provision entitles the officer to 24 months salary plus two additional months of salary for each full year of employment after three years plus \$48,000 and \$2,000 for each year of employment after three years as compensation for loss of benefits and a lump sum of two times the greater of 1) average payments made under the bonus plan in each of the two preceding years and 2) target bonus under the bonus plan for the fiscal year terminated. The additional commitments total approximately \$1,322,000. As a triggering event has not taken place, the contingent payments have not been reflected in these condensed consolidated interim financial statements.

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

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commitments total approximately \$17,500. As a triggering event has not taken place, the contingent payments have not been reflected in these condensed consolidated interim financial statements.

Other Contingencies

The Company is party to various claims and proceedings arising in the normal course of business.

The Company has uncovered evidence that possible improprieties and breaches of fiduciary duty may have been committed by former directors of the Company in fiscal 2014 and 2015. It is not possible to determine if any amounts will become payable as a result of these matters and no provision has been made in these condensed consolidated Interim financial statements.

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 March 31, 2016 and will not be released until the dispute is resolved. See note 13 Treasury Shares.

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 March 31, 2016, the Company had a cash balance of \$15,708 (September 30, 2015 - \$16,700) to settle current liabilities of \$5,573,535 (September 30, 2015- \$4,987,088). Notwithstanding the working capital deficit, the Company believes it will be able to settle its current obligations based on the Company's expectation that it will successfully complete the settlement of the Company's liabilities under the CBIA process commenced on November 19, 2015. Refer to Note 1. The Company does not have sufficient cash reserves to fund its product development programs, administrative costs and other obligations for the coming fiscal year. The Company's accounts payable and accrued liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

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Market risk - 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

Restructuring Proposal

On November 19, 2015, the Company announced that it had filed a Restructuring Proposal to Creditors ("Restructuring Proposal") under the Canadian Bankruptcy and Insolvency Act. The proposal has been approved by the Board of Directors of the Company, which has appointed a trustee.

Under the Restructuring Proposal, eligible creditors were given the choice of: (i) receiving up to 50 per cent of the eligible claim amount in cash (with 15 per cent up front, subject to proration if total payments there under would exceed \$215,000, and 35 per cent payable contingent on there being sufficient cash flow over time), or (ii) in common shares equal in number to 1/700 of the total (fully diluted) issued and outstanding common shares of the Corporation, following all issuances under this Proposal in settlement for each \$10,000 of a creditors' claim. A meeting of eligible creditors was held on December 7, 2015 at the trustee's office where the Restructuring Proposal was accepted by the majority of creditors.

Subsequent to March 31, 2016, the Company received Court approval to proceed with the Restructuring Proposal to Creditors as presented to Creditors and to report back to the Courts when finished. The Company is in the process of settling the obligations with registered creditors.

The effect of this proposal is not reflected in the current interim financial statement, but will be reflected in the next interim for the nine months ended June 30, 2016 which should reflect a reduction in current obligations of the Company as a result of completing the restructuring proposal.