Biosenta Inc.

Audited Consolidated Financial Statements
For the years ended September 30, 2017 and 2016
(Expressed in Canadian dollars)

Independent Auditors’ Report

To the Shareholders of Biosenta Inc.:

We have audited the accompanying consolidated financial statements of Biosenta Inc., which comprise the consolidated statement of financial position as at September 30, 2017, and the consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity (deficiency) and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 auditors’ 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 in our audits 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. as at September 30, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Biosenta Inc.’s ability to continue as a going concern.

Other Matter

The comparative figures as at September 30, 2016 and for the year then ended were audited by another firm of Chartered Professional Accountants who expressed an unqualified opinion on those statements in their audit report dated May 1, 2017.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
February 13, 2018

MNP

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

	As at September 30 2017 $	As at September 30 2016 $
Assets		
Current assets		
Cash	**1,657**	**10,420**
Amounts receivable *(note 5)*	**-**	**27,185**
Inventory *(note 6)*	**379**	**44,442**
Prepaid expenses	**2,253**	**31,040**
Total current assets	**4,289**	**113,087**
Intangible assets *(note 7)*	**1,606,500**	**1,606,500**
Equipment *(note 8)*	**580**	**758,813**
Total assets	**1,611,369**	**2,478,400**
Equity and Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (*notes 9 and 11*)	**454,852**	**373,227**
Payable from Restructuring Proposal (*notes 1 and 9*)	**254,092**	**254,092**
Loans and advances *(note 9)*	**68,693**	**50,000**
Secured loan *(note 10)*	**565,682**	**-**
Total current liabilities	**1,343,319**	**677,319**
Convertible debentures (*note 12*)	**23,975**	**19,307**
Secured loan *(note 10)*	**-**	**522,830**
Total liabilities	**1,367,294**	**1,219,456**
Shareholders' Equity		
Share capital *(note 13)*	**9,102,363**	**9,322,863**
Treasury shares *(note 13)*	**-**	**(240,000)**
Equity reserve *(note 15)*	**49,810**	**201,652**
Equity component of convertible debentures *(note 12)*	**30,983**	**30,983**
Deficit	**(8,939,081)**	**(8,056,554)**
Total shareholders' equity	**244,075**	**1,258,944**
Total liabilities and shareholders' equity	**1,611,369**	**2,478,400**

Nature of Operations and Going Concern (note 1)
Commitments and Contingencies (note 16)
The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors
Signed "Dene Rogers" Director *Signed "Ed Korhonen"* Director

Biosenta Inc.

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Expressed in Canadian dollars, unless otherwise stated)

	Years ended September 30	
	2017	2016
	$	$
Sales	**17,178**	80,487
Cost of Sales	**8,941**	55,097
Gross profit	**8,237**	25,390
Administrative expense		
Professional fees	**110,650**	303,954
Salaries, management, and consulting fees *(note 11)*	**97,960**	303,102
Office and general	**44,947**	136,189
Insurance	**26,412**	23,754
Product development costs	**19,240**	30,510
Stock transfer fees	**18,825**	19,035
Sales and marketing	**13,396**	9,343
Travel	**308**	13,330
Amortization	**1,800**	2,456
Total administrative expense	**333,538**	841,673
Net loss before other items	**(325,301)**	(816,283)
Other items		
Recovery of commissions (*note 10*)	**153,000**	-
Interest and accretion expense (*notes 10 and 12*)	**(5,022)**	(42,208)
Bad debt expense	**(35,389)**	-
Write-down of equipment *(note 8)*	**(756,433)**	-
Write-down of inventory and prepaid production expenses	**(65,224)**	-
Gain on retirement of debt from Restructuring proposal *(note 1)*	**-**	3,594,718
Net (loss) income before taxes	**(1,034,369)**	2,736,027
Income tax recovery (*note 19*)	**-**	11,170
Net (loss) income and comprehensive (loss) income for the year	**(1,034,369)**	2,747,197
Basic and diluted loss (income) per share	**(0.08)**	0.38
Weighted average number of common shares outstanding – basic and diluted	**12,395,997**	7,361,656

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

Biosenta Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

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

	Share Capital(A)	Share Capital	Treasury Shares	Warrant Reserve	Equity Reserve	Equity Component of Debenture	Deficit	Total Equity (Deficiency)
	#	**$**	$	$	**$**	**$**	$	$
Balance, September 30, 2015	**5,544,521**	**8,331,699**	**(240,000)**	**63,048**	**201,652**	**498,658**	**(11,365,457)**	**(2,510,400)**
Common shares issued from Restructuring Proposal *(note 13 (ii))*	6,607,762	991,164	-	-	-	-	-	991,164
Extinguishment of equity component (*notes 1and 9*)	-	-	-	-	-	(498,658)	498,658	-
Equity component of debenture *(note 12)*	-	-	-	-	-	42,153	-	42,153
Expired warrants	-	-	-	(63,048)	-	-	63,048	-
Tax effect of convertible debentures	-	-	-	-	-	(11,170)	-	(11,170)
Net income for the year	-	-	-	-	-	-	2,747,197	2,747,197
Balance, September 30, 2016	**12,152,283**	**9,322,863**	**(240,000)**	**-**	**201,652**	**30,983**	**(8,056,554)**	**1,258,944**
Common shares issued for services *(note 13 (iii))*	243,714	19,500	-	-	-	-	-	19,500
Expired options	-	-	-	-	(151,842)	-	151,842	-
Reclassification	-	(240,000)	240,000	-		-	-	-
Net loss for the year	-	-	-	-	-	-	(1,034,369)	(1,034,369)
Balance, September 30, 2017	**12,395,997**	**9,102,363**	**-**	**-**	**49,810**	**30,983**	**(8,939,081)**	**244,075**

(A) Please refer to note 13(i) for information on share consolidation

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)

	Years ended September 30 2017 $	2016 $
Cash flow from operating activities		
Net loss for the year	**(1,034,369)**	2,747,197
Items not involving cash:		
Restructuring Proposal (*notes 1 and 9*)	**-**	(3,594,718)
Income tax recovery	**-**	(11,170)
Share-based payments *(note 13(iii))*	**19,500**	-
Recovered commissions *(note 10)*	**(153,000)**	-
Write down of equipment	**756,433**	-
Accrued interest on secured loan	**5,852**	-
Accretion	**4,668**	1,460
Amortization	**1,800**	2,456
	(399,116)	854,775
Changes in non-cash working capital:		
Amounts receivable	**27,185**	(18,821)
Inventory	**44,063**	10,759
Prepaid expenses	**28,787**	(2,386)
Accounts payable, accrued liabilities and debentures	**81,625**	276,113
Total cash used in operating activities	**(217,456)**	(589,110)
Cash flow from financing activities		
Proceeds from convertible debenture financing	**-**	60,000
Proceeds from loans and advances	**18,693**	-
Proceeds from secured loan, net of recovered commissions *(note 10)*	**190,000**	522,830
Total cash provided by financing activities	**208,693**	582,830
Decrease in cash	**(8,763)**	(6,280)
Cash, beginning of year	**10,420**	16,700
Cash, end of year	**1,657**	10,420

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 listed on the Canadian Securities Exchange ("CSE") under the symbol "ZRO". The Company's registered address is 18 Wynford Drive, Suite 794, Toronto, Ontario, M3C 3S2. 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 the development for commercial applications of its technology to produce an anti-microbial Tri-Filler product.

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 had 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, 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.

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 Company, 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.

On June 13, 2016, the Company announced it had completed the Restructuring Proposal as approved by the Ontario Courts. The financial impact of the Restructuring Proposal transaction is reflected, as of that date, in consolidated financial statements for the year ended September 30, 2016, which are summarized as follows:

i. The settlement of $3.8 million of debt was completed through the issuance of 6,607,762 common shares (pre-consolidation 99,116,431) of the Company. The fair market value of the common shares which was based on the quoted market price of the Company's shares at the December 7, 2015 meeting, including costs for issuing the shares, was $991,164. The difference between the book value of the debt and the fair market value of the common shares issued was included in the Gain on Debt Settlement from Restructuring Proposal;

ii. The settlement of approximately $725,000 of debt was completed through the cash settlement option of the Restructuring Proposal. The cash option only paid a portion of the debt outstanding at the time of the settling of the debt, and in return the vendor had to forgive 50% of the balance, which was included in the Gain on Debt Settlement from Restructuring Proposal. The outstanding payables as of September 30, 2016 and 2017, for these vendors was reflected on the consolidated statements of financial position – Payable from Restructuring Proposal. This debt is only payable by the Company upon there being sufficient cash flow over an undefined period of time. There have been no payments made on this balance since inception; and

1. Nature of Operations and Going Concern (Continued)

iii. Other debt that was not supported by an eligible claim or claims without merit were approved by the Court to be written down to nil. Since the settlement amount is nil, the full amount of such debt was included in Gain on Debt Settlement from Restructuring Proposal.

Going Concern

During the year ended September 30, 2017, the Company reported net loss of $1,034,369 and a working capital deficit of $1,339,030 (September 30, 2016 - $564,232).

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 represents material uncertainties, cast significant doubt over the ability of the Company to continue as a going concern. These audited 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, 2017 through the use of existing cash reserves, secured loans advanced and recovered commissions. 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, as well as seeking new debt and equity financing to enable it to service the Company's liabilities and its ongoing administrative costs. As at September 30, 2017, the Company has a working capital deficiency and accumulated losses. These matters represent material uncertainties which 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 February 12, 2018.

2. Basis of Presentation (Continued)

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.

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. These 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 these 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 audited consolidated financial statements and related notes.

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.

3. Significant Accounting Policies (Continued)

- 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 is 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 16.

- 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.

3. Significant Accounting Policies (Continued)

(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 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 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.

(c) Intangible Assets

Intangible assets with indefinite lives are not amortized, but are tested for impairment annually. Intangible assets which have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. The Company's perpetual, world-wide, exclusive license is classified as an indefinite life intangible asset.

(d) 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.

3. Significant Accounting Policies (Continued)

Impairment losses of continuing operations are recognized in the consolidated statements 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.

(e) Foreign currency translation

The functional currency of the Company and 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.

(f) 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 statements of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

3. Significant Accounting Policies (Continued)

(g) Share capital

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

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

(h) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) 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, 2017 and 2016, potentially dilutive securities excluded from the calculation of EPS included all outstanding options as the conversion of these securities at September 30, 2017 and 2016 would be anti-dilutive to earnings.

(i) 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
Secured loan	Other financial liabilities
Payables from Restructuring Proposal	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.

3. Significant Accounting Policies (Continued)

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 statements of operations.

(j) 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).

(k) 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.

3. Significant Accounting Policies (Continued)

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

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, 2016 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 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 – Consolidated 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 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.

4. Recent Accounting Pronouncements (Continued)

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 recognizes 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 recognize 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 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.

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

5. Amounts receivable

	As at September 30 2017	As at September 30 2016
	$	$
Accounts receivable	**86,078**	81,438
Provision for impairment	**(86,078)**	(54,253)
	-	27,185

6. Inventory

	As at September 30 2017	As at September 30 2016
	$	$
Finished goods	**379**	7,073
Raw materials	**-**	37,369
	379	44,442

The inventory shown above is net of a provision for obsolescence of $ nil (September 30, 2016 - $ nil). As at September 30, 2017 and September 30, 2016, all inventories were recorded at cost.

7. Intangible assets

The intangible assets are comprised as follows:

	Total
Balance, September 30, 2017 and September 30, 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 as amended, the Company issued fully paid and non-assessable Class A shares of the Company to the Licensors valued at $1,606,500. 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%, based on gross margin as a percentage, actually received by the Company on the sale of the licensed goods.

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

7. Intangible assets (Continued)

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 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. 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 as the plant was finished such that material was produced from the plant for testing by prospective customers. As at September 30, 2017, the Company has written-off the value of equipment and machinery at the plant as a result of change in production methods and will no longer produce material with this plant (note 8).

8. Equipment

Equipment consists of the following:

Cost	**Furniture & Equipment**	**Leasehold Improvements**	**Computer Equipment**	**Total**
Balance September 30, 2015	**$506,304**	**$259,476**	**$9,739**	**$775,519**
Additions	-	-	-	-
Balance, September 30, 2016	**506,304**	**259,476**	**9,739**	**$775,519**
Write down	(496,957)	(259,476)	-	(756,433)
Balance, September 30, 2017	**$9,347**	**$ -**	**$9,739**	**$19,086**

Accumulated Amortization	**Furniture & Equipment**	**Leasehold Improvements**	**Computer Equipment**	**Total**
Balance September 30, 2015	**$5,806**	**-**	**$8,444**	**$14,250**
Additions	1,161	-	1,295	2,456
Balance, September 30, 2016	**$6,967**	**-**	**$9,739**	**$16,706**
Additions	1,800	-	-	1,800
Balance, September 30, 2017	**$8,767**	**-**	**$9,739**	**$18,506**

Net book value at September 30, 2016	**$ 499,337**	**$ 259,476**	**$ -**	**$ 758,813**
Net book value at September 30, 2017	**$ 580**	**$ -**	**$ -**	**$ 580**

During the year, the Company wrote-off the production assets and leasehold improvements located at the Parry Sound facility as a result of changing the method in production (note 7).

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

9. Accounts Payable, Accrued Liabilities, Loans and Advances Payable, and Payable from Restructuring Proposal

Accounts payable and accrued liabilities consist of the following:

As at September 30,	**2017**	2016
Trade payables	**$302,242**	$197,337
Payroll taxes payable	**19,852**	17,475
Sales tax (recoverable) payable	**(3,607)**	2,702
Accrued liabilities and other	**136,365**	205,713
Total	**$454,852**	$423,227

Loans and advances payable consist of the following:

As at September 30,	**2017**	2016
Advance (i)	**$50,000**	$50,000
Loans (ii)	**18,693**	-
Total	**$68,693**	$50,000

(i) In January 2013 the Company announced that it had entered into a non-binding contract with New South Biolabs ("Biolabs") pursuant to which 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 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.
(ii) Loans to the Company from related parties (director loans) are unsecured, non-interest bearing with no fixed terms of repayment (see note 11).

<u>Payable from Restructuring Proposal</u>

The settlement of approximately $725,000 of debt was completed through the cash settlement option of the Restructuring Proposal (see Note 1). The cash option only paid a portion of the debt outstanding at the time of the settling of the debt, and in return the vendor had to forgive the 50% of the balance which is included in the Gain on Debt Settlement from Restructuring Proposal. The outstanding payable as of September 30, 2017 for these vendors is reflected on the consolidated statements of financial position – Payable from Restructuring Proposal. This debt is only payable by the Company upon meeting sufficient cash flow targets over an undefined period of time. No payments have been made on this liability since inception.

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 years. As a result, a liability had been set up to recognize the commitment to pay this settlement amount and the expense was recorded for the year ended September 30, 2015. As a result of the Restructuring Proposal completed in fiscal 2016, this amount has been reduced by 50% and the balance is included in the Payable from Restructuring Proposal. Refer to Note 1 – Financial Restructuring.

Other than the amount paid at the time of debt settlement, no other payments have been made to these claims.

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

10. Secured Loan

To finance the Company through this Restructuring Proposal process, secured creditors had invested $655,747 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. At the time of issuing the consolidated financial statements a loan extension is still in the process of being negotiated and has not been formally signed by both parties.

A portion of the Grid Note was 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 (Refer to Note 1 – Financial Restructuring). As part of the Restructuring Proposal only $201,894 of the secured debt was converted to common shares. The remaining balance of the secured loan as at September 30, 2017 is $565,682 (2016 - $522,830).

During the year, the Company recorded a recovery of $153,000 from the creditor in commissions earned from private placements completed a few years ago. This was an Ontario Securities Commission judgement that was imposed on an individual involved with the private placements at that time. The recovered commissions were applied against the balance owing on the secured loan.

11. Related Party Transactions and Balances

The Company had the following related party transactions for the year ended September 30, 2017 and 2016. These transactions were in the normal course of operations and were measured at the exchange amount, which are the amounts agreed to by the related parties.

(i) Included in accounts payable and accrued liabilities as at September 30, 2017 is $Nil (2016 - $344,458) 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 year ended:

	September 30 2017	September 30 2016
Short-term compensation (i)	**$19,500**	$248,046
Share-based payments (ii)	**-**	-
Total	**$19,500**	$248,046

(i) Short-term compensation includes salaries, bonuses, and allowances, employment benefits, and directors' fees.
(ii) Share-based compensation represents the amount expensed by the Company for options issued.

(iii) Shares and units issued
During 2016, directors and companies controlled by directors were issued 821,601 shares to settle $491,332 of liabilities accumulated to them as per the terms of the Restructuring Proposal. These are shares are included in the shares referred to in Note 13(ii). Additional shares were issued in fiscal 2017 as per Note 13(iii) to certain directors.

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

12. Convertible Debenture

Total gross proceeds from the Debenture financing as of September 30, 2015 was $2,983,000. Debentures ranged in terms of 2 or 3 years and bore interest at a fixed rate of 6% per year, payable quarterly. Under the terms of the Debentures, the Company had the option to automatically convert the Debentures into common shares under two scenarios. The majority of the Debentures had an automatic conversion at a price of $6.00, that became effective when the Company's common shares trade at $7.50 for a period of thirty or more consecutive trading days. The remaining debentures had an automatic conversion at a price of $2.25, that became effective when the Company's common shares trade at $3.00 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 $15.00 per common shares with a term of two years from the date of conversion would 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 services related to the convertible debenture financing. Refer to note 10 for additional information.

	As at September 30 2017 $	As at September 30 2016 $
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
Settlement from Restructuring Proposal (Note 1 Financial Restructuring)	**(2,983,000)**	(2,983,000)
Balance	**-**	-

As at September 30, 2015, the convertible debentures were in default as per the terms of the Debentures as the required quarterly interest payments were in arrears and the Company had initiated the Restructuring Proposal. Therefore, the debentures were due on demand and shown as current liabilities on the consolidated statement of financial position as at September 30, 2015. The Restructuring Proposal formally settled this outstanding obligation to $Nil as of September 30, 2016. Refer to Note 1 – Financial Restructuring.

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

12. Convertible Debenture (Continued)

New Debentures (post Creditor Proposal)

The Company has completed one convertible debenture financing for $60,000 in the year ended September 30, 2016. The debenture is non-interest bearing with a term of 5 years. It is convertible into common shares of the Company at a price $0.30 per share.

During the year ended September 30, 2016, 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 $17,847 was computed as the present value of future principal and interest payments discounted at a rate of 25% per annum. The residual value $42,153 of 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%.

	As at September 30 2017 $	As at September 30 2016 $
Face value of debentures	**60,000**	60,000
Equity component of debentures	**(42,153)**	(42,153)
Accumulated accretion	**6,128**	1,460
Balance	**23,975**	19,307

13. Shareholders' Equity

Authorized:

The Company is authorized to issue an unlimited number of:

Class A shares, voting and participating.

Class B shares, voting, redeemable at any time at the option of the Company 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, 2016	**12,152,283**	**$ 9,322,863**
Balance, September 30, 2017	**12,395,997**	**$ 9,102,363**

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

13. Shareholders' Equity (Continued)

i. Share consolidation: On June 23, 2016, the Company completed a share consolidation of the Company's common shares on the basis of one post consolidation common share for each fifteen pre-consolidation common shares. The 182,284,252 common shares issued and outstanding prior to the consolidation, which was effective as of June 23, 2016, were consolidated to 12,152,283 common shares.

The Company's outstanding stock options and warrants have been adjusted on the same basis, with proportionate adjustments being made to the stock option and warrant exercise prices. All references in these consolidated financial statements to common shares, per share amounts, warrants and options for all periods presented have been retroactively restated to reflect this consolidation.

ii. Because of the completing the Restructuring Proposal on June 13, 2016, the Company issued 6,607,762 common shares in settlement of certain debts of the Company. The fair value of the shares issued was $991,164. Refer to Note 1 – Financial Restructuring. See note 11- Related Party Transactions.

iii On October 5, 2016, the Company issued 243,714 common shares to two directors as compensation for services provided to date. The value of shares was $19,500.

14. Warrant Reserve

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants for the years ended September 30, 2017 and September 30, 2016 are summarized as follows:

	September 30, 2017		**September 30, 2016**	
	Number Outstanding(A)	Weighted Average Exercise Price(A)	Number Outstanding(A)	Weighted Average Exercise Price(A)
Balance, beginning of the year	-	-	58,333	$3.00
Issued	-	-	-	-
Expired/Cancelled	-	-	(58,333)	$3.00
Balance, end of year	-	-	-	-

(A) Please refer to note 13(i) for information on share consolidation

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

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 years ended September 30, 2017 and September 30, 2016 are summarized as follows:

	September 30, 2017		September 30, 2016	
	Number Outstanding**(A)**	Weighted Average Exercise Price**(A)**	Number Outstanding**(A)**	Weighted Average Exercise Price**(A)**
Balance, beginning of the year	76,667	$3.00	76,667	$3.00
Granted	-	-	-	-
Exercised	-	-	-	-
Expired/Cancelled	(63,334)	$3.00	-	-
Balance, end of year	13,333	$3.00	76,667	$3.00

(A) Please refer to note 13(i) for information on share consolidation

Options to purchase common shares outstanding at September 30, 2017 carry exercise prices and remaining terms to maturity as follows:

Expiry Date	Exercise Price**(A)** $	Options Outstanding**(A)**	Options Exercisable**(A)**	Grant Date Weighted Average Fair Value per option**(A)** $	Weighted Average Remaining Contractual Life
January 29, 2019	3.00	13,333	13,333	0.81	1.33

(A) Please refer to note 13(i) for information on share consolidation

During the year ended September 30, 2017, the Company did not grant any new options (year ended September 30, 2016 – nil).

16. Commitments and Contingencies

Employment Agreements

The Company 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 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 audited consolidated financial statements.

Other Contingencies

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

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, 2017, the Company had a cash balance of $1,657 (September 30, 2016 - $10,420) to settle current liabilities of $1,343,319 (September 30, 2016 - $677,319). The Company completed the settlement of the Company's liabilities under the CBIA process on June 13, 2016. Refer to Note 1 – Financial Restructuring. 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.

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

17. Financial Risk Factors (Continued)

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, 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. 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% (2016 - 26.5%) were as follows:

	2017	2016
(Loss) income before recovery of income taxes	$ (1,034,369)	$ 2,736,027
Expected income tax (recovery) expense	$ (274,110)	$ 726,000
Increase (decrease) in taxes resulting from:		
Share-based compensation and non-deductible expenses	(1,460)	4,600
Other items	-	(1,330)
Tax benefits not realized	275,570	(718,100)
Deferred income tax (recovery) expense	$ -	$ 11,170

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

19. Income Taxes (Continued)

b) Deferred Income Taxes Assets

The following table summarizes the components of deferred tax:

	2017	2016
Deferred tax assets		
Non-capital losses	**$ 9,550**	$ -
Deferred tax liabilities		
Convertible debenture	**(9,550)**	-
	$ -	$ -

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

	2017	2016
Equipment	**$ 893,300**	$ 135,000
Non-capital losses	**8,048,380**	7,692,000
Share issue costs	**81,040**	230,000
Intangible assets	**1,793,000**	41,000
Other temporary differences	-	7,000

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, 2017, non-capital losses totalling $8,084,400 (2016 - $7,692,000) will expire at various dates between 2033 through 2037.

All other temporary differences can be carried forward indefinitely under certain circumstances.