Pacific Therapeutics Ltd.
(A Development Stage Company)

Interim Financial Statements
For the Three and Nine month periods ended September 30, 2011
(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection, 4.3 (3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of Pacific Therapeutics Ltd. ("the Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review on interim financial statements by an entity's auditor.

Pacific Therapeutics Ltd.
(A Development Stage Company)
Condensed Interim Statements of Financial Position
Unaudited
(Expressed in Canadian dollars)

	September 30, 2011	December 31, 2010 (Note 14)	January 1, 2010 (Note 14)
	$	$	$
Assets			
Current			
Cash and cash equivalents	4,720	30,457	85,587
Restricted cash (Note 4)	375,000	-	-
GST/HST recoverable	9,609	5,319	4,282
Prepaid expenses	11,622	4,434	21,143
	400,951	40,210	111,012
Property and equipment	6,811	8,168	10,612
Intangible assets (Note 6)	87,316	71,540	43,934
	495,078	119,918	165,558
Current liabilities			
Accounts payable and accrued liabilities	133,849	106,788	93,815
Unearned revenues	-	2,600	-
Security deposit	-	2,400	-
Irrevocable subscriptions (Note 5)	25,000	-	-
Shareholder demand loan	3,000	72,485	-
	161,849	184,273	93,815
Non-current liabilities			
Irrevocable subscriptions (Note 5)	208,822	-	-
Shareholders' long term loan (Note 7)	170,339	-	-
Class B Series I Preferred Shares (Note 8)	252,479	230,696	206,838
	631,640	230,696	206,838
Shareholders' equity (deficiency)			
Share capital (Note 9)	1,349,704	1,133,136	999,456
Contributed surplus	201,798	136,110	111,644
Deficit accumulated during the development stage	(1,849,913)	(1,564,297)	(1,246,195)
	(298,411)	(295,051)	(135,095)
	495,078	119,918	165,558

Nature and Continuance of Operations (Note 1) and **Commitment** (Note 12)

On behalf of the Board:

"Douglas H. Unwin" Director — *"Doug Wallis"* Director
Douglas H. Unwin — Doug Wallis

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

Pacific Therapeutics Ltd.
(A Development Stage Company)
Interim Statements of Comprehensive Loss
Unaudited
(Expressed in Canadian dollars)

	For the three months ended September 30, 2011	For the three months ended September 30, 2010 (Note 14)	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010 (Note 14)
Expenses				
Advertising and promotion	400	435	1,499	1,575
Amortization	1,410	846	3,889	2,538
Bank charges and interest	2,774	1,564	3,007	448
Computer	-	-	-	4,382
Insurance	3,655	9,202	10,973	11,195
Office and miscellaneous	735	1,235	2,605	2,782
Professional fees	45,568	14,620	81,745	47,649
Rent and occupancy costs	1,963	4,068	10,292	9,642
Research and development	-	5,446	-	15,469
Telephone and utilities	866	672	3,135	2,163
Travel	-	-	-	1,596
Wages and benefits	24,885	40,000	92,659	120,874
	82,256	78,088	209,804	220,313
Interest Expense				
Incurred	11,250	-	27,375	-
Amortization of discounts on ISA, Class B Series I Preferred Shares and Shareholder loan	21,605	6,160	48,437	17,341
	32,855	6,160	75,812	17,341
Net loss and Comprehensive loss	(115,111)	(84,248)	(285,616)	(237,654)
Loss per share	$(0.01)	$(0.01)	$(0.02)	$(0.02)
Weighted average number of common shares Outstanding	17,281,647	15,917,011	17,023,052	15,775,158

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

Pacific Therapeutics Ltd.
(A Development Stage Company)
Interim Statement of Changes in Shareholders' Equity
Unaudited
(Expressed in Canadian dollars)

	Number of common shares	Number of Series II Preferred shares	Share capital	Contributed surplus	Deficit	Total
Balance at January 1, 2010	10,216,301	135,500	$ 999,456	$111,644	$ (1,246,196)	$ (135,096)
Loss for the period	-	-	-	-	(237,654)	(237,654)
Common shares issued for services @ $0.50	10,000	-	5,000	-	-	5,000
Common shares issued for cash @ $0.40	50,000	-	20,000	-	-	20,000
Common shares issued for cash @ $0.50	58,000	-	29,000	-	-	29,000
Warrants exercised @ $0.15	290,000	-	43,500	-	-	43,500
Share issue costs	-	-	(18,820)	-	-	(18,820)
Discount on shareholder loans	-	-	-	24,466	-	24,466
Balance at September 30, 2010	10,624,301	135,500	$1,078,136	$136,110	$(1,483,850)	$(269,604)
Balance at January 1, 2011	15,930,451	203,250	$1,133,136	$136,110	$ (1,564,297)	$(295,051)
Loss for the period	-	-	-	-	(285,616)	(285,616)
Exercise of common share warrants @ $0.10	300,000	-	30,000	-	-	30,000
Shares issued Under Irrevocable Subscription Agreements	750,000	-	112,500	45,610	-	158,110
Repricing of common shares	-	-	41,600	-	-	41,600
Share issue costs	-	-	(21,532)	-	-	(21,532)
Issue of common shares@ $0.15	250,000	-	37,500	-	-	37,500
Issue of common shares for debt	110,000	-	16,500	-	-	16,500
Shareholder loan discount	-	-	-	20,078	-	20,078
Balance at September 30, 2011	17,340,451	203,250	$ 1,349,704	$ 201,798	$ (1,849,913)	$ (298,411)

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

Pacific Therapeutics Ltd.
(A Development Stage Company)
Interim Statements of Cash Flows
Unaudited
(Expressed in Canadian dollars)

	For the nine months ended September 30, 2011 $	For the nine months ended September 30, 2010 $
Cash flows used in operating activities		
Net loss and Comprehensive loss	(285,616)	(237,654)
Adjustments for items not affecting cash		
Amortization	3,889	2,538
Amortization of deemed discounts on ISA, Class B Series I Preferred Shares and Shareholder loan	26,386	17,341
Interest Expense incurred	27,375	-
Changes in non-cash working capital balances		
Goods and services tax recoverable	(4,290)	1,066
Prepaid expenses	(7,188)	17,467
Security deposit	(2,400)	-
Unearned Revenues	(2,600)	-
Accounts payable and accrued liabilities	27,061	(1,123)
Shareholder Loan	100,854	54,604
	(116,529)	(145,761)
Cash flows used in investing activities		
Additions to intangible assets	(18,308)	(28,070)
	(18,308)	(28,070)
Cash flows from financing activities		
Repricing of share for cash	41,600	-
Exercise of warrants	30,000	43,500
Issuance of common shares for cash	37,500	49,000
	109,100	92,500
Increase (decrease) in cash and cash equivalents	(25,737)	(81,331)
Cash and cash equivalents, beginning of period	30,457	85,587
Cash and cash equivalents, end of period	4,720	4,256

Supplemental Disclosures with Respect to Cash Flows:

Interest paid	27,375	-
Income taxes paid	-	-

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

1. Nature and Continuance of Operations

Pacific Therapeutics Ltd. ("the Company" or "PTL") was incorporated under the laws of the Province of British Columbia on September 12, 2005. The Company is a development stage company focused on developing proprietary drugs to treat certain types of lung disease including fibrosis.

PTL has financed its cash requirements primarily from share issuances and payments from research collaborators. The Company's ability to realize the carrying value of its assets is dependent on successfully bringing its technologies to market and achieving future profitable operations, the outcome of which cannot be predicted at this time. It will be necessary for the Company to raise additional funds for the continuing development of its technologies.

The financial statements have been prepared on a going concern basis, which contemplates continuity of operations and the realization of assets and settlement of liabilities in the ordinary course of business. The Company is subject to risks and uncertainties common to drug discovery companies, including technological change, potential infringement on intellectual property of and by third parties, new product development, regulatory approval and market acceptance of its products, activities of competitors and its limited operating history. All of these factors create uncertainty in the Company's ability to successfully bring its technologies to market, to achieve future profitable operations and to realize the carrying value of its assets. Given these uncertainties, there is significant doubt as to the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

2. Statement of compliance and basis of presentation

(a) Statement of Compliance

The financial statements of the Company for the year ending December 31, 2011 will be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB.") Having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP,") these condensed interim financial statements for the nine month period ended September 30, 2011 have been prepared in accordance with ("IAS") 34, *Interim Financial Reporting*, and are the company's third interim financial statements for part of the period covered by the first IFRS annual financial statements, and therefore, *IFRS 1 First-time Adoption of International Financial Reporting Standards* has been applied. The condensed interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 14.

(b) Basis of Presentation

These condensed interim financial statements have been prepared on a historical cost basis and are presented in Canadian dollars which is the Company`s functional currency.

(c) Use of Estimates

The preparation of interim financial statements in conformity with IAS 34 requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting periods. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

3. Significant Accounting Policies

The following is a summary of significant accounting policies used in the preparation of these interim financial statements.

(a) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, deposits in banks and highly liquid investments having original terms to maturity of 90 days or less.

(b) Loss per share

Basic loss per share is calculated based on the weighted average number of shares outstanding during the period. The treasury stock method is used for determining the dilutive effect of options and warrants issued in calculating diluted earnings per share. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the periods presented, this calculation proved to be anti-dilutive.

(c) Research & development

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets the criteria for deferral and amortization. No such costs have been deferred as at September 30, 2011 and December 31, 2010. Scientific Research and Experimental Development ("SR&ED") tax credits are recorded on a cash basis due to the uncertainty surrounding final approval of the SR&ED tax credit application. Tax credits received are recorded as a reduction in research and development costs incurred in the year. During the nine months ended September 30, 2011, no SR&ED amounts were received.

(d) Technology licenses and patent costs

Technology licenses acquired from third parties, which include licenses and rights to technologies, are initially recorded at fair value based on consideration paid and amortized on a straight-line basis over the estimated useful life of the underlying technologies.

Patent costs associated with the preparation, filing, and obtaining of patents are capitalized and amortized on a straight-line basis over the useful lives of the underlying technologies and patents, usually for a period not exceeding 15 years.

Management evaluates the recoverability of technology licenses and patents on an annual basis based on the expected utilization of the underlying technologies. If the estimated net recoverable value for each cash-generating unit, calculated based on discounted future cash flows, is less than the carrying value, the asset is written down to its fair value. The amounts shown for technology licenses and patent costs do not necessarily reflect present or future values and the ultimate amount recoverable will be dependent upon the successful development and commercialization of products based on these rights.

(e) Share-based payments

Share-based payments are recognized at fair value on the date granted and charged to the statement of comprehensive loss/income over the vesting period. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of the

Black-Scholes valuation model. All share-based payments are reflected in contributed surplus until exercised. The Company recognizes options cancelled or settled during the vesting period as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

(f) Income taxes

Deferred income tax assets and liabilities are determined based on temporary differences between the accounting and the tax bases of the assets and liabilities and for loss carry forwards and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any deferred income tax asset if it is not more likely than not that the asset will be realized. As at September 30 2011, the Company's net deferred income tax assets are fully offset by a valuation allowance.

(g) Financial instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable, due to shareholders, irrevocable subscriptions, and class B series I preferred shares. The Company does not hold or issue financial instruments for trading purposes, nor does it utilize derivative instruments in the management of foreign exchange, commodity price or interest rate market risks.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant credit, liquidity or market risk arising from these financial instruments.

All financial instruments are classified into one of the following categories:

Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specific date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale

Financial assets classified as available-for-sale are carried at fair value (where determinable based on market prices of actively traded securities) with changes in fair value recorded in accumulated other comprehensive loss/income. Impairment of available-for-sale securities are written down to fair value through profit and loss whenever it is necessary to reflect an other-than-temporary impairment. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are added to its fair value. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale financial assets are carried at cost.

Impairment on financial assets

At each reporting date financial assets are assessed at to whether there is any objective evidence that a financial asset or a group of assets are impaired. A financial asset or group of financial assets is deemed to be impaired if objective evidence of impairment as a result of one or more events has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. The Company`s accounts payable and accrued liabilities, due to shareholders, irrevocable subscriptions, and Class B Series I Preferred shares are classified as financial liabilities and are carried at amortized cost.

(h) Recent Accounting Pronouncements

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 9, *Financial Instruments*, IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IFRS 12, *Disclosure of Interests in Other Entities*, IAS 27, *Separate Financial Statements*, IFRS 13, *Fair Value Measurement* and amended IAS 28, *Investments in Associates and Joint Ventures*. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The new standards are summarized below:

IFRS 9 – Financial Instruments addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaced the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income.

IFRS 10 – Consolidated Financial Statements requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

IFRS 11 – Joint Arrangements requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures.

IFRS 12 – Disclosure of Interests in Other Entities establishes disclosure requirements for interest in other entities, such as joint arrangements, associates, and special purpose vehicles and off balance sheet vehicles.

The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with and entity's interests in other entities.

IFRS 13 – Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is set out among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

4. Restricted Cash

The Company's restricted cash of $375,000 consists of funds held in an escrow account, pursuant to the terms of the Irrevocable Subscription Agreements ("ISA") with investors (Note 5). The release of the invested funds is governed by the terms of the ISA(Note 5) and an Escrow Agreement The agreement includes Draw Down Terms that permit the Company at its sole discretion to draw down the restricted cash to purchase Class A Common shares at the greater of $0.10 per share and the closing market price of the Securities on the day prior to the dissemination of a news release announcing the allotment less the maximum discount prescribed by the Canadian National Stock Exchange.

5. Irrevocable Subscription Agreement

On January 26, 2011, the Company received $275,000 which was placed in trust. The release of the invested funds is governed by the terms of the Irrevocable Subscription Agreements and Escrow Agreement between the Company and the investors and the trustee with an effective date of January 31, 2011. A further $25,000 was received on February 2, 2011 that is subject to the ISA.

As a bonus, the Company issued 600,000 Class A common shares that were allocated a value of $90,000 based on a fair value of $0.15 a share. The remaining balance of the funds was discounted using a rate of 15%, with the discount recognized in contributed surplus. The discount will be amortized as interest expense over the term of the agreement.

In addition, the Company issued 2,400,000 common share purchase warrants with an exercise price of $0.15 with a term of 2 years.

On May 16, 2011, the Company received a further $75,000 in subscription funds, subject to an ISA and Escrow Agreement. The terms are substantially the same as the Jan 31, 2011 ISA.

As a bonus, the Company issued 150,000 Class A common shares that were allocated a value of $22,500 based on a fair value of $0.15 a share. The remaining balance of the funds was discounted using a rate of 15%, with the discount recognized in contributed surplus. The discount is to be amortized as interest expense over the term of the agreement.

In addition, the Company issued 600,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years.

The terms of the Irrevocable Subscription Agreements are as follows:

i) The funds are to be placed into trust until the issuance of a draw down notice from the company or termination of the agreement.

ii) The funds are callable and the investor may terminate participation in the facility and withdraw their funds from the trust account any time after January 1, 2013 if the company's common shares are not listed for trading on the CNSX, except for the $25,000 of funds contributed by an investor on February 02, 2011, which are callable on demand.

iii) The funds are also retractable and the Company may terminate the investor's subscription at any time by returning the investor's invested funds and accrued interest.

iv) The funds in the escrow account accrue interest at 1% per month and will be paid at the end of each 90-day period that the funds are held in trust.

v) As a bonus, the Company will issue Class A common shares based on 20% of each investor's investment.

vi) The Company will also issue 200,000 purchase warrants for each $25,000 invested. Each whole warrant will entitle the investor to purchase one Class A common share for a period of 2 years at an exercise price of $0.15 per share.

vii) The Company may, at its option from time to time put to the investors (on a pro-rata basis), $50,000 of its Class A common shares by way of a private placement over the 24-month period from the closing date. Each put will be at a subscription price equal to the greater of a) $0.10 per share and b) the CNSX closing price for the Class A common shares prior to the dissemination of a news release disclosing the private placement, less the maximum discount prescribed by CNSX policies. All funds will remain in the trust account until such shares are put to the funder or the agreement is terminated.

During the nine month period ended September 30, 2011, the Company recorded total interest expense of $44,307 on the ISAs, inclusive of $27,375 on the escrow funds, and $16,932 as amortization of discount..

	September 30, 2011	December 31, 2010
	$	$
Principal amount of ISA	375,000	-
Amount allocated to Bonus shares	(112,500)	-
Net amount allocated to irrevocable subscription agreements	262,500	-
Unamortized Discount (allocated to contributed surplus)	(45,610)	-
Amortization of Discount (interest expense)	16,932	-
Net carrying amount	233,822	-

6. Intangible assets

Intangible Assets include license fees and patenting costs. To date the company has paid initial license fees and annual fees to Dalhousie University of $38,238. Patenting costs of $57,440 have been paid in fees to patenting organizations and in legal fees for patenting. The patenting costs are related to both of the company's drug candidates PTL-202 and PTL-303. The patenting costs covers the costs of filing initial provisional patents in the United States as well as filling patents with the World Intellectual Property Organization and in Individual countries. Patent costs are amortized over their expected life of straight line over 15 years.

7. Shareholder loan

Two shareholders of the Company are owed $202,470 as at September 30, 2011 (December 31, 2010 - $94,260). The loans are unsecured and non-interest bearing, with a fixed repayment date of January 01, 2013. The repayment date of the loan was restructured May 31, 2011, resulting in a change in classification of the loan from a current liability as of December 31, 2010 to a long-term liability as of September 30, 2011. This loan is carried on the face of the financial statements at amortized cost, using a discount rate of 15%.

During the nine month period ended September 30, 2011 the Company recorded in interest expense amortization of the loan discount in the amount of $9,722 (twelve month period ended December 31, 2010 - $2,691 and nine month period ended September 30, 2010 - $NIL.

	September 30, 2011	December 31, 2010
	$	$
Principal amount of liability component	202,470	94,260
Less discount	(44,544)	(24,466)
	157,926	69,794
Amortized discount	12,413	2,691
Net carrying amount	170,339	72,485

8. Class B Series 1 Preferred Shares

Class B Series I Preferred Shares are convertible at the option of the holder at any time after January 31, 2011, with one Class A common share. If the commons shares are listed for trading on a recognized stock exchange, the Class B Series I preferred shares would automatically convert to Class A common shares. On November 16, 2011 the Company's common shares began trading on the Canadian National Stock Exchange

In the event of a change in control of the Company prior to listing of the Company's shares for trading on a recognized stock exchange, involving greater than fifty percent (50%) of the issued and outstanding Common Shares of the Company at a valuation of less than $0.60 per share, or the liquidation, dissolution or winding-up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs, the holders of the Series I Preferred Shares would be entitled to receive, in preference and priority to any payment or distribution to the holders of the Class A Common Shares or any other class of shares ranking junior to the Series I Preferred shares, an amount equal to $0.30 per share equal, together with all accrued and unpaid dividends thereon. After payment to the holders of the Series I Preferred shares of the amounts so payable to them, they shall be entitled to share in any further distribution of the property or assets of the Company.

The preferred shares could receive an amount equal to $.30 per share upon the occurrence of the event specified above, therefore the shares are classified as a financial liability and carried at amortized cost on the face of the balance sheet. During the nine month period ended September 30, 2011 the Company recorded in interest expense amortization of the preferred shares discount in the amount of $21,783 (twelve month period ended December 31 2010 - $23,858 , nine months ended September 30, 2010 - $17,341).

	September 30, 2011	December 31, 2010
	$	$
Principal amount of liability component	300,000	300,000
Unamortized discount	(47,521)	(69,304)
Net carrying amount	252,479	230,696

9. Share capital

Authorized

Unlimited	Class A common shares without par value
1,500,000	Class B Series I preferred shares without par value
1,000,000	Class B Series II preferred shares without par value

Class A Common Shares

On December 30, 2010, the Company's common shares were split by issuing 1.5 common shares for each outstanding common share.

On January 15, 2011, the Company re-priced 4,800,000 Class A common shares, 4,500,000 Class A common shares originally issued for proceeds of $0.0133 per share to $0.02 per share, for which total proceeds of $30,000 was received as a result of the re-pricing and 300,000 Class A common shares originally issued for proceeds of $0.0007 per share to $0.02 per share, for which total proceeds of $5,800 was received as a result of the re-pricing.

On January 26, 2011, the Company issued 600,000 Class A common shares at a fair value price per share of $0.15 (Note 5). The Company also issued 2,400,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The Company paid $20,000 10% in finders fees related to $200,000 of the funds raised and $100 to the BC Securities Commission for filing fees.

On January 31, 2011, the Company completed a private placement of 140,000 units at $0.15 per unit for gross proceeds of $21,000. Each unit comprises of one common share and one warrant to purchase one common share at $0.25 per share exercisable for a period of 2 years.

On January 31, 2011, 300,000 common share purchase warrants were exercised at $0.10 per share..,

On February 28, 2011, the Company re-priced 300,000 Class A common shares originally issued for proceeds of $0.0007 per share to $0.02 per share. Total proceeds of $5,800 were received as a result of the re-pricing.

On February 28, 2011 the Company completed a private placement of 60,000 units at $0.15 per unit. Each unit comprises of one common share and one warrant to purchase one common share at $0.25 per share exercisable for a period of 2 years. The Company paid $750 10% in finders fees related to $7,500 of the funds raised.

On May 16, 2011, the Company issued 150,000 Class A common shares at a fair value price of $0.15 (Note 5). The Company also issued 600,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years.

On July 21, 2011 the Company completed a private placement of 50,000 common shares at $0.15 per share.

On July 27, 2011 the Company completed a private placement of 110,000 common shares at $0.15 per share in exchange for debt.

During the nine months ended September 30, 2011 the Company paid finders fees owing in the amount of $882 7% of funds raised for shares issued in August 2010. In addition the Company issued an additional 7% in finders' Class A common share purchase warrants, each warrant entitling the holder to purchase one Class A common share in the capital of the Company for a period of 12 months at purchase price of $0.50 per share.

Class B Series II Preferred Shares

Class B Series I Preferred Shares are convertible into common shares and purchase warrants under certain conditions at the option of the holder. Each Series I Class B preferred share automatically converts into one unit, consisting of one (1) Common Share and one-half (1/2) of a Purchase Warrant with an exercise price of $0.40 for a full Purchase Warrant, upon either of the following events occurring on or before January 31, 2011:

(i) the common shares of the Company are listed for trading on a recognized stock exchange; or

(ii) the sale of common shares to an arm's length third party(s) at a valuation of $1.20 per share or higher.

If none of the above events were to occur by January 31, 2011, the following would occur:

(a) the purchase warrants attached to the Class B Series I preferred shares would expire.

(b) the Class B Series I preferred shares would be convertible at the option of the holder at any time after January 31, 2011, with one Class A common share being issued for a Class B Series I preferred share.

(c) if any of the events described in (i) and (ii) above occur after January 31, 2011, the Class B Series I preferred shares would automatically convert to Class A common shares with one Class A common share being issued for each Class B Series I preferred share.

The Company has an obligation to pay a 12% cumulative Class A common share stock dividend per year, on the Class B Series II Preferred shares if any of the following events occur:

(i) an initial public offering of the Class A Common Shares; or
(ii) the Class A Common Shares becoming listed for trading on a recognized stock exchange or quotation service; or
(iii) a change in control of the Company involving greater than fifty percent (50%) of the issued and outstanding Class A Common Shares and Class B Preferred Shares.

As none of the above events have occurred, no dividends have been recorded.

Stock options

At September 30, 2011, the Company had 1,800,000 (December 31, 2010 - 1,875,000) stock options outstanding, of which 1,645,000 (December 31, 2010 – 1,608,750) are exercisable, at a weighted average exercise price of $0.25 (December 31, 2010 - $0.25) per common share and expiring at various dates from October 16, 2011 to March 5, 2015.

Details of the stock option transactions are summarized as follows:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2009	1,350,000	0.37
Expired	(100,000)	0.30
Stock Split	625,000	0.12
Balance, December 31, 2010	1,875,000	0.25
Expired	(75,000)	0.30
Balance September 30, 2011	1,800,000	$ 0.25

Warrants

As at September 30, 2011, the following share purchase warrants were outstanding:

	Issued	Exercise Price	Expiry Date
December 31, 2009	961,480	$ 0.25	
Exercised in 2010	(290,000)	0.15	
Issued in 2010	1,365	0.50	August 20, 2011
Warrant split	336,422	0.05	
December 31, 2010	1,009,267	$ 0.22	
Expired	(637,500)	0.25	
Issued	140,000	0.25	January 31, 2013
Exercised	(300,000)	0.10	
Issued	2,400,000	0.15	January 31, 2013
Issued	60,000	0.25	February 28, 2013
March 31, 2011	2,671,767	0.15	
Expired	-	-	
Issued	600,000	0.15	May 16, 2013
Exercised	-	-	
June 30, 2011	3,271,767	0.15	
Expired	(2,047)	-	
Issued	-	-	
Exercised	-	-	
September 30, 2011	3,269,720	0.15	

10. Capital Disclosure

The Company considers its capital under management to be comprised of shareholders' equity and any debt that it may issue. As at September 30, 2011 the Company's shareholders' deficiency was $298,411 (December 31, 2010 - $295,051.) The Company's outstanding issued debt includes the Class B Series I Preferred Shares of $252,479 (December 31, 2010 - $230,696) Shareholder loan of $170,339 (December 31, 2010 - $72,485) and Irrevocable Subscriptions, consisting of both the short and long term portions, of $208,822 (December 31, 2010 - $Nil) The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels. The Company is not subject to any capital restrictions. There has been no change in the Company's objectives in managing its capital.

11. Financial Instruments and Risk

Financial Instruments

As at September 30, 2011, the Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable, amounts due to shareholders, irrevocable subscriptions, and class B series I preferred shares. The fair values of cash and cash equivalents, amounts receivable and accounts payable approximate their carrying values due to their short term maturity.

The Company classifies its cash and cash equivalents as held-for-trading and its accounts payable as other financial liabilities.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk the Company places these instruments with a high credit quality financial institution.

Liquidity Risk

The Company ensures its holding of cash and cash equivalents is sufficient to meet its short-term general and administrative expenditures. All of the Company's financial liabilities subject to normal trade terms. The Company does not have investments in any asset-backed deposits. The Company's liabilities are due as follows:

	$
On demand	-
0-30 days	136,849
31-90 days	25,000
365 days	-
Over 365 days	631,600
	793,449

Foreign Exchange Risk.

The Company is not exposed to foreign exchange risk on its financial instruments.

Interest Rate Risk

At September 30, 2011 the Company is not exposed to significant interest rate risk and its interest bearing debt is at fixed rates.

12. Commitments

On April 25, 2007, the Company entered into a license agreement with Dalhousie University ("Dalhousie"). The license covers Pentoxifylline and Functional Derivatives/Metabolites and its applications. The fields of use include pulmonary indications and radiation induced fibrosis.

The Company is required to make annual maintenance payments of $7,500 which are credited towards future royalties. In addition the Company must make milestone payments of up to $825,000 to Dalhousie based on patient enrolment, clinical studies, and regulatory approval for sale of the product as well as a $25,000 payment into the patent fund maintained by Dalhousie.

As further consideration under the Assignment Agreement, the Company is required to pay to Dalhousie a royalty on revenue earned from marketing, manufacturing, licensing, sale or distribution of the technology, improvements relating to the technology or products.

Under the terms of the license agreement, the Company was required to a) secure $2,000,000 in capital or debt financing by December 31, 2010, b) complete enrolment of a first patient in a Phase II clinical study and c) expend $200,000 per year in research and development related activities. The Company has received a waiver from Dalhousie for the requirement (a) and (b) above, and requirement (c) was amended to include a requirement that a first human subject be dosed by December 31, 2012 and initiation of a Phase II study by December 12, 2015.

The Company has an obligation to pay a 12% cumulative Class A common share stock dividend per year, on the Class B Series II Preferred shares if any of the following events occur:

(i) an initial public offering of the Class A Common Shares; or

(ii) the Class A Common Shares becoming listed for trading on a recognized stock exchange or quotation service; or

(iii) a change in control of the Company involving greater than fifty percent (50%) of the issued and outstanding Class A Common Shares and Class B Preferred Shares.

As none of the above events have occurred, no dividends have been recorded.

The Company is obligated under a rental lease agreement to make the following payments:

2011	$24,287
2012	$28,329

13. Subsequent Events

On October 12, 2011 the Company received its conditional listing letter

On October 14, 2011 the Company became a reporting company in British Columbia.

On October 31, 2011 as per the Company's articles the class b preferred shares series 2 automatically converted to 1,791,564 common shares. The outstanding class b preferred shares series 2 shares were cancelled.

On October 31, 2011 as per the Company's articles the class b preferred shares series 1 automatically converted to 1,500,000 common shares. The outstanding class b preferred shares series 1 shares were cancelled.

On November 15, 2011 one subscriber to the irrevocable subscription agreement requested their $25,000 subscription be returned. The escrowed funds and accrued interest were paid to the subscriber on November 15, 2011.

On November 16, 2011 the Company's common shares began trading on the Canadian National Stock Exchange

14. Transition to International Financial Reporting Standards

As stated in Note 2(a), these interim financial statements are prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the interim financial statements for the three and nine month periods ended September 30, 2011, the comparative information presented in these financial statements for both the three and nine months ended September 30, 2010 and the year ended December 31, 2010, as well as in the preparation of an opening IFRS Balance Sheet at January 1, 2010 (the Company's date of transition).

IFRS 1, *First Time Adoption of International Financial Reporting Standards*, requires that comparative financial information be provided. IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption.

The IFRS 1 applicable optional exemptions and mandatory exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

Optional Exemptions

Share-based Payment Transactions

The Company has elected not to retrospectively apply IFRS 2 Share-based payment, to equity instruments that were granted and had vested before the Transition Date. The provisions of IFRS 2 will be applied to all outstanding equity instruments that are unvested as at the Transition Date to IFRS.

Mandatory Exceptions

Estimates

Estimates previously made under pre-changeover Canadian GAAP were not revised for the adoption of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

The Company reviewed all its assets, including its intangible assets being medical technology, licenses and patents and determined that there was no impairment at the transition date. In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRSs has affected the Company's accounting policies, statement of financial position, and statement of comprehensive income for periods previously reported under Canadian GAAP, but subsequent to the Transition Date to IFRS, is set out in the following tables and the notes that accompany the tables. The adoption of IFRS did not change the Company's actual cash flows, but has resulted in changes to the Company's statements of financial position and comprehensive loss.

Pacific Therapeutics Ltd.
(A Development Stage Company)
Notes to Condensed Interim Financial Statements
Unaudited

Reconciliation of Assets, Liabilities and Equity

		Previous GAAP	Effect of transaction to IFRSs		IFRSs		Previous GAAP	Effect of transaction to IFRSs		IFRSs		Previous GAAP	Effect of transaction to IFRSs		IFRSs
	Note	**January-01-10**				**Note**	**September-30-10**				**Note**	**December-31-10**			
			Note 1	Note 1											
ASSETS															
Current Assets:															
Cash & cash equivalents		85,587	-	-	85,587		4,256	-	-	4,256		30,457	-	-	30,457
GST/HST recoverable		4,282	-	-	4,282		3,216	-	-	3,216		5,319	-	-	5,319
Prepaid expenses		21,143	-	-	21,143		3,677	-	-	3,677		4,434	-	-	4,434
		111,012	**-**	**-**	**111,012**		11,149	-	-	11,149		40,210	-	-	40,210
Non-Current Assets:															
Property and equipment		10,612	-	-	10,612		8,074	-	-	8,074		8,168	-	-	8,168
Intangible assets		43,934	-	-	43,934		72,004	-	-	72,004		71,540	-	-	71,540
		165,558	**-**	**-**	**165,558**		**91,227**	**-**	**-**	**91,227**		**119,918**	**-**	**-**	**119,918**
LIABILITES AND SHAREHOLDER'S EQUITY															
Current Liabilities															
Accounts payable and accrued liabilities		93,815	-	-	93,815		92,693	-	-	92,693		106,788	-	-	106,788
Unearned revenues		-	-	-	-		18,000	-	-	18,000		2,600	-	-	2,600
Security deposit		-	-	-	-		-	-	-	-		2,400	-	-	2,400
Shareholder loans		-	-	-	-		25,959	-	-	25,959		72,485	-	-	72,485
Irrevocable subscriptions		-	-	-	-		-	-	-	-		-	-	-	-
		93,815	**-**	**-**	**93,815**		**136,652**	**-**	**-**	**136,652**		**184,273**	**-**	**-**	**184,273**
Non-current liabilities															
Due to shareholder		-	-	-	-		-	-	-	-		-	-	-	-
Class B Series I Preferred Shares	**A**	-	300,000	(93,162)	206,838	**A**	-	300,000	-75,821	224,179	**A**	-	300,000	-69,304	230,696
Shareholder's Equity:															
Share capital	**A**	1,299,456	(300,000)	-	999,456	**A**	1,378,136	-300,000	-	1,078,136	**A**	1,433,136	-300,000	-	1,133,136
Contributed surplus	**A**	18,482	-	93,162	111,644	**A**	42,948	-	93,162	136,110	**A**	42,948	-	93,162	136,110
Deficit	**A**	(1,246,195)	-	-	(1,246,195)	**A**	(1,466,509)	-	(17,341)	-1,483,850	**A**	(1,540,439)	-	(23,858)	(1,564,297)
		71,743	**(300,000)**	**93,162**	**(135,095)**		**(45,425)**	**(300,000)**	**75,821**	**(269,604)**	**-**	**(64,355)**	**(300,000)**	**69,304**	**(295,051)**
		165,558	**-**	**-**	**165,558**		**91,227**	**-**	**-**	**91,227**		**119,918**	**-**	**-**	**119,918**

Reconciliation of Comprehensive Income

	Note	Previous GAAP	Effect of transition to IFRSs	IFRSs	Note	Previous GAAP	Effect of transition to IFRSs	IFRSs	Note	Previous GAAP	Effect of transition to IFRSs	IFRSs
		Three months ended September 30, 2010				Nine months ended September 30, 2010				Year ended December 31, 2010		
Expenses												
Advertising & Promotion		435	-	435		1,575	-	1,575		1,979	-	1,979
Amortization		846	-	846		2,538	-	2,538		5,553	-	5,553
Bank charges and interest		1,564	-	1,564		448	-	448		527	-	527
Computer		-	-	-		4,382	-	4,382		4,382	-	4,382
Insurance		9,202	-	9,202		11,195	-	11,195		14,701	-	14,701
Office & Miscellaneous		1,235	-	1,235		2,782	-	2,782		2,935	-	2,935
Professional fees		14,620	-	14,620		47,649	-	47,649		67,443	-	67,443
Rent and occupancy costs		4,068	-	4,068		9,642	-	9,642		14,556	-	14,556
Research and development		5,446	-	5,446		15,469	-	15,469		15,469	-	15,469
Stock based compensation		-	-	-		-	-	-		-	-	-
Telephone & utilities		672	-	672		2,163	-	2,163		2,699	-	2,699
Travel		-	-	-		1,596	-	1,596		1,600	-	1,600
Wages and benefits		40,000	-	40,000		120,874	-	120,874		159,709	-	159,709
		78,088	-	78,088		220,313	-	220,313		291,553	-	291,553
Other (income) /expenses												
Other income		-	-	-		-	-	-		-	-	-
Interest Expense - Deemed Discounts	A	-	6,160	6,160	A	-	17,341	17,341	A	2,691	23,858	26,549
		-	6,160	6,160		-	17,341	17,341		2,691	23,858	26,549
Net Loss and comprehensive loss for the		(78,088)	(6,160)	(84,248)		(220,313)	(17,341)	(237,654)		(294,244)	(23,858)	(318,102)
Net Loss per share:												
Basic and diluted		(0.00)		(0.01)		(0.01)		(0.02)		(0.02)		(0.02)

A) Class B Series I Preferred Shares

Under its previous GAAP, the Company's Class B Series I preferred shares were classified on the Company's balance sheet as equity. Under IFRS, any instrument that an issuer could be obliged to settle in cash or another financial instrument is classified as a liability. The Class B Series I Preferred Shares are convertible under certain conditions (See Note 8) at an amount equal to $.30 a share, and are classified as a financial liability on the balance sheet under IFRS, and carried at amortized cost. The impact arising from the change is summarized as follows:

Balance Sheet

	January 01, 2010	September 30, 2010	December 31, 2010
Class B Series 1 Preferred Shares per Cdn GAAP	$ 0	$ 0	$ 0
Class B Series 1 Preferred Shares per IFRS	206,838	224,179	230,696
Adjustment (Note 1)	206,838	224,179	230,696
Shareholders Equity per Cdn GAAP	$ 1,299,456	$ 1,378,136	$ 1,433,136
Shareholders Equity per IFRS	999,456	1,078,136	1,133,136
Adjustment	(300,000)	(300,000)	(300,000)
Contributed Surplus per Cdn GAAP	$ 18,482	$ 42,948	$ 42,948
Contributed Surplus per IFRS	111,644	136,110	136,110
Adjustment	93,162	93,162	93,162

Income Statement

	September 30, 2010	December 31, 2010
Interest Expense Deemed Discount per Cdn. GAAP	$ -	$ -
Interest Expense Deemed Discounts per IFRS	17,341	23,858
Adjustment	17,341	23,858

Note 1: Total adjustments made to preferred shares in each of the periods in the tables above is net of adjustment 1 ($300,000 to reclass Class B Series I Preferred Shares from equity per Cdn. GAAP to long-term liabilities per IFRS) and adjustment 2 (to adjust the stated value of preferred shares per Cdn. GAAP to their correct carrying value of amortized cost per IFRS).