PACIFIC THERAPEUTICS LTD.
(A Development Stage Company)
FINANCIAL STATEMENTS

Years Ended December 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of:
Pacific Therapeutics Ltd.

Report on the Financial Statements
We have audited the accompanying financial statements of Pacific Therapeutics Ltd., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Pacific Therapeutics Ltd. as at December 31, 2011, December 31, 2010, and January 1, 2010, and the results of its operations and cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company incurred a net loss of $463,768 during the year ended December 31, 2011. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Leed Advisors Inc.

Chartered Accountants
Surrey, British Columbia
April 11, 2012

PACIFIC THERAPEUTICS LTD.
(A Development Stage Company)

Statements of Financial Position
(Expressed in Canadian Dollars)

AS AT:	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
ASSETS			
CURRENT			
Cash and cash equivalents	6,094	30,457	85,587
Restricted cash (Note 5)	300,000	-	-
Harmonized sales tax recoverable	13,976	5,319	4,282
Prepaid expenses	5,119	4,435	21,143
	325,189	40,211	111,012
NON-CURRENT ASSETS			
PROPERTY AND EQUIPMENT (Note 6)	6,358	8,168	10,612
INTANGIBLE ASSETS (Note 7)	90,631	71,540	43,934
	422,178	119,919	165,558
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	161,771	106,788	93,816
Unearned revenue	-	2,600	-
Security deposit	-	2,400	-
Due to shareholders (Note 10)	20,300	72,485	-
	182, 071	184,273	93,816
NON-CURRENT LIABILITIES			
Irrevocable subscriptions (Note 8)	230,481	-	-
Due to shareholders' (Note 10)	175,935	-	-
Class B Series I Preferred Shares (Note 11)	-	230,696	300,000
	406,416	230,696	300,000
SHAREHOLDERS' (DEFICIENCY)			
Share capital (Note 12)	1,765,754	1,133,136	999,456
Contributed surplus	162,052	136,110	18,482
Deficit accumulated during the development stage	(2,094,115)	(1,564,296)	(1,246,196)
	(166,309)	(295,050)	(228,258)
	422,178	119,919	165,558

Nature and Continuance of Operations (Note 1) **and Commitments** (Note 16)

Subsequent Events (Note 17)

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 financial statements.

PACIFIC THERAPEUTICS LTD.
(A Development Stage Company)

Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

FOR YEAR ENDING DECEMBER 31,	2011	2010
		(Reclassified)
	$	$
Expenses		
Advertising and promotion	7,795	1,979
Amortization of property and equipment	1,810	2,444
Amortization of intangible assets	3,489	3,109
Bank charges & interest	3,301	527
Computer	250	4,382
Insurance	14,628	14,701
Office and miscellaneous	12,294	2,936
Professional fees	112,809	67,444
Rent and occupancy costs	16,273	14,556
Research and development	-	15,469
Telephone and utilities	1,854	2,699
Transfer agent	2,116	-
Travel	-	1,596
Wages and benefits	121,297	159,709
Total Expense	297,916	291,551
Interest Expense		
ISA interest incurred (Note 8)	38,250	
ISA-accretion of deemed discount (Note 8)	42,980	-
Shareholder loan accretion of deemed discount (Note 10)	15,318	2,691
Class B Series I Preferred Shares accretion of deemed discount (Note 11)	25,955	23,858
Total Interest Expense	122,503	26,549
Other Expense		
Loss on conversion of Series I Preferred Shares (Note 11)	43,349	-
Total Other Expense	43,349	-
Net Loss and Comprehensive Loss	**(463,768)**	**(318,100)**
Loss per share Basic and Diluted	**($0.03)**	**($0.02)**
Weighted average number of common shares outstanding	**18,172,472**	**16,350,054**

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

PACIFIC THERAPEUTICS LTD.
(A Development Stage Company)

Statements of Changes in Shareholders' Equity
(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	10,216,302	135,500	999,456	111,644	(1,246,196)	(135,096)
Loss for the period	-	-	-	-	(318,100)	(318,100)
Common shares issued for services @ $0.50	6,000	-	3,000	-	-	3,000
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
Repricing of common shares	-	-	57,000	-	-	57,000
Stock split 1.50:1.00	5,310,150	67,750	-	-	-	-
Share issue costs	-	-	(18,820)	-	-	(18,820)
Discount on shareholder loans	-	-	-	24,466	-	24,466
Balance at December 31, 2010	15,930,452	203,250	1,133,136	136,110	(1,564,296)	(295,050)
Balance at January 1, 2011	15,930,452	203,250	1,133,136	136,110	(1,564,296)	(295,050)
Loss for the period	-	-	-	-	(463,768)	(463,768)
Exercise of common share warrants @ $0.10	300,000	-	30,000	-	-	30,000
Common shares issued under Irrevocable Subscription Agreements	750,000	-	112,500	-	-	112,500
Common shares issued under Irrevocable Subscription Agreements	357,142	-	49,999	-	-	49,999
Series I Preference Shares converted @ $0.20	1,500,000	-	300,000	-	-	300,000
Class B Series II Preference Shares converted to common shares	1,791,563	(203,250)	66,051	-	(66,051)	-
Repricing of common shares	-	-	41,600	-	-	41,600
Share issue costs	-	-	(21,532)	-	-	(21,532)
Common shares issued for cash @ $0.15	250,000	-	37,500	-	-	37,500
Common shares issued to settle debt	110,000	-	16,500	-	-	16,500
Discount on shareholder loans	-	-	-	20,078	-	20,078
Stock based compensation	-	-	-	5,864	-	5,864
Balance at December 31, 2011	20,989,157	-	1,765,754	162,052	(2,094,115)	(166,309)

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

PACIFIC THERAPEUTICS LTD.
(A Development Stage Company)

Statements of Cash Flow
(Expressed in Canadian Dollars)

For 12 months ending December 31,	2011	2010
		(Reclassified)
	$	$
Cash flows used in operating activities		
Net loss and Comprehensive loss	(463,768)	(318,100)
Adjustments for items not affecting cash		-
Amortization of property and equipment	1,810	2,444
Amortization of intangible assets	3,489	3,109
Amortization of deemed discounts on ISA, Class B Series I Preferred Shares and shareholder loans	84,253	26,547
Loss on conversion of Series I Preferred Shares	43,349	-
Stock based compensation	5,864	3,000
Changes in non-cash working capital balances		
Harmonized sales tax recoverable	(8,657)	(1,037)
Prepaid expenses	(684)	16,709
Security deposit	(2,400)	2,400
Unearned revenue	(2,600)	2,600
Accounts payable and accrued liabilities	54,983	12,971
	(284,361)	(249,357)
Cash flows used in investing activities		
Additions to intangible assets	(22,580)	(30,713)
Cash flows from financing activities		
Issue of common shares for cash	109,100	130,680
Due to shareholders short term	15,269	94,260
Due to shareholders long term	108,210	-
ISA proceeds from partial draw down of funds	49,999	-
	282,578	224,940
Decrease in cash and cash equivalents	(24,363)	(55,130)
Cash and cash equivalents, beginning of period	30,457	85,587
Cash and cash equivalents, end of period	6,094	30,457

The accompanying notes are an integral part of these 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, Canada 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. On October 14, 2011, the Company became a reporting company in British Columbia and was approved by the Canadian National Stock exchange (“CNSX”) and opened for trading on November 16, 2011.

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 have been 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 financial statements for the twelve month period ended December 31, 2011 are the company’s first IFRS annual financial statements, and therefore, *IFRS 1 First-time Adoption of International Financial Reporting Standards,* has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 18 of these statements.

These financial statements were approved and authorized for issue by the Board of Directors on April 11, 2012.

(b) Basis of Presentation

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION (continued)

(c) Use of Estimates

The preparation of financial statements in conformity with IFRS 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.

(d) Comparative Figures

Certain comparative figures have been adjusted to conform to the current period's presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these 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, and therefore diluted per share amounts do not differ from basic share amounts. The loss per share on the statement of comprehensive loss for 2011 and 2010, on a retrospective basis, reflects the stock dividend on the conversion of the Class B Series II Preferred Shares to Class A Common Shares, that took place on November 16, 2011.

(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 December 31, 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 twelve months ended December 31, 2011, no SR&ED amounts were received.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property and equipment

Property and equipment is recorded at cost. Amortization is recorded annually at rates calculated to write off the assets over their estimated useful lives as follows:

Computer equipment	45% diminishing balance
Furniture and fixtures	20% diminishing balance
Leasehold improvements	straight-line over the term of the lease

In the year of acquisition, these rates are reduced by one-half.

(e) Technology licenses and patent costs

Technology licenses acquired from third parties that 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 undiscounted 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.

(f) Impairment

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that an asset’s carrying amount may be less than its recoverable amount. Management uses judgment to estimate these inputs and any changes to these inputs could have a material impact on the impairment calculation. For impairment testing, non-financial assets that do not generate independent cash flows are grouped together into cash-generating units (CGUs), which represent the levels at which largely independent cash flows are generated. An impairment loss is recognized in earnings to the extent that the carrying value of an asset, CGU or group of CGU’s exceeds its estimated recoverable amount. The recoverable amount of an asset, CGU or group of CGU’s is the greater of its value in use and its fair value less cost to sell. Value in use is calculated as the present value of the estimated future cash flows discounted at appropriate discount rates. An impairment loss relating to a specific asset reduces the carrying value of the asset. An impairment loss relating to a group of CGU’s is allocated on a pro-rata basis to reduce the carrying value of the assets in the units comprising the group. A previously recognized impairment loss related to non-financial assets is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss related to non-financial assets is reversed if there is a subsequent increase in recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying value does not exceed the carrying value that would have been determined, net of depreciation or amortization, if no loss had been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Share-based payments

Share-based payments are recognized at fair value on the date granted and charged to the statement of comprehensive loss 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. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. 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.

(h) 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 December 31 2011, the Company's net deferred income tax assets are fully offset by a valuation allowance.

(i) Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, amounts due to shareholders, and irrevocable subscriptions. 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. Financial Instruments are classified into one of five categories; fair value through profit or loss, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments are initially measured at fair value plus transactions costs, with subsequent measurement based upon classification.

The company's cash and cash equivalents are classified as loans and receivables, which are measured at amortized cost. The Company's accounts payable and accrued liabilities, amounts due to shareholders, and irrevocable subscriptions are classified as financial liabilities and are carried at amortized cost using the effective interest rate method.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2013 or later periods. 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.

4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

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.

5. RESTRICTED CASH

The Company's restricted cash at December 31, 2011 of $300,000 (2010 - $Nil) consists of funds held in an escrow account, pursuant to the terms of the Irrevocable Subscription Agreements ("ISAs") with investors (Note 8). The release of the invested funds is governed by the terms of the ISAs (Note 8) 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.

6. PROPERTY AND EQUIPMENT

Cost

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Balance at January 1, 2010	$ 5,876	$ 8,093	$ 8,330	$ 22,299
Additions	-	-	-	-
Disposals	-	-	-	-
Balance at December 31, 2010	$ 5,876	$ 8,093	$ 8,330	$ 22,299
Balance at January 1, 2011	$ 5,876	$ 8,093	$ 8,330	$ 22,299
Additions	-	-	-	-
Disposals	-	-	-	-
Balance at December 31, 2011	$ 5,876	$ 8,093	$ 8,330	$ 22,299

Amortization

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Balance at January 1, 2010	$ 4,590	$ 3,432	$ 3,665	$ 11,687
Amortization for the year	579	932	933	2,444
Balance at December 31, 2010	$ 5,169	$ 4,364	$ 4,598	$ 14,131
Balance at January 1, 2011	$ 5,169	$ 4,364	$ 4,598	$ 14,131
Amortization for the year	318	746	746	1,810
Balance at December 31, 2011	$ 5,487	$ 5,110	$ 5,344	$ 15,941

Carrying amounts

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
At January 1, 2010	$ 1,286	$ 4,661	$ 4,665	$ 10,612
At December 31, 2010	$ 707	$ 3,729	$ 3,732	$ 8,168
At January 1, 2011	$ 707	$ 3,729	$ 3,732	$ 8,168
At December 31, 2011	$ 389	$ 2,983	$ 2,986	$ 6,358

7. INTANGIBLE ASSETS

Cost

	Technology Licenses (i)	Patents (ii)	Total
Balance at January 1, 2010	$ 21,238	$ 25,418	$ 46,656
Additions	9,500	21,214	30,714
Disposals	-	-	-
Balance at December 31, 2010	$ 30,738	$ 46,632	$ 77,370
Balance at January 1, 2011	$ 30,738	$ 46,632	$ 77,370
Additions	11,772	10,808	22,580
Disposals	-	-	-
Balance at December 31, 2011	$ 42,510	$ 57,440	$ 99,950

Amortization

	Technology Licenses (i)	Patents (ii)	Total
Balance at January 1, 2010	$ -	$ 2,722	$ 2,722
Amortization for the year	-	3,108	3,108
Balance at December 31, 2010	$ -	$ 5,830	$ 5,830
Balance at January 1, 2011	$ -	$ 5,830	$ 5,830
Amortization for the year	-	3,489	3,489
Balance at December 31, 2011	$ -	$ 9,319	$ 9,319

Carrying amounts

	Technology Licenses (i)	Patents (ii)	Total
At January 1, 2010	$ 21,238	$ 22,696	$ 43,934
At December 31, 2010	$ 30,738	$ 40,802	$ 71,540
At January 1, 2011	$ 30,738	$ 40,802	$ 71,540
At December 31, 2011	$ 42,510	$ 48,121	$ 90,631

7. INTANGIBLE ASSETS (continued)

(i) 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 has paid license fees to date of $42,510 (2010: $30,738) to secure this license which is to be credited towards future royalties. As part of the agreement 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, details of which are further explained in Note 16, Commitments.

(ii) The Company is currently pursuing a patent application for the compositions and methods of treating fibro proliferative disorders. Costs of this application incurred to date are $57,440 (2010 - $46,632). The application is still pending as at December 31, 2011, however due to a finite life of the patent which begins from the date of application; the Company is amortizing these costs over the expected life of the patent.

(iii) In 2011, in accordance with the Company's policy on impairment testing, per Note 2(f), the Company concluded that no impairment in its intangible asset values existed and consequently no impairment loss was recognized in the year.

8. IRREVOCABLE SUBSCRIPTION AGREEMENTS ("ISA")

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 Agreement and Escrow Agreement between the Company and the investors and the trustee with an effective date of January 31, 2011.

As a bonus, for placing the subscription funds in trust, the Company issued 550,000 Class A common shares based on 20% of the principal value of the subscription. The bonus shares were allocated a value of $82,500 based on a fair value of $0.15 per share. In addition, the Company issued 2,200,000 common share purchase warrants with an exercise price of $0.15 with a term of two years. The shares and warrants were issued as of the effective date of the irrevocable subscription and escrow agreements.

On February 2, 2011, the Company received a further $25,000 in subscription funds. The release of the invested funds is governed by the terms of the Irrevocable Subscription Agreement and Escrow Agreement between the Company and the investors and the trustee with an effective date of January 31, 2011. In addition, the Company also issued 200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of two years. The shares and warrants were issued as of the effective date of the Irrevocable Subscription Agreement and Escrow Agreement.

As a bonus for placing the subscription funds in trust, the Company issued 50,000 Class A common shares based on 20% of the principal value of the subscription. The bonus shares were allocated a value of $7,500 based on a fair value of $0.15 per share. These $25,000 of funds are callable on demand. On November 15, 2011, the investor terminated their participation in the ISA, and their funds were returned to them.

On May 16, 2011, the Company received a further $75,000 in subscription funds. The release of the invested funds is governed by the terms of the Irrevocable Subscription Agreement and Escrow Agreement between the Company and the investors and the trustee with an effective date of May 16, 2011.

8. IRREVOCABLE SUBSCRIPTION AGREEMENTS ("ISA") (continued)

As a bonus for placing the subscription funds in trust, the Company issued 150,000 Class A common shares based on 20% of the principal value of the subscription. The bonus shares were allocated a value of $22,500 based on a fair value of $0.15 per share. In addition, the Company issued 600,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of two years. The shares and warrants were issued as of the effective date of the Irrevocable Subscription Agreements and Escrow Agreement.

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, and were returned to the investor in December 2011 and are no longer outstanding at year end.

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.

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 two 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.

As at December 31, 2011, $3,000,000 of the Company's Class A common shares were reserved to fulfill the terms of this agreement.

Throughout the year, the Company has accreted the amount allocated to the bonus shares, i.e., the ("deemed discount"), rateably over the term of the agreement to interest expense.

During the twelve month period ended December 31, 2011, the Company recorded total interest expense of $140,597 (2010 - $Nil) on the ISAs, inclusive of 1% interest per month recorded on the ISA funds held in escrow of $38,250, and accretion of the amount allocated to bonus shares, i.e., the ("deemed discount") of $102,347.

On December 14, 2011, the Company completed a private placement under the terms of the ISA, selling 357,142 common shares at a price of $0.14 per share to participating subscribers to the ISA, for aggregate proceeds of $49,999, released from trust to the Company for their general use, per the terms of the ISA agreement draw-down feature, and subtracted from the ISA liability balance outstanding.

8. IRREVOCABLE SUBSCRIPTION AGREEMENTS (“ISA”) (continued)

See ISA continuity schedule below:

	2011	2010
Principal amount of ISA received from investors	$ 375,000	$ -
Amount allocated to Bonus shares (“Deemed Discount”)	(112,500)	-
Net amount allocated to ISA	262,500	-
Amount returned to investor on demand	(25,000)	-
Draw down of funds	(49,999)	-
Accretion of deemed discount in 2011	42,980	-
Net carrying amount	$ 230,481	$ -

9. INCOME TAXES

The Company accounts for income taxes using the liability method of tax allocation. Future taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets are evaluated periodically and if realization is not considered likely, a valuation allowance is provided.

(a) Future tax asset and liabilities:

	2011	2010
Future tax assets (liabilities):		
Operating loss carry-forwards	$ 473,900	$ 190,053
Property and equipment	893	7,677
Intangible assets	(4,282)	(7,351)
	470,511	190,379
Valuation allowance	(470,511)	(190,379)
Net future tax asset	$ -	$ -

(b) Loss carry-forwards:

The Company has accumulated non-capital losses of approximately $1,788,000 which will expire as follows:

2015	$ 23,000
2026	130,000
2027	451,000
2028	245,000
2029	254,000
2030	283,000
2031	402,000
	$ 1,788,000

The Company has undepreciated capital cost of $68,299 [2010 - $65,033] available to be deducted against future taxable income.

10. DUE TO SHAREHOLDERS

Shareholders of the Company are owed $20,300 (2010 - $72,485) that is unsecured and payable on demand.

Two shareholders of the Company are owed $202,470 (2010 - $Nil) long-term shareholder loans as at December 31, 2011. The loans are unsecured and non-interest bearing, with a fixed repayment date of January 1, 2013. The repayment date of the loan was restructured on 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 December 31, 2011. This loan is carried on the face of the financial statements at amortized cost, using a discount rate of 15%. See continuity schedule below:

		2011		2010
Principal amount of shareholder loan liability	$	202,470	$	94,260
Less discount allocated to contributed surplus		(41,853)		(24,466)
Shareholder loan outstanding (net of discount)		160,617		69,794
Accretion of discount		15,318		2,691
Net carrying amount	$	175,935	$	72,485

11. CLASS B SERIES I PREFERRED SHARES

Under the Class B Series I preferred shares agreement, the shares are eligible to receive an amount equal to $.30 per share upon the occurrence of specified events, and were therefore classified as a financial liability and carried at amortized cost on the face of the balance sheet in 2011, to November 16, 2011. For the period January 1, 2011 to November 16, 2011, the Company recorded in interest expense accretion of the preferred shares discount in the amount of $25,955 (twelve month period ended December 31, 2010 - $23,858).

On November 16, 2011 the Company was listed for trading on a recognized stock exchange, the ("CNSX") triggering the automatic conversion clause in the Class B Series I shares agreement. On this date, the Class B Series I preferred shares automatically converted to Class A common shares, on a one to one basis, per the automatic conversion feature in the Class B Series I preferred shares agreement, resulting in conversion of the $300,000 of Class B Series I preferred shares stated value to $300,000 of Class A common shares on this date. See Class B Series I preferred shares continuity schedule below:

		November 16, 2011		December 31, 2010
Stated amount of Class B Series I preferred shares	$	300,000	$	300,000
Unamortized discount		(43,349)		(69,304)
Net carrying amount	$	256,651	$	230,696

The remaining unamortized discount at the date of conversion, of $43,349 was recognized as a loss on conversion of Class B Series I Preferred Shares.

12. 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

Issued

20,989,157	Class A common shares without par value
NIL	Class B Series I preferred shares without par value
NIL	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, under the terms of the ISA agreement, the Company issued 550,000 Class A common shares at a fair value price per share of $0.15 (Note 8). The Company also issued 2,200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of two years.

On January 31, 2011, 300,000 common share purchase warrants were exercised at $0.10 per share, and 300,000 common shares were issued, for gross proceeds of $30,000.

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 two years.

On February 2, 2011, under the terms of the ISA agreement, the Company issued 50,000 Class A common shares at a fair value price per share of $0.15 (Note 8). The Company also issued 200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of two years.

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 two years, for gross proceeds of $9,000. The Company paid $750 10% in finder's fees related to $7,500 of the funds raised.

On May 16, 2011, under the terms of the ISA agreement, the Company issued 150,000 Class A common shares at a fair value price of $0.15 (Note 8). The Company also issued 600,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of two years.

On July 21, 2011 the Company completed a private placement of 50,000 common shares at $0.15 per share, for gross proceeds of $7,500.

12. SHARE CAPITAL (continued)

On July 27, 2011 the Company completed a private placement of 110,000 common shares at $0.15 per share in exchange for debt, for a total of issued share capital of $16,500.

On November 16, 2011 the company issued 1,500,000 common shares on conversion of 1,500,000 Class B Series I Preferred Shares with a total subscription price of $300,000.

On November 16, 2011, the Company triggered the automatic conversion clause in the Class B Series II preferred shares agreement, on becoming listed on a National Stock exchange (the "CNSX.") Each Series II Class B preferred share entitled the holder to a 12% annual cumulative dividend payable "in kind" with Class A common shares. Per the Series II Class B Preferred Shares agreement, the shares automatically converted into Class A Common Shares at a price equal to the transaction price less 25%, plus a one-half (1/2) warrant to purchase a common share, upon the Company listing on a National Stock Exchange. On November 16, 2011, the company issued 1,791,563 common shares on the conversion of 203,250 Class B Series II Preferred Shares with a total subscription price inclusive of $135,500 of the stated value of the shares, and accumulated "in kind" dividends of $66,051. In addition, 602,222 warrants were issued upon conversion. Each one (1) full purchase warrant (the "Series II Purchase Warrant") may be exercised to purchase one (1) Class A Common Share, at the transaction price, for a period of two (2) years from the date of issue.

On December 13, 2011 the company completed a drawdown of $49,999 under the Irrevocable Subscription Agreements by way of a private placement. The company issued 357,142 shares at $0.14 per share per the private placement.

Stock options and share based compensation:

At December 31, 2011, the Company had 1,650,000 (December 31, 2010 - 1,875,000) stock options outstanding, of which 1,550,000 (December 31, 2010 – 1,645,000) 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 January 31, 2012 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, 2010	1,875,000	0.25
Expired	(150,000)	0.20
Cancelled	(75,000)	0.27
Balance December 31, 2011	1,650,000	0.25

The Company recognized $5,864 in share based compensation expense for the twelve months ended December 31, 2011 compared to $Nil for the twelve months ended December 31, 2010. Share based compensation expenses are comprised of awards of options granted to employees and non employees of the Company. The Company's Board of Directors has discretion as to the number, vesting period, and expiry dates of options granted. Stock options are granted to both employees and non-employees.

12. SHARE CAPITAL (continued)

The fair value of share based awards is determined using the Black-Scholes option pricing model. Like other accepted option valuation models, the Black-Scholes model was developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. The Black-Scholes option pricing model is also based on several subjective assumptions including the expected life of the option and expected future stock price volatility. Changes in these assumptions can materially affect the estimated fair value of the Company's stock options.

The estimated fair value of options granted to the Company's employees and directors is calculated at the grant date and amortized using graded vesting over the vesting period of the options. The fair value of non-employee awards are estimated each reporting period until the final measurement date.

The following table summarizes assumptions used in the Black-Scholes option pricing model for employees and directors for the respective twelve month periods ending December 31, 2011 and December 31, 2010.

	Employees and Directors	
	2011	**2010**
Dividend yield	0%	0%
Expected volatility	47%	.10%
Risk free interest rate	1.4% and 1.8%	1.3% and 3.5%
Expected life in years	1 – 4 years	2 - 5 years
Fair value per share	$0.05	$0
Forfeiture rate	4%	0%

Warrants

As at December 31, 2011, the following share purchase warrants were outstanding:

	Issued	Weighted Average Exercise Price	Expiry Date
December 31, 2010	1,009,267	$ 0.20	
Exercised	(300,000)	0.10	
Expired	(681,067)	0.25	
Issued	3,802,222	0.16	January 31, 2013 - October 31, 2013
December 31, 2011	**3,830,422**	**$ 0.16**	

On January 31, 2011, 300,000 common share purchase warrants were exercised at $0.10 per share, and 300,000 common shares were issued, for gross proceeds of $30,000.

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 two years.

12. SHARE CAPITAL (continued)

Between January 26, 2011 and May 16, 2011, under the terms of the ISA agreements, the Company issued 750,000 class A common shares at a fair value price of $0.15 per share (Note 8) Also, pursuant to the ISA agreements, between January 26, 2011 and May 16, 2011, the Company issued 3,000,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of two years.

On October 31, 2011, the Company triggered the automatic conversion clause in the Class B Series II preferred shares agreement, on becoming listed on a National Stock exchange (the “CNSX.”) Each Series II Class B preferred share entitled the holder to a 12% annual cumulative dividend payable "in kind" with Class A common shares. Per the Series II Class B Preferred Shares agreement, the shares automatically converted into Class A Common Shares at a price equal to the transaction price less 25%, plus a one-half (1/2) warrant to purchase a common share, upon the Company listing on a National Stock Exchange. On November 16, 2011, the company issued 1,791,563 common shares on the conversion of 203,250 Class B Series II Preferred Shares with a total subscription price inclusive of $135,500 of the stated value of the shares, and accumulated “in kind” dividends of $66,051 In addition, 602,222 warrants were issued upon conversion. Each one (1) full purchase warrant (the "Series II Purchase Warrant") may be exercised to purchase one (1) Class A Common Share, at the transaction price, for a period of two (2) years from the date of issue.

13. CAPITAL DISCLOSURE

The Company considers its capital under management to be comprised of shareholders’ equity and any debt that it may issue. As at December 31, 2011 the Company’s shareholders’ deficiency was $166,309 (December 31, 2010 - $295,050.) The Company’s outstanding issued debt includes the Class B Series I Preferred Shares of $Nil (December 31, 2010 - $230,696) due to shareholders’ long-term of $175,935 (December 31, 2010 - $Nil), due to shareholders short-term of $20,300 (2010 - $72,485) and Irrevocable Subscriptions of $230,481 (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.

14. RELATED PARTY TRANSACTIONS AND BALANCES

Details of the transactions between the Company and its related parties are disclosed below:

(a) Related Party Transactions

		2011		2010
Accounting fees paid to a shareholder of the Company	$	21,000	$	36,000
Legal fees incurred from a consultant and director of the Company	$	7,934	$	5,684
Share based payments to employees and directors of the Company	$	5,864	$	Nil
Salaries, directors fees and other benefits	$	115,433	$	159,709
Sublease revenues from a company controlled by a shareholder of the Company	$	Nil	$	31,200
Website design fees paid to an individual related to a shareholder of the Company	$	Nil	$	4,382
Initial fee under a letter of intent for a licensing agreement received from a company controlled by a shareholder of the Company	$	Nil	$	10,000

(b) Related Party Balances

		2011		2010
Amounts in accounts payable and accrued liabilities owing to a consultant and director of the Company for legal fees	$	14,991	$	5,819
Amount in accounts payable and accrued liabilities owing to a shareholder and director of the Company for unpaid salary and expenses	$	23,306	$	35,062
Amounts in accounts payable and accrued liabilities owing to a shareholder of the Company for accounting fees	$	3,360	$	26,460

15. FINANCIAL INSTRUMENTS AND RISK

Financial Instruments

As at December 31, 2011, the Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, amounts due to shareholders, and irrevocable subscriptions. The fair values of cash and cash equivalents and accounts payable and accrued liabilities approximate their carrying values due to their short term maturity.

The Company classifies its cash and cash equivalents as loans and receivables and its accounts payable and accrued liabilities, amounts due to shareholders and irrevocable subscriptions as other financial liabilities.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. 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 are subject to normal trade terms. The Company does not have investments in any asset-backed deposits. The Company's liabilities as at December 31, 2011, are due as follows:

Liabilities Outstanding		
On demand	$	-
0 – 30 days		182,071
31 – 90 days		-
365 days		-
Over 365 days		406,416
Total	**$**	**588,487**

Foreign Exchange Risk

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

Interest Rate Risk

At December 31, 2011 the Company is not exposed to significant interest rate risk as its interest bearing debt is at fixed rates.

16. COMMITMENTS

The Company's commitments are as follows:

(a) 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.

(b) The Company is obligated under a rental lease agreement to make payments in 2012 of $44,736.

17. SUBSEQUENT EVENTS

On January 31, 2012, The Company terminated the irrevocable subscription agreements entered into by the Issuer on January 31, 2011 and May 16, 2011. Termination of these agreements will eliminate 3,000,000 shares that are reserved for Issue improving the Issuer's capital structure. The termination also eliminates the 1% per month interest expense on the money that is held in trust as well as transaction costs associated with issuing shares associated with the draw downs.

On January 31, 2012, an officer and director of the Company exercised 66,666 warrants @ $0.15 for net proceeds of $9,999.90

On March 14, 2012, subject to CNSX Exchange approval, the Company granted 100,000 options pursuant to the Company's stock option plan. The options may be exercised up until March 1, 2014 at an exercise price of $0.15.

18. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in Note 2(a), these financial statements are the first annual statements prepared by the Company in accordance with IFRS 1*, First-time adoption of International Financial Reporting Standards.* The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended December 31, 2011 and the comparative financial information presented in these financial statements for the year ended December 31, 2010, as well as in the preparation of an opening IFRS Balance Sheet as 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 IFRS 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. Conversion from Canadian GAAP to IFRS resulted in the addition of Class B Series I Preferred Shares interest, and a revised net loss in the cash flow statement only; 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.

Reconciliation of Statement of Financial Position

	Note	Previous GAAP	Effect of transaction to IFRS		IFRS	Previous GAAP	Effect of transaction to IFRS		IFRS
AS AT:			**January 1, 2010**				**December 31, 2010**		
			Note 1	**Note 1**					
ASSETS									
CURRENT									
Cash		$ 85,587	$ -	$ -	$ 85,587	$ 30,457	$ -	$ -	$ 30,457
Restricted cash (Note 5)		-	-	-	-	-	-	-	-
Harmonized sales tax recoverable		4,282	-	-	4,282	5,319	-	-	5,319
Prepaid expenses		21,143	-	-	21,143	4,435	-	-	4,435
		111,012	-	-	111,012	40,211	-	-	40,211
PROPERTY AND EQUIPMENT (Note 6)		10,612	-	-	10,612	8,168	-	-	8,168
INTANGIBLE ASSETS (Note 7)		43,934	-	-	43,934	71,540	-	-	71,540
		$ 165,558	$ -	$ -	$ 165,558	$ 119,919	$ -	$ -	$ 119,919
LIABILITIES									
CURRENT									
Accounts payable and accrued liabilities		$ 93,816	$ -	$ -	$ 93,815	$ 106,788	$ -	$ -	$ 106,788
Unearned revenue		-	-	-	-	2,600	-	-	2,600
Security deposit		-	-	-	-	2,400	-	-	2,400
Due to shareholders (Note 10)		-	-	-	-	72,485	-	-	72,485
		93,816	-	-	93,815	184,273	-	-	184,273
NON-CURRENT LIABILITIES									
Irrevocable subscriptions (Note 8)		-	-	-	-	-	-	-	-
Shareholders' long term loan (Note 10)		-	-	-	-	-	-	-	-
Class B Series I Preferred Shares (Note 11)	**A**	-	300,000	-	300,000		300,000	(69,304)	230,696
		-	300,000	-	300,000		300,000	(69,304)	230,696
SHAREHOLDERS' EQUITY (DEFICIENCY)									
Share capital (Note 12)	**A**	1,299,456	(300,000)	-	999,456	1,433,136	(300,000)	-	1,133,136
Contributed surplus	**A**	18,482	-	-	18,482	42,948	-	93,162	136,110
Deficit accumulated during the development stage	**A**	(1,246,195)	-	-	(1,246,195)	(1,540,438)	-	(23,858)	(1,564,296)
		71,743	(300,000)	-	(228,258)	(64,354)	(300,000)	(69,304)	(295,050)
		$ 165,558	$ -	$ -	$ 165,558	$ 119,919	$ -	$ -	$ 119,919

Reconciliation of Statement of Comprehensive Loss

FOR YEAR ENDING DECEMBER 31,	Note	Previous GAAP	Effect of transaction to IFRS	IFRS
			2010	
Expenses				
Advertising and promotion		$ 1,979	$ -	$ 1,979
Amortization		5,553	-	5,553
Bank charges & interest		527	-	527
Computer		4,382	-	4,382
Insurance		14,701	-	14,701
Office and miscellaneous		2,936	-	2,936
Professional Fees		67,444	-	67,444
Rent and occupancy costs		14,556	-	14,556
Research and development		15,469	-	15,469
Telephone and utilities		2,699	-	2,699
Travel		1,596	-	1,596
Wages and benefits		159,709	-	159,709
Total Expenses		291,551	-	291,551
Interest Expenses				
Amortization of deemed discount				
Interest Class B Series I Preferred Shares	A	-	23,858	23,858
Loan amortized deemed discounts	A	2,691	-	2,691
Total Amortization of deemed discount		2,691	23,858	26,549
Total Interest Expenses		2,691	23,858	26,549
Net Loss and Comprehensive Loss		**$(294,244)**	**$(23,858)**	**$(318,100)**

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 11) at an amount equal to $0.30 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	December 31, 2010
Class B Series 1 Preferred Shares per Cdn GAAP	-	-
Class B Series 1 Preferred Shares per IFRS	$ 300,000	$ 230,696
Adjustment (Note 1)	$ 300,000	$ 230,696
Shareholders' Equity per Cdn GAAP	$1,299,456	$1,433,136
Shareholders' Equity per IFRS	999,456	1,133,136
Adjustment	$ (300,000)	$ (300,000)
Contributed Surplus per Cdn GAAP	$ 18,842	$ 42,498
Contributed Surplus per IFRS	18,482	136,110
Adjustment	$ -	$ 93,162

Income Statement

	December 31, 2010
Interest Expense Deemed Discount per Cdn. GAAP	-
Interest Expense Deemed Discounts per IFRS	$23,858
Adjustment	$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).