A copy of this preliminary prospectus has been filed with the securities regulatory authority in the province of British Columbia, but has not yet become final. Information contained within this preliminary prospectus may not be complete and may have to be amended.

This prospectus is not related to a public offering. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

AMENDED AND RESTATED PRELIMINARY PROSPECTUS

NON-OFFERING PROSPECTUS **DATED: June 13, 2011**

PACIFIC THERAPEUTICS LTD.
(the "Issuer")

No securities are being offered pursuant to this prospectus. This prospectus amends and restates the preliminary prospectus of the Issuer dated March 15, 2011. This prospectus is being filed with the British Columbia Securities Commission for the purpose of allowing Pacific Therapeutics Ltd. (the "Issuer") to become a reporting issuer in the jurisdiction of British Columbia. Since no securities are being offered pursuant to this prospectus, no proceeds will be raised and all expenses incurred in connection with the preparation and filing of this prospectus will be paid by the Issuer.

No underwriters or selling agents have been involved in the preparation of this prospectus or performed any review or independent due diligence of the contents of this prospectus.

There is currently no market through which these securities may be sold and purchasers may not be able to resell the securities of the Issuer owned by them. This may affect the pricing of the Issuer's securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Issuer's securities and the extent of Issuer regulation. See "*Risk Factors*".

As at the date of this prospectus, the Issuer does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, a U.S. marketplace, or a marketplace outside Canada and the United States of America other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc.

Unless otherwise noted, all currency amounts in this Prospectus are stated in Canadian dollars.

Pacific Therapeutics Ltd.
#1023 – 409 Granville Street
Vancouver, BC
V6C 1T2

Phone: 604-738-1049
Fax: 604-738-1094

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FORWARD LOOKING STATEMENTS

Certain statements included in this Prospectus constitute forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", "may", "should" and similar expressions to the extent they relate to the Issuer or its management. The forward-looking statements are not historical facts but reflect current expectations regarding future results or events. This Prospectus contains forward looking statements. These forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors.

The risk factors described in this Prospectus are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in the Issuer's forward-looking statements. In addition, any forward-looking statements represent the Issuer's estimates only as of the date of this Prospectus and should not be relied upon as representing the Issuer's estimates as of any subsequent date. The material factors and assumptions that were applied in making the forward-looking statements in this Prospectus include: (a) execution of the Issuer's existing plans which may change due to changes in the views of the Issuer, or if new information arises which makes it prudent to change such plans; and (b) the accuracy of current interpretation of research results, since new information or new interpretation of existing information may result in changes in the Issuer's expectations. Forward looking statements are based on a number of assumptions that may prove to be incorrect including but not limited to assumptions about: (i) industry trends in healthcare, (ii) the outcome of the Issuer's research and development, specifically the outcome of the formulation and clinical studies of PTL-202, (iii) the ability of the Issuer to finance further clinical trials, (iv) the Issuer's ability to profitably out license its technology to a company capable of completing the commercialization of the technology and (v) the ability of the Issuer to have its clinical trials approved by regulatory authorities in the European Union, the United States and other jurisdictions. Readers should not place undue reliance on the Issuer's forward-looking statements, as the Issuer's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Issuer's business, or if the Issuer's estimates or assumptions prove inaccurate. Therefore, the Issuer cannot provide any assurance that such forward-looking statements will materialize. The Issuer disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise. For a description of material factors that could cause the Issuer's actual results to differ materially from the forward-looking statements in this Prospectus, see "*Risk Factors"*.

GLOSSARY OF NON- TECHNICAL TERMS

"BCBCA" means the *Business Corporations Act* (British Columbia), as amended from time to time.

"Board" means the board of directors of the Issuer.

"**Common Shares**" means the Class A common shares of the Issuer.

"Conversion Rate" means the conversion rate of Common Shares for Series II Preferred Shares at a price per Series II Preferred Share equal to the Transaction Price less twenty-five percent (25%).

"**CNSX**" means the Canadian National Stock Exchange.

"Dalhousie License Agreement" means the license agreement between the Issuer and Dalhousie University dated April 25, 2007 and subsequently amended on May 6, 2008, July 9, 2008, March 24, 2009, January 25, 2010 and February 2, 2011.

"Dalhousie Rights" means the know how possessed by Dalhousie University relating to the development and use of compounds and assays' as well as the patent rights owned by Dalhousie University that have been licensed to the Issuer.

"Effective Date" means the date of the issue of the final receipt issued by the Securities Commission for this Prospectus.

"Effective Date of the Irrevocable Subscription Agreements" means the date the terms of the Irrevocable Subscription Agreements came into effect.

"Escrow Agreement" means the agreements dated January 31, 2011 and May 16, 2011 between the subscribers under the Irrevocable Subscription Agreements, the Issuer and Fasken Martineau DuMoulin LLP governing the dispersal of funds from the Irrevocable Subscription Agreements.

"Field of Use" means the research, development, manufacture and sale of human medical diagnostic and therapeutic applications incorporating the Dalhousie Rights solely for pulmonary diseases and radiation induced fibrosis. Diseases specifically excluded from the Fiel of Use include, but are not limited to human kidney disease, glomerular nephritis, nephritis associated with systemic lupus, liver fibrosis, grave's opthomology, drug induced ergotism, cancer, alzheimer's disease, myeloid lrukemia, acute myelogenous leukemia or infalamatory bowel disease.

"Insider" means:

(a) a director or senior officer of the Issuer;

(b) a director or senior officer of the Issuer that is an Insider of a subsidiary of the Issuer;

(c) a person that beneficially owns or controls, directly or indirectly, voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of the Issuer; or

(d) the Issuer itself if it holds any of its own securities.

"IntelGenx Development and Commercialization Agreement" means the development and commercialization agreement between the Issuer and IntelGenx dated February 28, 2011.

"Issuer" means Pacific Therapeutics Ltd., a company incorporated under the laws of the Province of British Columbia.

"Irrevocable Subscription Agreements" means the subscription agreements with effective dates of January 31, 2011 and May 16, 2011.

"Licensed Products" means any product/device, component, method or procedure in the Field of Use, the manufacture, use, distribution, delivery or sale of which would infringe the Dalhousie Rights in the country of such manufacture, use, distribution, delivery or sale, but for the license granted in the license agreement with Dalhousie University.

"Named Executive Officer" or **"NEO"** means for every reporting issuer, the following individuals: (a) its CEO; (b) its CFO; and (c) each of its three most highly compensated executive officers, other than the CEO and CFO, whose total salary and bonus exceeded $150,000; and in the case of the Issuer means, as at December 31, 2010, Douglas H. Unwin, the Issuer's President and CEO, and Derick Sinclair, the Issuer's CFO.

"NI 58-101" means National Instrument 58-101, *Disclosure of Corporate Governance Practices.*

"NP 58-201" means National Policy 58-201, *Corporate Governance Guidelines.*

"Option" means option granted by the Issuer to directors, officers and consultants from time to time to purchase Common Shares of the Issuer.

"Person" means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual, or an individual.

"Preferred Shares" means the Class B preferred shares, issuable in series, of the Issuer.

"Principal" means, with respect to the Issuer:

(a) the directors and senior officers of the Issuer;

(b) promoters of the Issuer during the two years preceding the date the Issuer becoming a reporting issuer;

(c) those who own or control more than 10% of the Issuer's voting securities immediately before and immediately after the date the Issuer becoming a reporting issuer if they also have elected or appointed or have the right to elect or appoint a director or senior officer of the Issuer;

(d) those who own or control more than 20% of the Issuer's voting securities immediately before and immediately after the Issuer becoming a reporting issuer; and

(e) associates and affiliates of any of the above.

"Prospectus" means this prospectus of the Issuer.

"**SAB**" means the Issuer's Scientific Advisory Board, as constituted from time to time.

"Securities Commissions" means the securities regulatory authorities in each of the reporting jurisdictions.

"SEDAR" means the System for Electronic Document Analysis and Retrieval, as located on the internet at www.sedar.com.

"Shares" means the Common Shares and Preferred Shares.

"Stock Option Plan" means the stock option plan adopted by the Issuer.

"**Transaction**" means

a) an initial public offering of the Common Shares;

b) the Common Shares becoming listed for trading on a recognized stock exchange or quotation service; or

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

"Transaction Price" means the price or deemed value of the Common Shares paid by a third party in connection with the Transaction or the price of the Common Shares paid by a third party in any financing that occurs as a component of or in connection with, the Transaction (as the case may be). The Transaction Price is deemed to be the last sale price of the Common Shares prior to the listing of the shares, $0.15.

"Transfer Agent" means Valiant Trust Company.

"**Warrants"** means the non-transferable common share purchase warrants of the Issuer that have been granted from time to time as part of previous financings.

"**Warrant Shares**" means the previously unissued Common Shares that will be issued upon exercise of the Warrants.

GLOSSARY OF TECHNICAL TERMS

Adenosine monophosphate (AMP)	5'-adenylic acid, a nucleotide that is found in RNA. It is an ester of phosphoric acid and the nucleoside adenosine. AMP consists of a phosphate group, the sugar ribose, and the nucleobase adenine.
Alveoli	An anatomical structure that has the form of a hollow cavity. Found in the lung, the pulmonary alveoli are spherical outcroppings of the respiratory bronchioles and are the primary sites of gas exchange with the blood.
Antioxidants	A molecule capable of slowing or preventing the oxidation of other molecules. Oxidation is a chemical reaction that transfers electrons from a substance to an oxidizing agent. Oxidation reactions can produce free radicals, which start chain reactions that damage cells.
Bleomycin	A chemotherapy treatment for testicular cancer, a side effect is that it

	causes lung fibrosis
(cAMP)	An important second messenger, in variety of cell types.
Collagen synthesis assays	An in vitro assay to determine the level of collagen produced by a cell
CRO	A contract research organization is a company that provides specific research capabilities on a contract basis.
Cytokine	Are a category of signaling molecules that are used extensively in cellular communication
Desaturate	A very low level of oxygen in the blood.
Epithelial cell	The cells making up the epithelium which is a tissue composed of cells that line the cavities and surfaces of structures throughout the body.
FDA	The United States Food and Drug Administration, an agency of the United States Department of Health and Human Services responsible for protecting the public health by assuring the safety, efficacy, and security of, among other things human and veterinary drugs, biological products and medical devices.
Fibrosis	The development of excess fibrous connective tissue (scarring) in an organ.
Glutathione	An amino acid.
Idiopathic	An adjective used primarily in medicine meaning arising spontaneously or from an obscure or unknown cause.
In Vitro	In glass, as in a test tube. A test that is performed in vitro is one that is done in glass or plastic vessels in the laboratory.
Intermittent Claudication	A clinical diagnosis given for muscle pain (ache, cramp, numbness or sense of fatigue), classically calf muscle, which occurs during exercise and is relieved by a short period of rest.
Interstitial Lung Disease	A common term that includes more than 200 chronic lung disorders, which may be: chronic, non-cancerous, non-infectious, Interstitial lung diseases may also be called interstitial pulmonary fibrosis or pulmonary fibrosis.
Interstitium	The supportive tissue between the air sacs (alveoli) of the lungs.
Liver Cirrhosis	A disease that results in progressive scarring of the liver
***N-acetlcysteine*, NAC**	N-acetylcysteine, pharmaceutical drug used mainly as a mucolytic agent and in the management of paracetamol (acetaminophen) overdose.
Pan-phosphodiesterase inhibitor	A molecule that inhibits the production and action of many types of phosphodiesterase
PCT	The Patent Cooperation Treaty, an international patent law treaty, concluded in 1970 that provides a unified procedure for filing patent applications to protect inventions in each of its contracting states.
Pentoxifylline	The international non-proprietary name of a drug used to treat Intermittent Claudication.
Peroxide	Compounds with a specific functional group or a molecule containing an oxygen-oxygen single bond (R-O-O-R'). Organic peroxides tend to decompose easily to free radicals of the form.
Pharmacokinetic	How the body processes a drug.
Phosphodiesterase	Any enzyme that breaks a phosphodiester bond. Usually, people speaking of *phosphodiesterase* are referring to cyclic nucleotide phosphodiesterases, which have great clinical significance.
PK	Pharmakinetics, a branch of pharmacology dedicated to the determination of the fate of substances administered externally to a living organism.

Post Lung Transplant Bronchiolitis Obliterans	Fibrosis in the airways of the new lung after a lung transplant .
Pro-fibrotic cytokines	A cytokine that increases and promotes scarring
PTX	Pentoxifylline
Pulmonary	Relating to, or associated with, the lungs.
Pulmonary Fibrosis	Scarring of the lung. Gradually, the air sacs of the lungs become replaced by fibrotic tissue. When the scar forms, the tissue becomes thicker causing an irreversible loss of the tissue's ability to transfer oxygen into the bloodstream.
Radiation Induced Fibrosis (RIF)	A serious and common complication of radiation therapy that may cause chronic pain, neuropathy, limited movement of joints, and swelling of the lymph nodes.
Raynaud's phenomenon	A mild form of sclerosis that causes numbing in the fingers from a lack of blood flow.
Reactive Oxidative Molecules (ROS)	Very small molecules that include oxygen ions and peroxides and can be either inorganic or organic. ROS form as a natural byproduct of the normal metabolism of oxygen and have important roles in cell signaling.
Scleroderma	A chronic autoimmune disease characterized by fibrosis (or hardening), vascular alterations, and auto-antibodies
TGF-β	A protein that controls proliferation, cellular differentiation, and other functions in most cells. TGF-beta acts as an anti-proliferative factor in normal epithelial cells.
TNF-Alpha, TNF-α	A cytokine, a category of polypeptide (small protein) regulators that are produced widely throughout the body by cells of diverse origin. TNF-Alpha is involved in systemic inflammation and is a member of a group of cytokines that stimulate the acute phase reaction.

SUMMARY OF PROSPECTUS

The following is a summary of the principal features of this Prospectus and should be read together with the more detailed information and financial data and statements contained elsewhere in this Prospectus.

The Company

The Issuer was incorporated under the BCBCA on September 12, 2005 as Pacific Therapeutics Ltd. The Issuer is principally engaged in the identification and development of drug candidates to treat diseases of excessive scarring. It has established an experienced management, research and development team to undertake this. The Issuer has two principal products in development. See "*Description of the Business*". To date, the principal business of the Issuer has been in-licensing, research and development and patenting of its principal products.

Use of Available Funds

As of December 31, 2010 the Issuer had a working capital deficiency of $76,578 and $30,457 in cash. As at December 31, 2009 the Issuer had a working capital surplus of $17,197 and $85,587 of cash. As at March 31, 2011 the Issuer had working capital of $207,841 and $308,557 in cash and cash equivalents. As at May 31, 2011, the Issuer had working capital of $321,188.

In order to fund the Issuer's research and development and other operating costs until it has completed formulation and a pilot bio-equivalency study, private investors have committed to Irrevocable Subscription Agreements totalling $375,000. $300,000 was committed under Irrevocable Subscription Agreements with the Effective Date of the Irrevocable Subscription Agreements of January, 31, 2011 and $75,000 was committed under Irrevocable Subscription Agreements with an Effective Date of the Irrevocable Subscription Agreements of May 16, 2011. The Issuer has signed Escrow Agreements with these subscribers and Fasken Martineau Dumolin LLP as the trustee whereby aggregate funds of $375,000 have been placed in escrow and would be paid to the Issuer for the issuance of Common Shares of the Issuer. The Issuer issued a bonus of 750,000 Common Shares and Warrants to purchase 3,000,000 Common Shares to the subscribers as an inducement to enter into the Escrow Agreement and Irrevocable Subscription Agreements.

Interest on the funds in escrow will accrue at 1% per month, to be paid quarterly by the Issuer to the subscribers in arrears. Under the terms of the Irrevocable Subscription Agreements the Issuer has the option to return any of the funds in escrow to the subscribers at any time on written notice to the subscribers.

Under the terms of the Irrevocable Subscription Agreements dated January 31, 2011, in the event that the Common Shares are not listed on the CNSX by April 30, 2011 the subscribers to the Irrevocable Subscription Agreements have the right to terminate the Irrevocable Subscription Agreements and have their original investment plus any accrued interest paid to them. All but one of the subscribers to the Irrevocable Subscription Agreements in letters dated March 31, 2011 have agreed to amend the Irrevocable Subscription Agreements to extend the above date to January 1, 2013. Therefore, Irrevocable Subscription Agreements representing $275,000 may not be terminated until January 1, 2013.

Under the terms of the Irrevocable Subscription Agreements dated May 16, 2011, in the event that the Issuer's securities are not listed on the CNSX by June 30, 2011 the subscribers to the Irrevocable Subscription Agreements have the right to terminate the Irrevocable Subscription Agreements and have their original investment plus any accrued interest paid to them. All of the subscribers to the Irrevocable Subscription Agreements with an Effective Date of the Irrevocable Subscription Agreement of May 16, 2011 in letters dated May 31, 2011 have agreed to amend the Irrevocable Subscription Agreements to extend the above date to January 1, 2013. Therefore, Irrevocable Subscription Agreements representing an additional $75,000 may not be terminated until January 1, 2013.

Under the terms of the Irrevocable Subscription Agreements the Issuer may, at its option, draw down from the escrow account (on a pro-rata basis) by issuing $50,000 of its Common Shares by way of a private placement at any time over the next 24 months from the Effective Date of the Irrevocable Subscription Agreement. Each draw down will be at a subscription price equal to the greater of: (a) $0.10 per share; and (b) the CNSX closing price for the Common Shares on the day 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 escrow until such shares are drawn down. For each draw of $50,000 the issuer will issue a maximum of 500,000 Common Shares at a minimum value of $0.10 per share. The maximum total Common Shares that may be issued under the Irrevocable Subscription Agreements is 3,750,000. See *"Material Agreements"*

The Issuer anticipates using its available funds to complete the formulation of PTL-202 and complete bio-equivalency and drug/drug interaction studies (phase 1), to enable continued operation of the Issuer and for other general corporate purposes. The formulation of PTL-202, bio-equivalency and drug/drug interaction studies will be completed in partnership with IntelGenx Corp. ("IntelGenx"). Of the $248,500 budgeted for this development work, $181,500 will be paid by IntelGenx and the remaining $67,000 will be paid by the Issuer. In return for their contribution IntelGenx will receive royalties on future sales of PTL-202.

Officers of the Issuer were owed $89,260 as of December 31, 2010 and March 31, 2011 in unpaid salary and other compensation which are included in long term liabilities. As of May 31, 2011 the Officers are owed $159,042 in unpaid salary, shareholder loans and other compensation which are included in long term liabilities. They have agreed to repayment terms of the earlier of: a) such time as the Issuer has working capital of at least $500,000 remaining after any payment made by the Issuer in respect of all or part of the indebtedness, or (b) January 1, 2013.

As May 31, 2011 the Issuer has working capital of $321,188 and $377,663 in cash and cash equivalents.

$25,000 of funds under the Irrevocable Subscription Agreements have been classified as a short term liability on the Issuers balance sheet as of March 31, 2011 and May 31, 2011. Upon listing of the Issuers Common shares on the CNSX the $25,000 will be reclassified as long term debt increasing working capital by $25,000.

The Issuer will have the following funds available for its future use:

Working Capital	$321,188
Total Funds Available	$321,188

Management anticipates applying its working capital in the following manner:

Research and Development	
PTL-202 Formulation Start-up	$31,500
PTL-202 Formulation Development	124,500
PTL-202 Pilot Biostudy	66,500
PTL-202 Drug/Drug interaction Trial	26,000
Intelgenx R&D Contribution	(181,500)
Net R&D Expense:	67,000
Operating Expense	
General & Administration[1]	188,460
Insurance[2]	14,701
Licenses & IP[3]	9,500
Operating Expense:	212,661

CNSX Listing Fees	$12,000
Interest Expense[4]	18,000
Unallocated Working Capital	11,527
Net Funds Available	$321,188

(1) General & administration expenses are for 12 months and include: professional fees including professional fees incurred with respect to the preparation of this Prospectus $50,000, rent & occupancy $16,800, telephone and utilities $2,760, wages and benefits $129,600, other $13,500. Decreases to general & administration expenses from the previous 12-month period are due to a voluntary decrease in the CEO's salary by $60,000 and CFO's annual fee by $18,000 as well as a reduction in consulting expenses of $14,000.

(2) Insurance expense includes directors and officers insurance and key man life insurance.

(3) Licenses & IP includes $7,500 payments to Dalhousie University as license fees and professional fees for intellectual property protection.

(4) Interest expense is for interest due on the funds held in escrow under the Irrevocable Subscription Agreements.

The Issuer intends to spend the funds available to it as stated in this prospectus. There may be circumstances, however, where for sound business reasons a reallocation of the funds available may be necessary.

See "*Use of Available Funds*".

The Issuer will require funding from other sources to assist with implementation of its research and development and commercialization plans beyond the formulation, bio-equivalency studies described in this prospectus and to continue operations beyond the next year. Such additional funds would likely be raised through a private placement of securities. There is no assurance that such funding will be available. Should additional funds be raised, a portion of those funds may be used for the research and development of PTL-303, and further development of PTL-202. PTL-303 is a potential treatment for Liver Cirrhosis. It is a combination of drugs approved in some countries for diseases other than fibrosis.

Risk Factors

The business of the Issuer is subject to certain risks, including but not restricted to risks related to: limited operating history and expected continued operating losses, title to intellectual property, inherent risks of the pharmaceutical industry, uninsurable risks, permits and licenses, competitive risks, dependence on key management, risks associated with early stage pharmaceutical research, additional funding requirements, conflicts of interest, dilution, volatility of publicly traded securities, discretion in the use of funds, influence of third party shareholders and no history of dividends. See "*Risk Factors*".

Summary of Selected Consolidated Financial Information

The following table sets forth selected financial information for the Issuer for the periods indicated. The following summary of selected financial information is derived from and should be read in conjunction with and is qualified in its entirety by reference to the Issuer's unaudited interim financial statements for the three month period ended March 31, 2011 and audited financial statements for the fiscal years ended

December 31, 2010, December 31, 2009 and December 31, 2008. See "*Management's Discussion and Analysis*" for MD&A of the Issuer for the three month period ended March 31, 2011 and fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008.

	Quarter ended March 31, 2011 (unaudited)	**Year ended December 31, 2010 (audited)**	**Year ended December 31, 2009 (audited)**	**Year ended December 31, 2008 (audited)**
Statements of Operations Data				
Total Revenues	$Nil	$Nil	$Nil	$Nil
Total Expenses	71,605	$291,553	$227,961	$355,071
Net Income (Loss)	($71,605)	($291,553)	($227,782)	(371,346)
Net Income (Loss) per Share – Basic and Fully Diluted (1)	($0.004)	($0.018)	($0.017)	($0.046)
Balance Sheet Data				
Total Assets	406,277	$119,918	$165,558	$51,811
Total Liabilities	483,944	$206,048	$93,815	$79,096
Shareholder's Equity	($77,667)	($86,130)	$71,743	($27,285)

1. The loss per share is presented on a post split basis for both the years ended December 31, 2010, and 2009 and the quarter ended March 31, 2011

See Schedule "A" for the unaudited interim financial statements of the Issuer as at and for the period ended March 31, 2011 and the audited financial statements of the Issuer as at and for the periods ended December 31, 2010, December 31, 2009 and December 31, 2008.

CORPORATE STRUCTURE

Name and Incorporation

The Issuer was incorporated under the BCBCA on September 12, 2005 as "Pacific Therapeutics Ltd.".

The head office of the Issuer is located at Suite 1023, 409 Granville Street, Vancouver, British Columbia, V6C 1T2, and the registered and records office of the Issuer is located at Suite 1023, 409 Granville Street, Vancouver, British Columbia, V6C 1T2.

The Issuer is not currently a reporting issuer and its shares are not listed or posted for trading on any exchange, but the Issuer will become a reporting issuer in the Province of British Columbia upon the issuance of a receipt for the final Prospectus.

Inter-corporate Relationships

The Issuer does not have any inter-corporate relationships.

DESCRIPTION OF THE BUSINESS

Pacific Therapeutics Ltd. is a development stage specialty pharmaceutical company involved in the identification and development of drug candidates to treat diseases of excessive scarring including Idiopathic Pulmonary Fibrosis. Its strategy includes reformulating approved drugs to increase efficacy and patient compliance, and completing the further clinical testing, manufacturing and other regulatory requirements sufficient to seek marketing authorizations via the filing of a New Drug Application ("NDA") with the FDA and a potential Marketing Application Authorization ("MAA") with the European Medicines Evaluation Agency ("EMEA").

Three Year History

The Issuer's primary business activity since incorporation has been to in-license technologies to treat fibrotic diseases and conduct pre-clinical trials in animal models and cellular assays to prepare technologies for human trials.

2008

During 2008, the Issuer continued to advance its intellectual property protection, conduct pre-clinical evaluations of PTL-202, enhanced and expanded its SAB as well as raised equity. In addition, the Issuer filed an Investigational New Drug Application ("IND") with the FDA in the United States, began pre-clinical evaluation of PTL-303 and analyzed several merger opportunities.

The Issuer's pipeline drug candidate for Liver Cirrhosis is PTL-303. The Issuer conducted pre-clinical evaluation experiments of PTL-303 in cellular assays. The data from these experiments was used to support a provisional patent application of PTL-303 in the United States. In addition, the results from these experiments indicate that further investigation is warranted.

The Issuer continued its pre-clinical evaluation of PTL-202, conducting extensive testing for efficacy in an animal model of Pulmonary Fibrosis. In this testing, PTL-202 showed the ability to inhibit lung scarring.

With the data from this testing in hand, the Issuer filed a patent with the World Intellectual Property Organization ("WIPO") under the PCT. This patent covers the composition of matter as well as the method of use of PTL-202.

The Issuer added an international perspective to its SAB with the addition of Dr. Andreas Zuckermann. Dr. Zuckermann, based in Vienna, Austria, is a knowledge leader in the areas of heart and lung transplant and bolsters the Issuer's expertise and reach in the area of Post Lung Transplant Bronchiolitis Obliterans.

The Issuer raised $294,010 in equity in 2008 to support its operations and development of its products.

In February 2008, the Issuer filed a pre-IND package with the FDA to conduct a Phase 2 trial of PTL-202. The result of this application was a request by the FDA that the Issuer's first human trial be a drug/drug interaction study in healthy individuals. As a result, the Issuer set about to design a drug/drug interaction study to meet the FDA requirements. The design and implementation of this study is discussed in this prospectus. See *"Development Plans"*

2009

During 2009, the Issuer continued to advance its intellectual property protection, enhanced and expanded its SAB and Board of Directors and raised equity, enabling the Issuer to prepare for the initiation of a clinical trial of its lead drug candidate, PTL-202, and a public offering of its securities.

The Issuer filed a PCT patent application with the WIPO covering the composition of matter and method of use of PTL-303 and received a positive letter on the validity of the PTL-202 patent from WIPO.

Dr. Daryl Knight, Canada Research Chair in Airway Disease and Associate Director of the James Hogg iCAPTURE Centre for Cardiovascular and Pulmonary Research in Vancouver, B.C., joined the Issuer's SAB during 2009, adding to the SAB's clinical expertise in Pulmonary Fibrosis.

The Issuer welcomed Dr. Wendi Rodrigueza to its Board of Directors, significantly enhancing the board's scientific expertise.

In addition, the Issuer raised $308,000 less issue costs of $16,864 in equity financing in cash to develop its business and issued an additional 140,300 Common Shares for services at a value of $33,710.

2010

The Issuer started the year working with a local contract research organization to develop an assay which will be required for the initial clinical trials of PTL-202. The assay will assist in determining the bioavailability and pharmacokinetics of PTL-202 in the human blood stream. The development of this assay has been completed and it is ready for validation.

The Issuer prepared its preliminary prospectus to become a reporting company in British Columbia.

The Issuer has applied for patents covering the technology in PTL-202 in the USA, European Union and Canada.

The Issuer completed a share issuance by way of an offering memorandum dated May 28, 2010 and closed on the offering on August 20, 2010. The successful offering increased the shareholder base above 150 public shareholders, which is the threshold to list on the CNSX.

On June 18, 2010 the Issuer signed a letter of intent to license the US rights to PTL-202 to Global Health Ventures Inc. and received a payment of $10,000. This license was not executed.

On November 26, 2010 the Issuer signed a letter of intent to enter into a collaborative development agreement with IntelGenx of Montreal. This letter of intent was superseded by the IntelGenx Development and Commercialization Agreement. Under this agreement IntelGenx will pay up to $181,500 of the $248,500 in development costs to formulate PTL-202 and test its bioequivalence.

The Issuer has applied to have its Common Shares listed on the Canadian National Stock Exchange.

Business Strategy

The Issuer is focused on developing drugs for diseases of Fibrosis including Idiopathic Pulmonary Fibrosis, Liver Cirrhosis, Pulmonary Fibrosis associated with Scleroderma and Post Lung Transplant Bronchiolitis Obliterans. The Issuer assumes the clinical regulatory and commercial development activities of its product candidates and advances them through the regulatory and clinical pathways toward commercial approval. This strategy reduces the risk, time and cost of developing therapies for Fibrosis by avoiding the risks associated with basic research and using compounds with unknown safety and toxicity profiles. The Issuer leverages its expertise to manage and perform critical steps in drug development including the design and conduct of clinical trials, the development and execution of intellectual property strategies, the recruitment and selection of development partners and the interaction with drug regulatory authorities.

The main elements of the Issuer's strategy are as follows:

Identification of Product Candidates

The Issuer performs scientific evaluations and market assessments of drugs and drug combinations and research from academics and other drug development companies. As part of this process, the Issuer will evaluate the clinical and pre-clinical research and the intellectual property rights associated with the potential products and research to determine the commercial potential of the product candidate. The Issuer intends to mitigate the risks associated with development and commercialization of drug candidates by targeting drug candidates that:

- are combinations of already approved compounds;
- have well established safety records;
- have potential to be reformulated to a once a day oral dose;
- are already marketed in countries other than the United States or Europe; and
- have pre-clinical animal data or clinical data of potential efficacy in Fibrosis indications.

The Issuer is focused on Fibrosis indications as it believes there is a large unmet medical need in this area. The Issuer has developed the SAB and Clinical Trials Steering Committee to support this strategy. The

members of both of these groups are very experienced in the clinical development of drug candidates for Pulmonary Fibrosis, lung transplant, airway disease and Scleroderma. In the future, the Issuer may develop product candidates for other indications but the current strategy is to leverage the expertise and skills the Issuer has in Fibrosis, particularly Idiopathic Pulmonary Fibrosis.

In-licensing

In identifying a promising product candidate, the Issuer seeks to negotiate a license to the rights for the candidate from the holder of those rights. Typically the goal is to secure licenses that permit the Issuer to conduct further research, development and clinical trials as well as engage in additional intellectual property protection. The Issuer will also seek terms that provide it with the rights to further licensing of manufacturing and marketing rights to any resulting products. This process is known as in-licensing.

Product Development

Upon securing the appropriate rights to the product candidate, the Issuer will advance the candidate through the regulatory and commercialization pathways for marketing approval in major markets. This process includes implementing intellectual property strategies, formulation and reformulation strategies, making regulatory submissions, conducting or managing clinical trials, and performing or managing the collection, collation and interpretation of clinical and field data and the submission of this data to relevant regulatory authorities.

Partnering

To enhance its capabilities to develop and market its product candidates, the Issuer may enter into agreements or partnerships with companies that have drug development, sales or marketing expertise, or all of the above. Entering into such an agreement may provide cash to develop other products or advance other products in the Issuer's portfolio. In addition, entering into a partnership with a company that has complementary skills and using that company's expertise to further accelerate development of its product candidates, may enhance the returns to the Issuer from the product candidate.

Outsourcing

In order to optimise return on investment and the development of product candidates, the Issuer uses a virtual company business model which includes outsourcing all non-core business activities. Factors that the Issuer considers to determine core and non-core activities include:

- Infrastructure cost
- Operating cost
- Frequency of use
- Regulatory protocol
- Requirement for third party verification
- Capacity
- Quality control

Management has determined that having its own laboratory and staff for conducting infrequent pre-clinical studies is not a core capacity that is required and, therefore, it has to develop relationships with labs that it may outsource this work to. In order to maintain quality control, these projects are managed very closely by the Issuer's staff and the Issuer develops all protocols for the completion of this work.

Other functions the Issuer has decided to outsource include analytical assay development, formulation, clinical trials and manufacturing. It is currently more cost-effective to outsource these tasks due to the Issuer's sporadic requirements. As these requirements become less sporadic the Issuer may develop internal capabilities to complete currently out sourced tasks.

Principal Products

PTL-202

The Issuer's lead product candidate, PTL-202, is a combination of drugs that have been approved by the FDA for sale in the United States. In animal trials, the combination was more effective than either of its components at reducing indicators of Fibrosis. The Issuer is planning to develop a once a day oral formulation of the combination using proprietary technologies and conduct bioequivalence and drug/drug interaction studies with PTL-202 in humans in 2011.

The Issuer found a technology at Dalhousie University that showed efficacy in many models of Fibrosis. The efficacy of this technology to prevent further Fibrosis in humans was confirmed in two separate independent proof of principal Phase 2 clinical trials in Radiation Induced Fibrosis. This technology, which is based on an FDA approved drug, was licensed from Dalhousie University ("Dalhousie") on April 25, 2007 pursuant to the Dalhousie License Agreement. The license covers the three issued US patents described in the table below. The Issuer took one of the compounds covered by the license, Pentoxifylline, and combined it with a powerful antioxidant and then conducted experiments in a mouse model of Pulmonary Fibrosis. These experiments showed that the combination was effective at reducing the progression of the Fibrosis in the mouse lung. This combination is being developed as the Issuer's lead drug candidate, PTL-202. A provisional patent was filed in the United States by the Issuer in October 2007 to cover the composition of matter and method of use of this combination. In October 2008, the Issuer filed a PCT application based on the above provisional application. The Issuer received a positive preliminary examination of the PCT application in the spring of 2009 and is now ready to formulate the combination and take PTL-202 into a drug/drug interaction study in humans in 2011.

The Dalhousie License Agreement covers Pentoxifylline and Functional Derivatives/Metabolites and its applications. The fields of use include pulmonary indications and radiation induced fibrosis.

Under the Dalhousie License Agreement, the Issuer is required to make annual maintenance payments of $7,500 which are credited towards future royalties. In addition the Issuer 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 license agreement with Dalhousie University, the Issuer 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 Dalhousie License Agreement, the Issuer 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. As at December 31, 2010, the Issuer had not met any of the requirements of the agreement outlined above. On February 2, 2011, the Issuer received a waiver from Dalhousie for the requirement (a) and (b) above, and requirement (c) was amended to also include;

i. The parties will dose the first human subject by December 31, 2012

ii. The parties will initiate a phase 2 study by December 12, 2015

The rest of the licensing terms remain unchanged. Parties above refers to the Issuer and its commercialization partners for PL-202. ***See*** **"Material Agreements"**

Patents Licensed From Dalhousie University:

PCT Patent Filed

US Patent Number	5,985,592	6,025,151	6,294,350
Patent Title	Uses of Pentoxifylline or Functional Derivatives/Metabolites Thereof	Uses for Compounds Which Reduce C-JUN Gene Expression	Methods for Treating Fibroproliferative Diseases
File Date	June 5, 1997	June 5, 1998	November 2, 1999
Date of Issue	November 16, 1999	February 15, 2000	September 25, 2001
Expiration	June 5, 2017	June 5, 2018	November 2, 2019

Issuer filed Patent:

Patent Cooperation Treaty Patent Application No. PCT/CA2008/001880

Filed 23 October 2008

COMPOSITIONS AND METHODS FOR TREATING FIBROPROLIFERATIVE DISORDERS

PTL-303

The Issuer's other product candidate, PTL-303, is a combination of drugs that have been approved for use in Japan and other jurisdictions. This combination has a wide range of uses, including treating, preventing and reducing disorders of progressive scarring in humans.

The composition, including a cytokine modifier and anti-oxidant which is a precursor of Glutathione, was investigated for its antifibrotic activity by employing two *In Vitro* collagen synthesis assays. The Issuer discovered that the combination PTL-303 brings about substantial synergistic and super-additive anti-fibrotic effects in a TGF-β1 mediated collagen synthesis assay, when compared to its individual components.

The composition can be administered in any convenient manner, such as orally, by inhalation, rectally, by injection, and may be formulated for topical or intra-venous administration.

A provisional patent titled "Composition and Method for Treating Fibrosis" was filed by the Issuer with the United States patent office on October 29, 2008. The application number is 61/109,446. A PCT application covering the technology of PTL-303 was filed by the Issuer in October 2009.

Recent Financings

The following table provides information on securities of the Issuer, issued in the past 12 months.

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received
May 16, 2011	Common Shares[6]	150,000	Nil	Nil
May 16, 2011	Warrants to purchase Common Shares[6]	600,000	Nil	Nil
February 28, 2011	Units [1]	60,000	$0.15	$9,000
January 31, 2011	Units [1]	140,000	$0.15	$21,000
January 31, 2011	Common Shares	300,000	$0.10[2]	$30,000
January 31, 2011	Common Shares [3]	600,000	Nil	Nil
January 31, 2011	Warrants to purchase Common Shares[3]	2,400,000	Nil	Nil
August 20, 2010[4]	Common Shares	85,000	$0.3333	$29,000
August 20, 2010[4][5]	Common Shares	9,000	$0.3333	Services

For additional information, please see "*Prior Sales"*.

(1) Each Unit consists of a Common Share and a warrant to purchase a Common Share. The exercise price of the warrant is $0.25 and may be exercised until January 31, 2013.

(2) Exercise of warrants that were issued as part of units in a previous financing.

(3) 600,000 Common shares and 2,400,000 warrants were issued as bonus shares on the deposit of $300,000 into the escrow account under the Escrow Agreement and Irrevocable Subscription Agreements. The warrants are exercisable at an exercise price of $0.15 per common share until January 31, 2013. See "*Material Agreements*".

(4) These share issuances are presented on a post split basis.

(5) These shares were issued for $3,000 in services.

(6) 150,000 Common shares and 600,000 warrants were issued as bonus shares on the deposit of $75,000 into the escrow account under the Irrevocable Subscription Agreements. The warrants are exercisable at an exercise price of $0.15 per common share until May 16, 2013. See *"Material Agreements"*.

Significant Acquisitions and Dispositions

Other than as described herein, the Issuer has not completed any acquisitions or dispositions since its date of incorporation and is not currently in negotiations with respect to any potential material acquisitions or dispositions.

Trends

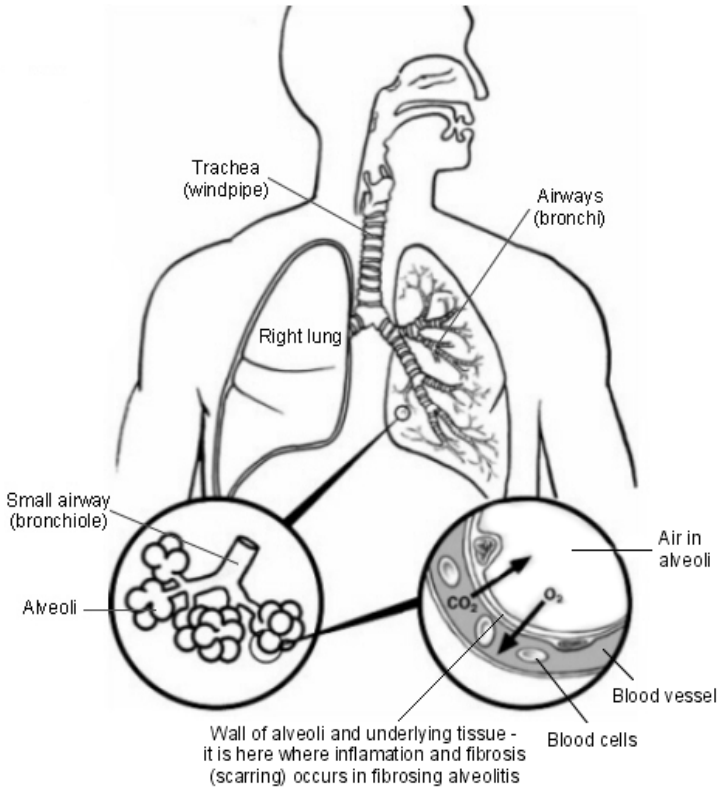
Apart from the risk factors noted under the heading "*Risk Factors*", management is not currently aware of any other trends, commitments, events or uncertainties that would have a material adverse effect on the Issuer's business or financial condition.

Principal Products

PTL-202
Combination of Pan-phosphodiesterase inhibitor, Pentoxifylline, with N-acetlcysteine

Idiopathic Pulmonary Fibrosis ("IPF") is a chronic, progressive form of lung disease characterized by fibrosis of the supporting framework (interstitium) of the lungs. The term Idiopathic is used only when the cause of the Fibrosis is unknown. Despite extensive investigation, the cause of IPF remains unknown. The disease involves abnormal and excessive deposition of collagen (Fibrosis) in the Pulmonary Interstitium (mainly the walls of the Alveoli) with minimal associated inflammation (Figure 1). Symptoms are gradual in onset. The most common symptom is progressive difficulty in breathing, but also includes dry cough.

Figure 1 - Human Airways



The Issuer's lead product, PTL-202, is a combination of two compounds designed to treat IPF: PTX and NAC. The Issuer has completed pre-clinical studies on PTL-202 and intends to begin formulation, a bio-equivalency study including a drug/drug interaction in humans in 2011 followed by a Phase 2 Proof of Principal clinical trial beginning in 2012.

Therapeutic Approach

The combination of drugs in PTL-202 is intended to stop the progression of IPF by reducing the amount of several Pro-fibrotic cytokines that are known to be associated with scarring. In addition the combination has anti-oxidant properties that protect the lung cells from further damage caused by the Fibrosis.

Pentoxifylline (PTX) acts as a Pan-phosphodiesterase (PDE) inhibitor, resulting in dilation of blood vessels and enhancement of blood flow. PTX has been successfully and safely used for many years for treatment of vascular diseases such as cramping in the leg.

There is growing evidence that PTX is an anti-inflammatory and may inhibit scarring in the lung.

NAC (N-acetylcysteine), the second compound in the PTL-202 combination, has been shown in animals to prevent some of the effects of IPF, including the progressive deterioration of patients.

Pre-clinical Studies

The Issuer has conducted a number of pre-clinical studies using PTL-202 for the treatment of Pulmonary Fibrosis in a mouse model of the disease. The Issuer believes that these studies show that PTL-202 has the potential to be a safe and effective treatment for IPF.

In 2007 and 2008 in order to support the use of PTL-202 for the treatment of Pulmonary Fibrosis, the Issuer conducted proof-of-concept animal studies to evaluate the relative efficacy of stand-alone or combination treatments of PTX and NAC in Pulmonary Fibrosis. In the initial experiment, wet lung weight was measured under various treatments. From this early experiment it was determined that PTL-202 may be more effective than its separate components.

In further experiments, PTL-202 treatment was more effective than either PTX or NAC alone on lung Fibrosis in mice. In addition, treatment with PTL-202 caused a significant reduction in TNF-alpha in the lung fluid. Moreover, there were no deaths or abnormal reactions with a daily administration of PTL-202 during the experiments, indicating a lack of side effects which is consistent with the data from earlier clinical trials in humans for PTX and NAC.

The results of these extensive pre-clinical studies suggest that PTL-202 is likely a safe and effective agent for the treatment of Pulmonary Fibrosis.

DEVELOPMENT PLANS:

PTL-202

Formulation Development

A controlled release formulation of PTL-202, a fixed dose combination of pentoxifylline (PTX) and N-acetylcysteine (NAC), for the potential treatment of idiopathic pulmonary fibrosis (IPF), Liver Cirrhosis and other fibrotic diseases will be developed.

Existing marketed modified release products will be evaluated as to a first pass for a simple daily or twice daily fixed dose combination formulation. Given, however, the preliminary dose ranges/strengths of 600-1200mg of PTX combination with 600mg-1200mg NAC once a day, the physical size for an ingestible tablet will be a barrier to success. Current formulation of PTL-202, with Vit E rather than NAC, in a Phase 2 study has shown inhibition of Cytokines and regression of fibrotic plaques. Both PTX and NAC are water soluble molecules, with short resident time in the blood stream. This high water solubility presents a challenge to once a day administration. Both molecules are rapidly absorbed and metabolized quickly. The goal from a development perspective is to deliver an appropriately formulated controlled release product, reducing the absolute amount of drug per tablet needed to achieve a clinically effective blood level. Formulation development prototypes will target release of the drugs to provide sustained levels of the drug in the blood. Formulation development may take eight months.

Phase 1

Clinical Studies

Upon completion of the initial formulation of PTL-202 the Issuer will commence a bio-equivalency and drug/drug interaction study. This study will be conducted in humans and is intended to determine if any new metabolites are created by the combination of the active ingredients in PTL-202 and to determine if the combination is bio-equivalent to its constituent compounds. The study will be of a cross-over design and will include from 12 – 20 individuals. The bio-analytical portion (PK assay development and good laboratory practice validation) of the above-mentioned study will be done by a lab to be contracted by the Issuer. Therefore, following the Issuer's stated business strategy, the Issuer will act as a sponsor of the study and the CROs will be hired to execute the objectives of the study. The development of the bio-analytical assay has been completed and now requires validation. Budget for the validation of the assay is included in the budget for the bio-equivalency study. Successful completion of a Phase 1 study of PTL-202 is a major milestone because as many as 30% of Phase 1 drug trials are failures.

Phase 2

Proof- of-Principal in Humans

The proposed Phase 2 study is a proof-of-concept trial. The proposed study utilizes principles of adaptive design approach and has two interconnected parts. The proof-of-concept trial will be a randomized, double-blinded, pilot trial designed to assess the safety and efficacy of PTL-202 in patients with IPF. Study patients will receive formulated PTL-202 or individual components of PTL-202.

The objectives of the study are:

- To evaluate the safety and tolerability of 12 months of treatment with PTL-202 in patients with IPF versus placebo and individual components of PTL-202 (PTX and NAC).

- To compare changes in forced vital volume capacity in IPF patients treated with PTL-202 versus treatment with PTX and NAC alone and placebo.

- To compare changes in the following parameters in IPF patients treated with PTL-202:
    - Diffusion capacity for carbon monoxide
    - Extent and nature of IPF-related abnormalities on high resolution CT

- To compare quality of life evaluations in IPF patients treated with PTL-202 and individual components of PTL-202 versus placebo.

The cost to complete the phase 2 study is estimated at $8 million. Additional funds will be required to complete this phase of the development of PTL-202. On completion of this proof-of-principal study the Issuer will look to out-license PTL-202 to a larger company capable of completing the development and commercialization of PTL-202. Such additional funds would likely be raised through a private placement of securities. There is no assurance that such funding will be available. See also *"Risk Factors"*

PIPELINE PRODUCT: PTL-303

Fixed Dose Combination of TGF-β Inhibitor and NAC

Pre-clinical

The Issuer has completed *In Vitro* studies of this combination that have confirmed the compounds method of action. This data has been included in the provisional patent application for PTL-303 to support the composition of matter and methods claims.

The Issuer will initiate animal studies using the Bleomycin model of lung Fibrosis in mice to generate additional data to assess the efficacy of PTL-303. The pre-clinical work will also focus on the delivery of the compound to the liver and the efficacy of the compound in a liver Fibrosis model.

Efficacy in the liver Fibrosis model will lead to further Investigational New Drug application (IND) enabling studies.

Manufacturing

The Issuer has limited experience in, and does not own facilities for, manufacturing any products or product candidates. It will utilize contract manufacturers to produce clinical supplies of any components of its products that are not commercially available. Although the Issuer intends to continue to rely on contract manufacturers to produce certain of its products for both clinical and commercial supplies, the Issuer will oversee the production of those products.

Sales, Marketing and Distribution

The Issuer currently has no sales or distribution capabilities and limited marketing capabilities. In order to commercialize its products, the Issuer must develop sales, marketing and distribution capabilities or make arrangements with other parties to perform these services for us. The Issuer's intention is to out-license its products once Phase 2 testing has been completed. It is anticipated the licensee will have the capability to market, sell and distribute the Issuer's products.

Government Regulations

The current and future operations and research and development activities of the Issuer are or will be subject to various laws and regulations in the countries in which the Issuer conducts or plans to conduct activities, including but not limited to the United States, Canada and the European Union. These laws and regulations govern the research, development, sale and marketing of pharmaceuticals, taxes, labour standards, occupational health and safety, toxic substances, chemical products and materials, waste management and other matters relating to the pharmaceutical industry. Permits, registrations or other authorizations may also be required to maintain operations and to carry out the Issuer's future research and development activities, and these permits, registrations or authorizations will be subject to revocation, modification and renewal.

Governmental authorities have the power to enforce compliance with lease conditions, regulatory requirements and the provisions of required permits, registrations or other authorizations, and violators may be subject to civil and criminal penalties including fines, injunctions, or both. The failure to obtain or maintain a required permit may also result in the imposition of civil and criminal penalties, and third parties may have the right to sue to enforce compliance.

The Issuer expects to be able to comply with all applicable laws and regulations and does not believe that such compliance will have a material adverse effect on its competitive position. The Issuer has obtained and intends to obtain all permits, licenses and approvals required by all applicable regulatory agencies to maintain current operations and to carry out future research and development activities.

U.S Pharmaceutical Regulatory Regimes

Regulation by governmental authorities in the United States and other countries is a significant factor in the development, manufacture and marketing of pharmaceuticals. All of the Issuer's product candidates will require regulatory approval by government agencies prior to commercialization. In particular, products candidates are subject to rigorous pre-clinical testing and clinical trials and other premarketing approval requirements of the FDA and regulatory authorities in other countries. Various federal, state and foreign statutes and regulations govern the manufacturing, safety, labelling, storage, record-keeping and marketing of pharmaceutical products. The lengthy process of seeking required approvals and the continuing need for compliance with applicable statutes and regulations require the expenditure of substantial resources. When and if regulatory approval is obtained for any of the Issuer's product candidates, the approval may be limited in scope, which may significantly limit the indicated uses for which the product candidates may be marketed, promoted and advertised. In addition, approved pharmaceuticals and manufacturers are subject to ongoing review and discovery of previously unknown problems that may result in restrictions on the manufacture, sale or use of approved pharmaceuticals or in their withdrawal from the market.

Pre-clinical Studies

Before testing any compounds with potential therapeutic value in human subjects in the United States, stringent governmental requirements for pre-clinical data must be satisfied. Pre-clinical testing includes both In Vitro and in vivo laboratory evaluation and characterization of the safety and efficacy of a drug and its formulation. Pre-clinical testing results obtained from these studies, including tests in several animal species, are submitted to the FDA as part of an investigational new drug application, or IND, and are reviewed by the FDA prior to the commencement of human clinical trials. These pre-clinical data must provide an adequate basis for evaluating both the safety and the scientific rationale for the initial trials in human volunteers.

Clinical Trials

If a company wants to conduct clinical trials in the United States to test a new drug in humans, an IND must be prepared and submitted to the FDA. The IND becomes effective if not rejected or put on clinical hold by the FDA within 30 days of filing the application. The IND process can result in substantial delay and expense.

Clinical Trial Phases

Clinical trials typically are conducted in three sequential phases, Phases 1, 2 and 3, with Phase 4 trials potentially conducted after marketing approval. These phases may be compressed, may overlap or may be omitted in some circumstances.

- Phase 1 clinical trials: After an IND becomes effective, Phase 1 human clinical trials can begin. These trials evaluate a drug's safety profile and the range of safe dosages that can be administered to healthy volunteers or patients, including the maximum tolerated dose that can be given to a trial subject. Phase 1 trials also determine how a drug is absorbed, distributed, metabolized and excreted by the body, and duration of its action.

- Phase 2 clinical trials: Phase 2 clinical trials are generally designed to establish the optimal dose, to evaluate the potential effectiveness of the drug in patients who have the target disease or condition and to further ascertain the safety of the drug at the dosage given in a larger patient population.

- Phase 3 clinical trials: In Phase 3 clinical trials, the drug is usually tested in a controlled, randomized trial comparing the investigational new drug to a control (which may be an approved form of therapy) in an expanded and well-defined patient population and at multiple clinical sites. The goal of these trials is to obtain definitive statistical evidence of safety and effectiveness of the investigational new drug regime as compared to control in defined patient populations with a given disease and stage of illness.

New Drug Application

After completion of clinical trials, if there is substantial evidence that the drug is both safe and effective, a New Drug Application, is prepared and submitted for the FDA to review. The New Drug Application must contain all of the essential information on the drug gathered to that date, including data from pre-clinical studies and clinical trials, and the content and format of a New Drug Application must conform with all FDA regulations and guidelines. Accordingly, the preparation and submission of a New Drug Application is an expensive and major undertaking for a company.

The FDA reviews all New Drug Applications submitted before it accepts them for filing and may request additional information from the sponsor rather than accepting a New Drug Application for filing. In such an event, the New Drug Application must be submitted with the additional information and, again, is subject to review before filing. Once the submission is accepted for filing, the FDA begins an in-depth review of the New Drug Application. By law, the FDA has 180 days in which to review the New Drug Application and respond to the applicant. The review process is often significantly extended by the FDA through requests for additional information and clarification. The FDA may refer the application to an appropriate advisory committee, typically a panel of clinicians, for review, evaluation and a recommendation as to whether the application should be approved and the scope of any approval. The FDA is not bound by the recommendation, but gives great weight to it. If the FDA evaluations of both the New Drug Application and the manufacturing facilities are favourable, the FDA may issue either an approval letter or an approvable letter, which usually contains a number of conditions that must be satisfied in order to secure final approval. If the FDA's evaluation of the New Drug Application

submission or manufacturing facility is not favourable, the FDA may refuse to approve the New Drug Application or issue a not approvable letter.

Fast Track Designation and Priority Review

The FDA's fast track program is intended to facilitate the development and expedite the review of drugs that are intended for the treatment of a serious or life-threatening condition for which there is no effective treatment and which demonstrate the potential to address unmet medical needs for their condition. Under the fast track program, the sponsor of a new drug may request the FDA to designate the drug for a specific indication as a fast track product at any time during the clinical development process.

In some cases, the FDA may designate a product for priority review. A product is eligible for priority review, or review within a targeted six-month time frame from the time a New Drug Application is accepted for filing, if the product provides a significant improvement compared to marketed products in the treatment, diagnosis or prevention of a disease. The Issuer regularly assesses its products for fast track potential but cannot guarantee any of its products will receive a priority review designation, or if a priority designation is received, that review or approval will be faster than conventional FDA procedures.

Orphan Drug Designation

The FDA may grant orphan drug designation to drugs intended to treat a rare disease or condition that affects fewer than 200,000 individuals in the United States, such as IPF. If the FDA grants orphan drug designation, the generic identity of the therapeutic agent and its potential orphan use are disclosed publicly by the FDA. Orphan drug designation does not convey any advantage in, or shorten the duration of, the regulatory review and approval process. If a product that has orphan drug designation subsequently receives FDA approval for the indication for which it has such designation, the product is entitled to orphan exclusivity, which means the FDA may not approve any other applications to market the same drug for the same indication, except in very limited circumstances, for up to seven years after receiving FDA approval.

When appropriate, the Issuer will seek orphan status for certain indications that may be treated with its products.

Other Regulatory Requirements

Any products manufactured or distributed under FDA approvals are subject to continuing regulation by the FDA, including record-keeping requirements and reporting of adverse experiences with the products. Drug manufacturers and their subcontractors are required to register with the FDA and, where appropriate, state agencies, and are subject to periodic unannounced inspections by the FDA and state agencies for compliance with current good manufacturing practices and regulations which impose procedural and documentation requirements upon drug developers and each third party manufacturer they utilize.

The FDA closely regulates the marketing and promotion of drugs. A company can make only those claims relating to safety and efficacy that are approved by the FDA. Failure to comply with these requirements can result in adverse publicity, warning letters, corrective advertising and potential civil and criminal penalties. Physicians may prescribe legally available drugs for uses that are not described in the product's labelling and that differ from those tested by us and approved by the FDA. Such off-label uses are common across medical specialties. Physicians may believe that such off-label uses are the best treatment for many patients in varied circumstances. The FDA does not regulate the behaviour of physicians in their choice of treatments. The FDA does, however, restrict manufacturers from communicating on the subject of off-label use.

European Union

Clinical Trials

In common with the United States, the various phases of pre-clinical and clinical research in the European Union are subject to significant regulatory controls. The regulatory controls on clinical research in the European Union are now largely harmonized following the implementation of the Clinical Trials Directive 2001/20/EC, or CTD. Compliance with the national implementations of the CTD has been mandatory from May 1, 2004. However, variations in the member state regimes continue to exist, particularly in the small number of member states that have yet to implement the CTD fully.

All member states currently require regulatory and independent ethics committee approval of interventional clinical trials. European regulators and ethics committees also require the submission of adverse event reports during a study and a copy of the final study report.

Marketing Authorization

In the European Union, approval of new medicinal products can be obtained through the mutual recognition procedure or the centralized procedure. The mutual recognition procedure entails initial assessment by the national authorities of a single member state and subsequent review by national authorities in other member states based on the initial assessment. The centralized procedure entails submission of a single Marketing Authorization Application, or "MAA", to the European Medicines Agency ("EMEA") leading to an approval that is valid in all European Union member states. EMEA approval is required for certain medicinal products, such as biotechnology products and certain new chemical entities, and optional, or available at the EMEA's discretion for other new chemical entities or innovative medicinal products with novel characteristics.

Under the centralized procedure, an MAA is submitted to the EMEA. Two European Union member states are appointed to conduct an initial evaluation of each MAA. These countries each prepare an assessment report, which are then used as the basis of a scientific opinion of the Committee for Medicinal Products for Human Use, or "CHMP". If this opinion is favourable, it is sent to the European Commission which drafts a decision. After consulting with the member states, the European Commission adopts a decision and grants a marketing authorization, which is valid throughout the European Union and confers the same rights and obligations in each of the member states as a marketing authorization granted by that member state.

The European Union expanded its membership by ten in May 2004. Two more countries joined on January 1, 2007. Several other European countries outside of the European Union, particularly those intending to accede to the European Union, accept European Union review and approval as a basis for their own national approval.

Advertising

In the European Union, the promotion of prescription medicines is subject to intense regulation and control, including a prohibition on direct-to-consumer advertising. Some jurisdictions require that all promotional materials for prescription medicines be subjected to either prior internal or regulatory review and approval.

Data Exclusivity

For applications filed after October 30, 2005, European Union regulators offer eight years data exclusivity during which generic drug manufacturers cannot file abridged applications. This is followed by two years

market exclusivity during which generic applications may be reviewed and approved but during which generic drug manufacturers cannot launch products.

Other Regulatory Requirements

If a marketing authorization is granted for the Issuer's products in the European Union, the holder of the marketing authorization will be subject to ongoing regulatory obligations. A holder of a marketing authorization for the Issuer's products is legally obliged to fulfill a number of obligations by virtue of its status as a Marketing Authorization Holder. While the associated legal responsibility and liability cannot be delegated, the Marketing Authorization Holder can delegate the performance of related tasks to third parties, provided that this delegation is appropriately documented. A Marketing Authorization Holder can therefore either ensure that it has adequate resources, policies and procedures to fulfill its responsibilities, or can delegate the performance of some or all of its obligations to others, such as distributors or marketing partners.

The obligations of a Marketing Authorization Holder include:

- Manufacturing and Batch Release: Marketing Authorization Holders should guarantee that all manufacturing operations comply with relevant laws and regulations, applicable good manufacturing practices, with the product specifications and manufacturing conditions set out in the marketing authorization and that each batch of product is subject to appropriate release formalities.

- Pharmaco-vigilance: Marketing Authorization Holders are obliged to monitor the safety of products post-approval and to submit to the regulators safety reports on an expedited and periodic basis. There is an obligation to notify regulators of any other information that may affect the risk benefit ratio for the product.

- Advertising and Promotion: Marketing Authorization Holders remain responsible for all advertising and promotion of its products in the relevant jurisdiction, including promotional activities by other companies or individuals on their behalf. Some jurisdictions require that a Marketing Authorization Holder subject all promotional materials to either internal or prior regulatory review and approval.

- Medical Affairs/Scientific Service: Marketing Authorization Holders are required to have a function responsible for disseminating scientific and medical information on its medicinal products, predominantly to healthcare professionals, but also to regulators and patients.

- Legal Representation and Distributor Issues: Marketing Authorization Holders are responsible for regulatory actions or inactions of their distributors and agents, including the failure of distributors to provide a Marketing Authorization Holder with safety data within a timeframe that allows the Marketing Authorization Holder to fulfill its reporting obligations.

- Preparation, Filing and Maintenance of the Application and Subsequent Marketing Authorization: Marketing Authorization Holders have general obligations to maintain appropriate records, to comply with the marketing authorization's terms and conditions, to submit renewal applications and to pay all appropriate fees to the authorities. There are also general reporting obligations, such as an obligation to inform regulators of any information that may lead to the modification of the marketing authorization dossier or product labelling, and of any action to suspend, revoke or withdraw an approval or to prohibit or suspend the marketing of a product.

The Issuer may hold marketing authorizations for products in its own name, or appoint an affiliate or a collaboration partner to hold the marketing authorization on its behalf. Any failure by a Marketing Authorization Holder to comply with these obligations may result in regulatory action against the Marketing Authorization Holder and its approvals and ultimately threaten our ability to commercialize our products.

Canada

In Canada, applications for a marketing authorization, known as a notice of compliance, are submitted to the Health Canada Therapeutic Products Directorate, which is the federal regulatory body that oversees the approval of pharmaceutical products for human use. Under the *Food and Drugs Act* (Canada) and the regulations there under, a manufacturer must present substantive scientific evidence of a product's safety, efficacy and quality. At present, Health Canada targets 355 days for application review and approvals. Once the application is approved and the applicant receives a notice of compliance, the applicant has the right to sell the product in Canada.

In addition to regulations in the United States, Europe and Canada, the Issuer is subject to a variety of foreign regulations governing clinical trials and commercial distribution of our future product candidates in other jurisdictions.

Approvals Outside of the United States, Canada and the European Union

The Issuer and its products will also be subject to a wide variety of foreign regulations governing development, manufacture and marketing. Whether or not FDA approval or European marketing authorization has been obtained, approval of a product by the comparable regulatory authorities of other foreign countries must still be obtained prior to manufacturing or marketing the product in those countries. The approval process varies from country to country and the time needed to secure approval may be longer or shorter than that required for FDA approval or a European marketing authorization. The Issuer cannot assure investors that clinical trials conducted in one country will be accepted by other countries or that approval in one country will result in approval in any other country.

Specialized Skills and Knowledge

All aspects of the Issuer's business require specialized skills and knowledge. Such skills and knowledge include pre-clinical research, clinical drug development, regulatory, intellectual property management, business development, licensing, legal, corporate finance and accounting. See "*Risk Factors*".

Dr. Lola Maksumova MD, PhD

Consultant, Former VP of Drug Development

Dr. Maksumova joined the Issuer in June 2007 as Vice President of Drug Development and held that position until November 2008. She rejoined the Issuer as a part time consultant in January 2009. Dr. Maksumova brings many years of bio-medical research experience, an in-depth understanding of disease processes in the areas of inflammation and Fibrosis, and profound scientific expertise in cell signalling of immune disorders. Prior to her current position, Dr. Maksumova worked as Senior Scientist with Chemokine Therapeutics.

Dr. Maksumova earned her medical degree from Tashkent Medical School and PhD in Medical Biochemistry from Hamamatsu University School of Medicine, Japan. Her professional training includes post-doctoral fellowships at Virginia Mason Research center in Seattle (2001) and with the Faculty of Medicine at University of British Columbia (2002-2006).

SCIENTIFIC ADVISORY BOARD

The members of the Issuer's strategic advisory board, or SAB, none of whom are officers or employees, provide advice, assistance and consultation in the fields of drug development, clinical trials and Fibrosis. The SAB consists of clinical advisors considered to be known opinion leaders in their respective fields, and they offer the Issuer advice and feedback regarding the following:

- the Issuer's drug development programs;
- the opportunities provided by unmet needs and market opportunities; and
- the existence of new products and technologies among other things.

The following is a brief biography of each of the Issuer's Pulmonary Fibrosis and Bronchiolitis Obliterans clinical advisors, which includes a description of each individual's credentials and recent professional experience.

Daryl Knight, Ph.D.

Dr. Daryl Knight is the Canada Research Chair in Airway Disease and Associate Director of the James Hogg iCAPTURE Centre for Cardiovascular and Pulmonary Research. He is an Associate Professor of Pharmacology and Therapeutics at the University of British Columbia, Vancouver.

Dr. Knight obtained his PhD at the University of Western Australia in 1993 and did post doctoral training at the University of British Columbia. From 1997 to 2001 he was a Senior Research Officer in the Asthma & Allergy Research Institute of the University of Western Australia and was Head of the Experimental Biology division of the Institute from 2002 to 2004. He was also an Adjunct Senior Lecturer in the Department of Medicine at the University of Western Australia.

Ganesh Raghu MD, FCCP, FACP

Dr. Ganesh Raghu MD, FCCP, FACP is a world recognized opinion leader in Idiopathic Pulmonary Fibrosis (IPF). He is a professor of Pulmonary Medicine at the University Of Washington Medical Centre and a Director of the Lung transplant program there.

He has conducted several clinical trials for the treatment of IPF with antifibrotic drugs. His current research interests include quality of life measures in IPF and lung transplantation, as well as the treatment of rejection and infection in lung transplants.

Dr. Raghu received his M.D. in 1973 from Mysore Medical College, University of Mysore, Mysore, India. He Interned at University Hospitals, University of Mysore in 1974 and was a resident in General Medicine and Chest Medicine, Hartlepool General Hospital and Postgraduate Medical Center (University of Newcastle Upon Tyne), Hartlepool, England in 1977. In 1980 he conducted his residency in Internal Medicine at State University of New York in Buffalo. He was the Chief Medical Resident at the State University of New York, Buffalo from 1980 to 1981. Dr. Raghu moved to Seattle in 1983 to complete fellowships in Pulmonary and Critical Care Medicine as well as Lung Cell Biology at the University of Washington.

Dr. Andreas Zuckermann, MD

Dr. Zuckermann is a world recognized leader in heart and lung transplantation. He is a Staff Surgeon in the Department of Cardiothoracic Surgery at University of Vienna in Austria and Co-Director of the Cardiac Transplantation Program there. He is also a Director the International Society for Heart and Lung

Transplantation.

He has been involved in over 170 thoracic transplantations and has conducted clinical research in post transplant patients. His current interests are focused on heart lung transplantation and beating heart transplants.

Dr. Zuckermann received his MD from Vienna Medical School, University of Vienna in 1991. From 1991 – 1993 he was the transplant co-ordinator in the Department of Cardiothoracic Surgery at the University of Vienna. From 1993 to 2000 prior to his appointment as a Staff Surgeon he trained in Cardio-thoracic surgery at St. Polten Hospital in Vienna where he assisted in over 30 lung transplants.

James R. Seibold, *MD, FACP, FACR*

Dr. Seibold is the past Director of the Scleroderma Program University of Michigan. He had been on the faculty of UMDNJ from 1980-2004 where he had served as Chief of the Division of Rheumatology, Director of the Clinical Research Center and as the W.H. Conzen Chair of Clinical Pharmacology. Author of more than 300 scientific publications, he is considered a world thought leader in Scleroderma, Raynaud's phenomenon and interventional research in the rheumatologic diseases. He has received multiple awards from arthritis and Scleroderma patient organizations and appears on virtually every listing of "Best Doctors". Dr. Seibold is currently the President of the Scleroderma Clinical Trials Consortium

Competitive Conditions

Current Therapies for Idiopathic Pulmonary Fibrosis

The current therapy for Idiopathic Pulmonary Fibrosis is based on the premise that recruitment and activation of inflammatory cells leads to the pathogenesis of IPF. However, massive doses of immunosuppressive agents meant to decrease the number or activity of inflammatory cells do not alter the course of IPF. Instead patients develop serious side effects leading to a shortened lifespan. Since the current therapy is not successful, there is an urgent need to develop alternative potent, non-toxic, long lasting therapy for these unmet medical needs.

Current treatment for IPF consists of using immunosuppressants and anti-oxidants. In an attempt to minimize side effects many patients are prescribed drugs to prevent GI side effects, osteoporosis and infection. Supplemental oxygen is prescribed to patients who desaturate. This treatment remains unsatisfactory as 40% of patients die within two years of diagnosis.

Current Therapies for Scleroderma

Treatment of Scleroderma is directed toward the individual feature(s) affecting different areas of the body:

- Aggressive treatment of elevations in blood pressure have been extremely important in preventing kidney failure;
- Blood-pressure medications, such as captopril, are frequently used;
- Serious inflammation of the lungs (alveolitis) can require immune suppression with cyclophosphamide (Cytoxan) along with prednisone.

Additionally, medications are used to suppress the overly active immune system that seems to be spontaneously causing the disease in organs affected. Medications used for this purpose include penicillamine, azathioprine, and methotrexate. The optimal treatment of Scleroderma lung disease is an area of active research. Stem-cell transplantation is being explored as a possible option. There are no effective treatments for lung fibrosis associated with Scleroderma.

No medication has been found to be universally effective for all patients with scleroderma. In an individual patient, the illness may be mild and not require treatments. In some, the disease is ravaging and relentless. Lung fibrosis in Scleroderma may be fatal.

Current Therapies for Post Lung Transplant Bronchiolitis Obliterans

The current therapy for Post Lung Transplant Bronchiolitis Obliterans ("PLT-BO") is based on the premise that recruitment and activation of inflammatory cells leads to the pathogenesis of PLT-BO. However, massive doses of immunosuppressive agents meant to decrease the number or activity of inflammatory cells do not alter the course of IPF or PLT-BO. Instead, patients develop serious side effects leading to a shortened lifespan. Since the current therapy is not successful, there is an urgent need to develop alternative potent, non-toxic, long lasting therapy for these unmet medical needs.

Competing Anti-Fibroproliferative Drugs Currently Under Development

The only launched TGF-β1 antagonist is the small molecule Tranilast from Kissei Pharmaceutical Co. Ltd. An oral formulation for treatment of hypertrophic scars and keloids, and an ophthalmic solution for use in allergic conjunctivitis, were launched in Japan. It was approved for use in the former USSR for asthma, but never marketed. Tranilast is an older drug that has never been pursued for use in other fibrotic conditions.

InterMune Inc's ("Intemune") Pirfenidone represents the most advanced therapy being developed to treat IPF. Pirfenidone is a synthetic small molecule that is orally available for the prevention of fibrotic lesions in general. Pirfenidone has gastrointestinal side effects and will darken the skin and cover from the sun is required with its use.

Both InterMune and Shinogi &Co., Ltd. ("Shinogi") have conducted Phase 3 trials of Pirfenidone to treat IPF. InterMune has recently received approval to market Pirfenidone for IPF in the European Union and Shinogi recently received approval to market Pirfenidone for IPF in Japan. Pirfenidone is currently undergoing clinical trials for uterine fibrosis (PhII), scleroderma (PhII), proliferative vitreoretinopathy (PhII), multiple sclerosis (PhII), liver fibrosis (PhII), wound healing (PhI), and benign prostatic hyperplasia (PhI).

There are currently 23 clinical trials recruiting IPF patients of these clinical trials only two are testing novel drug candidates the remainder are testing new indications for approved compounds. Centocor Inc. is testing an experimental cancer treatment CNTO-888 for safety in IPF patients in a phase 1 study. Actelion Pharmaceuticals Ltd. is testing the experimental compound ACT-064992 in a phase 2 study in IPF patients. ACT-064992 is administered as a once a day tablet.

The components of PTL-202 are a three times a day oral medication with very few side effects. Of the 24 individuals in the Phase 2 Radiation Induced Fibrosis trial of an analog of PTL-202, no patients dropped out due to side effects. In addition, PTL-202, by nature of its specificity is likely to have very few side effects. The Issuer is intending to formulate the drug as a once a day tablet.

Economic Dependence

The Issuer's business is substantially dependent on the Dalhousie license and its own patent applications to use intellectual property protected by patent, trade secret and know-how owned by Dalhousie and the Issuer. It is not expected that the Issuers' business will be affected in the current financial year by the renegotiation or termination of the Dalhousie license.

The Issuer's business is substantially dependent on contracts to purchase the major part of its requirements for research and development services for the development of assays, formulation, pre-clinical research, clinical research and/or raw materials and manufactured product upon which its business depends. The Issuer expects that its business will be affected in the current financial year by the negotiation of new contracts and renegotiation or termination of contracts or sub-contracts.

Employees

As of December 31, 2010 and March 31, 2011 the Issuer had the following number of employees and contractors:

Location	Full Time Employees	Contractors
Vancouver, British Columbia	**1**	**1**

The Issuer utilizes consultants and contractors to carry on many of its activities and, in particular, to supervise and conduct pre-clinical scientific experiments, assay development and validation. In addition the Issuer's Chief Financial Officer is a contractor not a full time employee. Other functions the Issuer has decided to outsource include assay development, formulation, clinical trials and manufacturing. It is currently more cost-effective to outsource these functions due to the Issuer's sporadic requirements. As the Issuer expands its activities, it is probable that it will hire additional employees. In addition, contractors and employees may move between locations from time to time as conditions and business opportunities warrant.

Bankruptcy and Similar Procedures

There are no bankruptcies, receivership or similar proceedings against the Issuer, nor is the Issuer aware of any such pending or threatened proceedings. There has not been any voluntary bankruptcy, receivership or similar proceedings by the Issuer since its incorporation.

Reorganization

Please see *"Significant Acquisitions and Dispositions"* for additional information concerning reorganizations completed by the Issuer since its incorporation.

Social or Environmental Policies

The Issuer has not adopted any specific social or environmental policies that are fundamental to its operations. However, the Issuer's management, with the assistance of its contractors and advisors, ensures its ongoing compliance with local environmental laws in the jurisdictions in which it does business.

USE OF AVAILABLE FUNDS

Proceeds

This is a non-offering prospectus. The Issuer is not raising any funds in conjunction with this Prospectus. Accordingly, there are no proceeds to the Issuer in connection with the filing of this Prospectus.

Funds Available

As of December 31, 2010 the Issuer had a working capital deficiency of $76,578 and $30,457 in cash. As at December 31, 2009 the Issuer had a working capital surplus of $17,196 and $85,587 of cash. As of May 31, 2011, the Issuer had working capital of $321,188 and $377,633 in cash and equivalents.

In order to fund the Issuer's research and development and other operating costs until it has completed formulation and a pilot bio-equivalency study of PTL-202, private investors have committed to Irrevocable Subscription Agreements totalling $375,000. $300,000 was committed under Irrevocable Subscription Agreements with an Effective Date of the Irrevocable Subscription Agreement of January, 31, 2011 and $75,000 was committed under Irrevocable Subscription Agreements with an Effective Date of the Irrevocable Subscription Agreement of May 16, 2011. The Issuer has signed an Escrow Agreement with these subscribers and Fasken Martineau Dumolin LLP as the trustee whereby aggregate funds of $375,000 have been placed in escrow and would be paid to the Issuer for the issuance of Common Shares of the Issuer. The Issuer issued a bonus of 750,000 Common Shares and warrants to purchase 3,000,000 Common Shares to the subscribers as an inducement to enter into the Escrow Agreement and Irrevocable Subscription Agreements.

Interest on the funds in escrow will accrue at 1% per month, to be paid quarterly by the Issuer to the subscribers in arrears. Under the terms of the Irrevocable Subscription Agreements the Issuer has the option to return any of the funds in escrow to the subscribers at any time on written notice to the subscribers.

Under the terms of the Irrevocable Subscription Agreements dated January 31, 2011, in the event that the Common Shares are not listed on the CNSX by April 30, 2011 the subscribers to the Irrevocable Subscription Agreements have the right to terminate the Irrevocable Subscription Agreements and have their original investment plus any accrued interest paid to them. All but one of the subscribers to the Irrevocable Subscription Agreements in letters dated March 31, 2011 have agreed to amend the Irrevocable Subscription Agreements to extend the above date to January 1, 2013. Therefore, Irrevocable Subscription Agreements representing $275,000 may not be terminated until January 1, 2013.

Under the terms of the Irrevocable Subscription Agreements dated May 16, 2011, in the event that the Issuer's securities are not listed on the CNSX by June 30, 2011 the subscribers to the Irrevocable Subscription Agreements have the right to terminate the Irrevocable Subscription Agreements and have their original investment plus any accrued interest paid to them. All of the subscribers to the Irrevocable Subscription Agreements with an Effective Date of the Irrevocable Subscription Agreement of May 16, 2011 in letters dated May 31, 2011 have agreed to amend the Irrevocable Subscription Agreements to extend the above date to January 1, 2013. Therefore, Irrevocable Subscription Agreements representing an additional $75,000 may not be terminated until January 1, 2013.

Under the terms of the Irrevocable Subscription Agreements the Issuer may, at its option, draw down from the escrow account (on a pro-rata basis) by issuing $50,000 of its Common Shares by way of a private placement at any time over the next 24 months from the Effective Date of the Irrevocable

Subscription Agreement. Each draw down will be at a subscription price equal to the greater of: (a) $0.10 per share; and (b) the CNSX closing price for the Common Shares on the day prior to the dissemination of a news release disclosing the private placement, less the maximum discount prescribed by the policies of the CNSX. All funds will remain in escrow until such shares are drawn down. For each draw of $50,000 the issuer will issue a maximum of 500,000 Common Shares at a minimum value of $0.10 per share. The maximum total Common Shares that may be issued under the Irrevocable Subscription Agreements is 3,750,000. See *"Material Agreements"*

The Issuer anticipates using its available funds to complete the formulation of PTL-202 and complete bio-equivalency and drug/drug interaction studies (phase 1), to enable continued operation of the Issuer and for other general corporate purposes. The formulation of PTL-202, bio-equivalency and drug/drug interaction studies will be completed in partnership with IntelGenx pursuant to the IntelGenx Development and Commercialization Agreement. Of the $248,500 budgeted for this development work, $181,500 will be paid by IntelGenx and the remaining $67,000 will be paid by the Issuer. In return for their contribution IntelGenx will receive royalties on future sales of PTL-202.

Officers of the Issuer are owed $89,260 as of December 31, 2010 and March 31, 2011 in unpaid salary and other compensation which are included in long term liabilities. As of May 31, 2011 the officiers are owed $159,042 in unpaid salary, shareholder loans and other compensation which are included in long term liabilities They have agreed to repayment terms of the earlier of: a) such time as the Issuer has working capital of at least $500,000 remaining after any payment made by the Issuer in respect of all or part of the indebtedness, or (b) January 1, 2013.

As May 31, 2011 the Issuer has working capital of $321,188 and $377,663 in cash and cash equivalents.

$25,000 of funds under the Irrevocable Subscription Agreements have been classified as a short term liability on the Issuers balance sheet as of March 31, 2011 and May 31, 2011. Upon listing of the Issuers Common shares on the CNSX the $25,000 will be reclassified as long term debt increasing working capital by $25,000 to $346,188.

The Issuer will have the following funds available for its future use:

Working Capital	$321,188
Total Funds Available	$321,188

Management anticipates applying its working capital in the following manner:

Research and Development	
PTL-202 Formulation Start-up	$31,500
PTL-202 Formulation Development	124,500
PTL-202 Pilot Biostudy	66,500
PTL-202 Drug/Drug interaction Trial	26,000
Intelgenx R&D Contribution	181,500
Net R&D Expense:	67,000
Operating Expense	
General & Administration[1]	188,460
Insurance[2]	14,701
Licenses & IP[3]	9,500
Operating Expense:	212,661
CNSX Listing Fees	$12,000
Interest Expense(4)	18,000
Unallocated Working Capital	11,527
Net Funds Available	$321,188

(1) General & administration expenses are for 12 months and include: professional fees including professional fees incurred with respect to the preparation of this Prospectus $50,000, rent & occupancy $16,800, telephone and utilities $2,760, wages and benefits $129,600, other $13,500. Decreases to general & administration expenses from the previous 12-month period are due to a voluntary decrease in the CEO's salary by $60,000 and CFO's annual fee by $18,000 as well as a reduction in consulting expenses of $14,000. Insurance expense includes directors and officers insurance and key man life insurance.

(2) Licenses & IP includes $7,500 of payments to Dalhousie University as license fees and professional fees for intellectual property protection.

(3) Interest expense is for interest due on the funds held in escrow under the Irrevocable Subscription Agreements.

The Issuer intends to spend the net funds available to it as stated in this Prospectus. However, there may be situations where, due to change of circumstance, outlook, research results and or business judgment, a reallocation of funds is necessary in order for the Issuer to achieve its overall business objectives.

The Issuer will require seeking funding from other sources to assist with implementation of its Phase 2 and beyond research and development and commercialization plans and to continue operations beyond the next year. Such additional funds would likely be raised through a private placement of securities. There is no assurance that funding will be available. Should additional funds be raised, a portion of those funds may be used for the research and development of PTL-303 the Issuers treatment for Liver Cirrhosis and further development of PTL-202.

Timing and Stage of Research and Development

Formulation and Phase 1

During the next twelve months the Issuer intends to develop a once a day formulation of PTL-202 and test its bioavailability in a drug/drug interaction study. The pilot study will include testing PTL-202 in humans for bio-equivalency and drug/drug interactions. This trial will be the first clinical trial of PTL-202 and is a major milestone for the Issuer. These trials will be the Issuer's first human trials of PTL-202 (Phase 1) and will be conducted in healthy individuals.

The Issuer contracted Biopharmaceutical Research Inc. (BRI) of Vancouver, BC to develop and qualify an analytical method to determine if any new molecules are created when Pentoxifylline and NAC are administered together as opposed to when they are delivered individually. This analytical method will be used to analyze the blood samples from patients who take part in the drug/drug interaction study. The above assay development work has been successfully completed. The cost of the assay development was $24,800 plus taxes and materials. Half of this contract fee was paid on initiation of the contract in December of 2009. The outstanding balance of $12,568 owing on this project is included in the Issuer's accounts payable and is a portion of the working capital as of May 31, 2011.

The Issuer has entered into the IntelGenx Development and Commercialization Agreement for the formulation, pilot testing and manufacturing of PTL-202. The formulation services will include; analytical characterization of the combination, pre-formulation trials, formulation development and pilot studies. Upon completion of the pilot studies, scale up and manufacturing process development will be contracted to develop data for regulatory submission. The estimated cost of this formulation work is $248,500. *See "Material Contracts"*

Significant research and Development Milestones:

	2011			2012
Research and Development Activity	**Q2**	**Q3**	**Q4**	**Q1**
Pentoxifylline and N-acetylcysteine Assay Validation				
Formulation Pre Development activities				
Pre Formulation Trials				
Formulation Development				
Pilot Bio Equivelancy Study				

	2011			2012
Research and Development Activity	**Q2**	**Q3**	**Q4**	**Q1**
Drug/Drug Interaction Study Set-up				

Additional Steps required for Commercialization

The business model of the Issuer does not involve taking drugs through to commercialization, but rather taking them through the steepest part of the valuation curve namely from pre-clinical testing through proof-of-principal (Phase 2) testing in humans. Therefore the Issuer's long-term plans are to sell the rights to its drug candidates at the end of Phase 2 to an entity capable of completing the required clinical trials and commercializing the drug candidate. The Issuer estimates that it will require an additional $8,000,000 in capital to take PTL-202 through Phase 2 clinical trials.

In order to reach the optimum point of development for out-licensing or selling the Issuer's technology and drug candidates to a specialty pharmaceutical company, competitor or other entity capable of completing the necessary clinical trials and commercializing PTL-202, the Issuer will need to raise additional capital to conduct bio-equivalency studies on PTL-202, develop a proprietary formulation of PTL-202 and complete a Phase 2 clinical trial of PTL-202 in Pulmonary Fibrosis. The estimated cost of this work is approximately $8,000,000.

The Issuer will also need to raise additional capital to achieve its objectives for its pipeline drug candidate for Liver Cirrhosis, PTL-303. The activities that require funding include completing pre-clinical studies of PTL-303 and moving PTL-303 through phase 1 and 2 clinical trials, with the final objective of selling PTL-303 post Phase 2. One of any combination of these steps may be done by the Issuer itself or in partnership with third parties and subcontractors. If the Issuer elects to develop PTL-303, the total cost of taking PTL-303 from its current stage through to completion of a Phase 2 clinical trial is estimated to be approximately $11,000,000.

DIVIDENDS

The Issuer has neither declared nor paid any dividends on its Common Shares. The Issuer intends to retain its earnings, if any, to finance growth and expand its operations and does not anticipate paying any dividends on its Common Shares in the foreseeable future. The payment of dividends on the Common Shares in the future is unlikely and will depend on the earnings and financial conditions of the Issuer and such other factors as the Board may consider appropriate.

The Issuer's Series 2 Preferred Shares carry a 12% per year dividend. This dividend will be paid in Common Shares upon the conversion of the Series 2 Preferred Shares into Common Shares. This conversion is triggered by the listing of the Common Shares on a stock exchange.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

This MD&A has been prepared as of February 28, 2011 and presents the operations of the Issuer for the fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008. The following information should be read in conjunction with the Issuer's audited financial statements for the fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008, together with the notes thereto. The Issuer's financial statements are prepared in accordance with the Canadian generally accepted accounting principles ("GAAP") and all dollar amounts are expressed in Canadian dollars unless otherwise noted. This discussion contains forward-looking statements that involve certain risks and uncertainties. See also "*Forward Looking Statements"* and *"Risk Factors"*.

Business Overview and Strategy

The Issuer is a development stage specialty pharmaceutical company. The Issuer is focused on developing late stage clinical therapies and in-licensed novel compounds for Fibrosis indications. The Issuer's lead compound PTL-202 is a combination of already approved drugs with a well established safety profile. The Issuer's pipeline includes PTL-303, a novel drug for the treatment of Liver Cirrhosis. PTL-303 has shown efficacy in cellular assays.

The Issuer will continue to operate virtually, outsourcing all non-core activities such as pre-clinical research and clinical trials and manufacturing. The Issuer will continue to build core skills in managing clinical development of therapies, licensing and commercialization. The Issuer will use its skills, taking in-licensed approved and late stage drug candidates through final human clinical trials for rare fibrosis indications including Idiopathic Pulmonary Fibrosis, Liver Cirrhosis, Scleroderma Associated Pulmonary Fibrosis, Lung Transplant Rejection and others. The Issuer's strategy is to sell or out-license its product candidates and technologies after completing Phase 2 clinical trial proof of principal studies. At this stage of development the value of product candidates has been maximized in relation to the capital spent to develop them.

Corporate Highlights

In 2010 the Issuer accomplished the following milestones:

Corporate Highlights

- January 25, 2010 the Issuer amended the Dalhousie License Agreement
- August 20, 2010 closed financing by way of offering memorandum increasing the public shareholder base above the 150 shareholders needed to list the Issuer's shares on the CNSX
- During the year the Issuer issued 404,000 pre-split Common Shares (606,000 post-split Common Shares) for a total of $95,500
- During the year, in order to meet CNSX listing requirements, the founders of the Issuer re-priced 3,000,000 Common Shares of the Issuer with an initial subscription price of $0.001 per share to $0.02 per share for total proceeds of $57,000
- December 30, 2010 the Issuer split its equity to 1.5 new shares for each existing share

PTL-202

- January 2010, engaged Biopharmaceutical Research Inc. to develop assay for Pentoxifylline and N-Acetylcysteine
- April 2010 entered into national phase of patent prosecution for PTL-202
- June 18, 2010 signed letter of intent to out-license the United State rights to PTL-202
- November 2010, entered into letter of intent with IntelGenx Corp. for the development and commercialization of PTL-202

PTL-303

- There has been no advancement of PTL-303 due to a lack of working capital

Subsequent Events

In January 2011 outstanding warrants were exercised for total gross proceeds of $30,000. The warrants had been issued as part of a private placement of units which was closed in two tranches February 13 and March 9, 2009. The warrants were exercisable up until January 31, 2011 at a price of $0.10 on a pre-split basis.

The Issuer received $30,000 for the subscription of 200,000 units in a private placement. The private placement was closed in two tranches on January 31 and February 28. Each unit consists of one Common Share and one warrant. The warrants are exercisable for 2 years at a price of $0.25.

As a listing requirement of the CNSX, no more than 20% of the outstanding shares of the Issuer may have been issued for less than $0.02 per share. In order to meet this requirement, on January 15, 2011 the Issuer received $30,000 from two founders to re-price 4,500,000 Common Shares to $0.02 per share. In addition on January 15, 2011, a company controlled by a founder of the Issuer paid $5,800 and re-priced 300,000 Common Shares owned by it to $0.02 per share. Also on February 28, 2011, a company controlled by a founder of the Issuer paid $5,800 and re-priced an additional 300,000 Common Shares owned by it to $0.02 per share.

On January 31, 2011 the Issuer entered into a series of Irrevocable Subscription Agreements with a group of investors for total proceeds of $300,000. The Issuer entered into an escrow agreement with the investors and Fasken Martineau Dumoulin LLP as the trustee whereby aggregate funds of $300,000 have been placed in escrow and would be paid to the Issuer for issuance of Common Shares of the Issuer. As an incentive to have the investors enter into the Irrevocable Subscription Agreements, the Issuer, issued a total of 600,000 Class A common shares and 2,400,000 warrants to the investors. The warrants are exercisable for up to two years at a price of $0.15. See also "*Material Agreements"*.

Interest on the funds in escrow will accrue at 1% per month, to be paid quarterly by the Issuer to the subscribers in arrears. Under the terms of the Irrevocable Subscription Agreements, the Issuer has the option to return any of the funds in escrow to the subscribers at any time on written notice to the subscriber.

Under the terms of the Irrevocable Subscription Agreements dated January 31, 2011, in the event that the Common Shares are not listed on the CNSX by April 30, 2011 the subscribers to the Irrevocable Subscription Agreements have the right to terminate the Irrevocable Subscription Agreements and have their original investment plus any accrued interest paid to them. All but one of the subscribers to the Irrevocable Subscription Agreements in letters dated March 31, 2011 have agreed to amend the Irrevocable Subscription Agreements to extend the above date to January 1, 2013. Therefore, Irrevocable Subscription Agreements representing $275,000 may not be terminated until January 1, 2013.

Under the terms of the Irrevocable Subscription Agreements, the Issuer may, at its option, draw down from the escrow account (on a pro-rata basis) by issuing $50,000 of its Common Shares by way of a private placement at any time over the next 24 months from the Effective Date of the Irrevocable Subscription Agreements. Each draw down will be at a subscription price equal to the greater of: (a) $0.10 per share; and (b) the CNSX closing price for the Common Shares on the day 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 escrow until such shares are drawn down. For each draw of $50,000 the issuer will issue a maximum of 500,000 Common Shares at a minimum value of $0.10 per share. The maximum total Common Shares that may be issued under the Irrevocable Subscription Agreements is 3,000,000.

On February 28, 2011 the Issuer entered into the IntelGenx Development and Commercialization Agreement. This agreement supersedes the letter of intent between the companies. The agreement calls for the companies to collaborate in the formulation and bio-equivalency testing of PTL-202. The completion of this work will be a significant milestone for PTL-202 as it will include data from human testing. This data may provide the information required to decide to move PTL-202 in to further clinical testing. See also *"Material Agreements"*.

Under the terms of the Dalhousie License Agreement, the Issuer 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. As at December 31, 2010, the Issuer had not met any of the requirements of the agreement outlined above. Subsequent to the year end, the Issuer received a waiver from Dalhousie for the requirement (a) and (b) above, and requirement (c) was amended to also 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. See also *'Material Agreements"*.

In 2009 the Issuer accomplished the following milestones:

Corporate Highlights

- February 13: closed a financing of $8,000
- March 24: amended its license agreement with Dalhousie University
- March 9: closed a financing of $82,000
- July 15:Dr. Daryl Knight joined the Issuers Scientific Advisory Board
- September 15: issued Offering Memorandum
- November 5: Dr. Wendi Rodrigueza joined the Issuers Board of Directors
- November 25: closed a financing of $250,800 including $32,800 in lieu of services under the Offering Memorandum

PTL-202

- April: received positive letter on the validity of the PTL-202 patent from the WIPO

PTL-303

- October 29: filed a PCT patent application covering the composition of matter and method of use of PTL-303

Selected Annual Information

The financial information reported here has been prepared in accordance with Canadian GAAP. The Issuer uses the Canadian dollar (CDN) as its reporting currency. Selected audited financial data for annual operations of the Issuer during the fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008 is presented below:

Selected Statement of Operations Data

Period ended	**FYE 2010**	**FYE 2009**	**FYE 2008**
Total revenues	$Nil	$Nil	$Nil
Net loss	$(291,533)	$(227,782)	$(371,346)
Basic loss per share	($0.18)	($0.017)	$(0.046)
Diluted loss per share (Unaudited)	($0.18)	($0.017)	$(0.046)
Weighted average shares	15,770,994	13,700,410	8,069,754

The loss from operations increased in FYE 2010 due to a lack of offsetting research and development funding from granting agencies associated with the development of PTL-202 which was recognized in FYE 2009. The addition of directors and officers insurance also contributed to the increased loss in 2010 as compared to previous years. These increases in expense were offset by a decrease in rent and occupancy costs as a portion of the Issuer's offices were sublet in 2010. The Issuer will continue to sublet a portion of its office space.

Selected Balance Sheet data;

Period ended	**FYE 2010**	**FYE 2009**	**FYE 2008**
Cash	$30,457	$85,587	$5,046
Current assets	$40,210	$111,012	$12,197
Property and equipment	$8,168	$10,612	$13,996
Total Assets	$119,918	$165,558	$51,811
Current liabilities	$116,788	$93,815	$79,096
Total liabilities	$206,048	$93,815	$79,096
Working Capital	$(76,578)	$17,197	$(66,889)
Total revenues	$Nil	$Nil	$Nil
Net loss	$(291,533)	$(227,782)	$(371,346)
Basic loss per share	$(0.018)	$(0.017)	$(0.046)
Diluted loss per share (Unaudited)	$(0.018)	$(0.017)	$(0.046)
Weighted average shares	15,770,994	13,700,410	8,069,754

Cash decreased by $55,130 to $30,457 in 2010 from $85,587 in 2009 and $5,046 in 2008. In addition, current liabilities increased by $22,973, from $93,815 in 2009 to $116,788 in 2010. The 2010 balance is also an increase over the 2008 balance of $79,096. The decrease in cash and increase in current liabilities contributed to a decrease in working capital of $93,775, from $17,197 in 2009 to a deficit of $76,578 in 2010. The 2010 working capital deficit for 2010 is similar to the working capital deficit for 2008 - $66,889. These changes were due to a decrease in financing activities in 2010 ($223,940) and 2008 ($128,000) as compared to 2009 ($294,010).

Results of Operations

	2010 $	2009 $	Change $	Change %
Revenue	$Nil	$Nil	0	N/A
Research and Development[(1)(2)]	15,469	(63,903)	79,372	-124%
General and Administrative	179,384	173,148	6,236	4%
Professional Fees	67,443	68,360	(917)	-1%
Insurance	14,701	4,283	10,418	243%
Rent and Occupancy Cost	14,556	45,715	(31,159)	-68%
Interest Income	$Nil	179	(179)	N/A
Net Loss	(291,553)	(227,782)	63,771	28%

1. The Research and Development expense for 2009 is a credit balance due to receipt of a Government Research and Development credit.
2. The Research and Development expense for 2010 was reduced from $25,469 by $10,000 to $15,469 because a payment of $10,000 was received on the execution of a letter of intent on a license agreement.

The Issuer's net loss for the year ended December 31, 2010, totalled $291,533 or $0.018 per share (FYE 2009 – $227,782 or $0.017 per share, FYE 2008 – $371,346 or $0.046 per share). The main contributor to this increased loss is the lack of Government Research and Development credits in 2010. The Issuer's loss was highest in 2008 because of the large expenditure in research and development $52,362.

Revenues

The Issuer has no drug therapies approved or for sale and has not generated any revenue from the sale of drug therapies. The Issuer has not recognized any revenue since inception through December 31, 2010. The Issuer does not expect to receive any revenues until after the completion of the Phase 2 trial of PTL-202. The Issuer expects to complete this trial by the end of 2015.

The Issuer's revenues will be earned through upfront payments from licenses, milestone payments included in-licenses and royalty income from licenses. The Issuer's revenues will depend on out licensing the Issuer's drug candidates to suitable development and commercialization partners and its partners' abilities to successfully complete clinical trials and commercialize the Issuer's drug candidates worldwide.

Research & Development Expense

Research and development expense consists primarily of salaries for management of research contracts and research contracts for pre-clinical studies, clinical studies and assay development as well as the development of clinical trial protocols and application to government agencies to conduct clinical trials, including consulting services fees related to regulatory issues and business development expenses related to the identification and evaluation of new drug candidates. Research and development costs are expensed as they are incurred.

From inception through to December 31, 2010, the Issuer incurred total expenses in the development of its intellectual property of $1,410,503, which includes $507,264 of research and development expenses (research and development expenses on the financial statements have been offset by $53,277 in IRAP funding and $187,427 in SR&ED tax credits), $226,746 of professional fees and $676,493 of wages and benefits.

	Year ended December 31, 2010	**Year ended December 31, 2009**	**Year ended December 31, 2008**
Research and Development Expenses			
Personnel, Consulting, and Stock-based Compensation	$15,461	$11,809	$83,426
License Fees and Subcontract research	$8	($386)	$66,934
Facilities and Operations	Nil	Nil	$12,712
Less: Government contributions	Nil	($75,326)	($110,710)
Total	$15,469	($63,903)	$52,362

The increase in R&D expenses in FYE 2010 as companred to FYE 2009 is a reflection of the development of the bio-analytical assay for Pentoxifylline and NAC and the decrease in government contributions. In FYE 2010 the R&D expense for personnel, consulting and stock based compensation was offset by $10,000 that was received from a potential development partner on the signing of a letter of intent for the development of PTL-202. The Issuer expended more on research and development in FYE 2008 as compared to FYE 2010, or FYE 2009 due to the pre clinical testing of PTL-202 in FYE 2008.

Additional research and development expenses of approximately $248,500 in 2011 are required to complete the formulation of PTL-202 and a pilot study of bioequivalence and drug/drug interaction. The results of this work will provide the information required to move PTL-202 to the next step of its development. Of this $248,500 the Issuer will incur expenses of approximately $67,000. The remaining expense of $181,500 will be paid by IntelGenx under a development and commercialization agreement.

"*See Material Agreements"*

In cooperation with IntelGenx and utilizing the funds available from the Irrevocable Subscription Agreements the Issuer will have the funds available to complete the formulation of PTL-202 and test its

bio-equivalency in humans. Additional financing will be required to complete the development and commercialize PTL-202 beyond the formulation and pilot study Phase 1 trial that is planned for 2011. There is no assurance that such financing will be available or that the Issuer will have the capital to complete this proposed development and commercialization.

The Issuer anticipates completing the formulation, drug/drug interaction study of PTL-202, analyzing the blood samples and analyzing the data in 2011; however, the Issuer may not be able to do so on schedule. The Issuer's clinical development studies and regulatory considerations relating to PTL-202 are subject to risks and uncertainties that may significantly impact its expense estimates and development schedules, including:

- the scope, rate of progress and cost of the development of PTL-202;
- uncertainties as to future results of the drug/drug interaction study of PTL-202;
- uncertainties as to future results of the formulation development and pilot study of PTL-202;
- the issuers ability to enrol subjects in clinical trials for current and future studies;
- the Issuer's ability to raise additional capital; and
- the expense and timing of the receipt of regulatory approvals.

In addition to the formulation and clinical development plans for PTL-202 the Issuer may begin development of PTL-303 for the treatment of Liver Cirrhosis. The Issuer will only be able to begin development of PTL-303 if additional funds are available. There is no guarantee that these funds will be available to the Issuer and, if they are available, they may not be available on acceptable terms. Development of PTL-303 may significantly impact the Issuer's expense projections and development timelines. See also *"Risk Factors"*

General and Administrative Expenses

General and administrative costs consist primarily of personnel related costs, non-intellectual property related legal costs, accounting costs and other professional and administrative costs associated with general corporate activities.

From 2012 and beyond as PTL-202 begins clinical development and as operations are developed to move PTL-202 and other drug candidates through the clinical trial process General and Administrative expenses will increase. Increases in personnel costs, professional fees and expenses related to additional equipment will make up a significant portion of these planned expenditures.

Intellectual Property and Intangible Assets

All license and option fees paid to licensors for intellectual property licenses are accrued to intangible assets on the Issuer's financial statements. In addition, any expenses for intellectual property protection including patent lawyers services fees and any filing fees with government agencies or the WIPO are accrued to intangible assets. This expense will decrease in the twelve months following the date of this prospectus as no new filings are anticipated. It is expected that approximately 5% of the currently available funds will be used for intangible assets.

Interest Income

Interest income consists of interest earned on the Issuers cash and cash equivalents. There was no interest income in 2010 (2009 – $179, 2008 – $2,107).

Profits

At this time, the Issuer is not anticipating profit from operations. Until such time as the Issuer is able to realize profits from the out licensing of products under development, the Issuer will report an annual deficit and will rely on its ability to obtain equity/or debt financing to fund on-going operations. For information concerning the business of the Issuer, please see "*Description of the Business*".

Liquidity and Capital Resources and Outlook

The Issuer is a development stage company and therefore has no regular cash inflows. Selected financial data pertaining to liquidity and capital resources the fiscal years ended December 31, 2010 and December 31, 2009, is presented below.

Period ended	**2010 $**	**2009 $**	**$ Change between two periods**	**%Change between two periods**
Cash and Cash Equivalents	$30,457	$85,587	($55,130)	-64%
Current Assets	$40,210	$111,012	($70,802)	-64%
Current Liabilities	$116,788	$93,815	($22,963)	24%
Working Capital	($76,578)	$17,197	($93,775)	-545%
Accumulated deficit	($1,537,748)	($1,246,195)	291,553	23%
Cash used in operations	$249,357	$193,818	$55,539	29%
Cash from financing Activities	$224,940	$294,010	($69,070)	-23%
Interest Income	Nil	179	($179)	N/A

At December 31, 2010, the Issuer had cash and cash equivalents of $30,457 (FYE 2009 - $85,587, FYE 2008 - $5,406) and working capital of ($76,578) (FYE 2009 – $17,197, FYE 2008 – ($66,889)). Working capital is defined as cash, accounts receivable and prepaid expenses less accounts payable, unearned revenue, security deposit and amounts due to shareholders within the current fiscal year.

Cash and cash equivalents decreased by $55,130 between FYE 2010 and FYE 2009 due to a reduction in financing and an increase in expenditures for research and development and Insurance during the period. Working Capital decreased by $93,775 between FYE 2010 and FYE 2009 due to the decrease in the sale of common shares and warrants and an increase in expenditures for research and development and increase in insurance and an increase in intangible assets during the period. The Issuer's cash inflows from financing activities comprised proceeds from common and preferred share issuances during the FYE 2010 totalling $73,680 (FYE 2009 – $294,010, FYE 2008 - $128,000), the re-pricing of founders shares $57,000 (FYE 2009 – Nil, FYE 2008 - Nil), assignment of payable by shareholders $89,260 (FYE 2009 – NIL, FYE 2008 - Nil). Cash from financing activities decreased by $69,070 between FYE 2009 and FYE 2010 and increased by $96,940 as compared to FYE 2008.

As part of the CNSX listing requirements no more than 20% of the issued and outstanding shares of a company listed on the exchange may be "Builders Shares". Builders Shares include any share issued at a price of less than $0.02 per share. In order to meet this listing requirement the founders of the Issuer contributed $57,000 to re-price 3,000,000 common shares to $0.02 per share. The founders originally

purchased the shares for $0.001 per share. This $57,000 (2009 – Nil, 2008 - $Nil) is included in the Issuer's Financing Activities in its financial statements. No shares were repriced during FYE 2009 of FYE 2008.

Cash utilized in operating activities during the FYE 2010 was $249,357 (FYE 2009 –$193,818, FYE 2008, $256,783). The decrease in cash utilized in operating avtivities during FYE 2009 as compared to FYE 2008 or FYE 2010 was mainly due to an offset in research and development expense from government contributions.

Interest income during the FYE 2010 was $Nil (FYE 2009 – $179, FYE 2008 - $2,107)). The interest was earned in 2009 and 2008 on cash and cash equivalents held.

At December 31, 2010, share capital was $1,433,136 comprising 15,903,451 issued and outstanding Common Shares and 1,703,250 issued and outstanding Preferred Shares (FYE 2009 – $1,299,456 comprising 10,216,301 issued and outstanding Common Shares and 1,135,500 issued and outstanding Preferred Shares). The Issuer's shares were split on 1.5 new shares for every 1 existing share on December 30, 2010. At December 31, 2008, share capital was $974,610 comprising 8,304,001 issued and outstanding Common Shares and 1,135,500 issued and outstanding Preferred Shares. The Issuer intends to issue additional shares increasing its share capital to fund future research and developement and operations.

Contributed Surplus, which arises from the recognition of the estimated fair value of stock options and warrants, was $18,482 (FYE 2009 – $18,482, FYE 2008 - $16,518).

As a result of the net loss for the FYE 2010 of $291,553 (FYE 2009 – $227,782, FYE 2008 - $371,346), the deficit at December 31, 2010 increased to $1,537,748 from $1,246,195 at December 31, 2009 which was an increase from $1,018,413 at December 31, 2008.

During the FYE 2010, the Issuer's net cash provided by financing activities decreased to $224,940 (FYE 2009 – $294,010) and increase in comparison to FYE 2008 - $128,000.

At present, the Issuer's operations do not generate cash inflows and its financial success after 2011 is dependent on management's ability to continue to obtain sufficient funding to sustain operations through the development stage and successfully bring the Issuer's technologies to the point that they may be out licensed so that the Issuer achieves profitable operations. The research and development process can take many years and is subject to factors that are beyond the Issuer's control. See *"Risk Factors"*.

In order to finance the Issuer's future research and development and to cover administrative and overhead expenses in the coming years the Issuer may raise money through equity sales. Many factors influence the Issuer's ability to raise funds, including the Issuer's track record, and the experience and calibre of its management. Actual funding requirements may vary from those planned due to a number of factors, including the progress of research activities. Management believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control. Should those risks fully materialize, it may not be able to raise adequate funds to continue its operations. Please see *"Risk Factors"*.

Off Balance Sheet Arrangements

The Issuer is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Issuer's financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Transactions with Related Parties

Transactions with related parties are in the normal course of operations and are measured at the exchange amount, which is the consideration agreed to by the parties. During the years ended December 31, 2008, 2009 and 2010, the Issuer entered into the following transactions with related parties:

- The Issuer incurred fees payable to officers and directors for activities related to research and development and professional fees in the amount of $Nil [2009 - $15,888, 2008 - $44,661].
- The Issuer received in the year ended December 31, 2010 $10,000 (FYE 2009 – $Nil, 2008 – $Nil) from a company controlled by Dr. Salari, a shareholder of the Issuer as an initial fee under a letter of intent for a licensing agreement;
- The issuer received $31,200 (FYE 2009 – Nil) for sublease revenues from a company controlled by Dr. Salari, a shareholder of the Issuer. The amounts outstanding as at December 31, 2010 totalled $Nil (2009 - $Nil, 2008 - $Nil);
- The Issuer paid accounting fees for the year ended December 31, 2010, to a company controlled by its CFO, in the amount of $36,000 (FYE 2009 – $36,000). The amounts outstanding as at December 31, 2010 totalled $26,460 (2009 – Nil). The amounts bear no interest and are unsecured, $16,380 is payable at the earlier of January 1, 2012 and at such time when the Issuer has $100,000 in working capital, and the remainder has no terms of repayment. These repayment terms have been subsequbtly amended such that at May 31, 2011 the total outstanding of $36,220 is not payable until the earlier of January 1, 2013 and at such time when the Issuer has $500,000 in working capital;
- The Issuer paid finders fees relating to equity investments in the Issuer to Mr. Derick Sinclair in the amount of December 31, 2010 $Nil (FYE 2009 - $2,275, 2008 - $Nil). The amounts outstanding as at December 31, 2010 totalled $Nil (2009 –Nil);
- Mr. Don Unwin, a brother of the Issuer's CEO was paid finders fees relating to equity investments in the Issuer. He was paid $Nil in the year ended December 31, 2010 (FYE 2009 - $7,350) The amounts outstanding as at December 31, 2010 totalled $Nil (FYE 2009 – Nil);
- Mr. Fedrik Salari was paid $4,382 in 2010 (FYE 2009 – Nil) for designing the Issuer's new website and for website hosting fees. Mr. Fredrik Salari is a shareholder and the son of Dr. Hassan Salari a company founder and insider. The amounts outstanding as at December 31, 2010 totalled $Nil (FYE 2009 – Nil);
- Directors and officers of the Issuer and their spouses subscribed for shares as part of a private placement in the year ended December 31, 2010 $Nil (FYE 2009 – 222,000) pre split Common Shares of the company were issued to these directors, officers and their spouses for gross proceeds in the year ended December 31, 2010 of $Nil (FYE 2009 – $75,500) in the November 25, 2009 private placement);
- A listing requirement of the CNSX is that no more than 20% of the outstanding shares may have an issue price of less than $0.02. In order to meet this listing requirement Dr. Hassan Salari and the Issuer's CEO during the year ended December 31, 2010 paid $57,000 (FYE 2009 – Nil) to re-price 3,000,000 pre split common shares (2009 – Nil) from $0.001 per share to $0.02 per share;

- No options to purchase shares of the Issuer were granted in the year ended December 31, 2010. Options to purchase 100,000 common shares at an exercise price of $0.30 were issued to Dr. Wendi Rodrigueza a Director of the Issuer by the Issuer during the year ended 2009;
- At December 31, 2010 the Issuer owed $112,943 (FYE 2009 - $34,045, 2008 - $18,000) the CEO in accrued salary. The amounts bear no interest and are unsecured, $72,880 is payable at the ealier of January 1, 2012 and at such time when the Issuer has $100,000 in working capital and the remainder has no terms of repayment. Subsequently the repayment arrangements for the CEO's accrued salary have been amended. The CEO has agreed to postpone repayment of $122,821 an amount that bears no interest and is unsecured and is payable at the ealier of January 1, 2013 and at such time when the Issuer has $500,000 in working capital.

There were no amounts due from companies that have directors in common with the Issuer or have a partner who is a director of the Issuer.

There were no amounts due to the Issuer from shareholders in either fiscal year.

Fourth Quarter

The table below sets out the unaudited quarterly results for the fourth quarter ending December 31, 2010 and December 31, 2009.

(unaudited)	**2010 Q4**	**2009 Q4**	**2008 Q4**
Total Expenses	$117,781	$128,521	$122,298
Research and Development	$0	$11,810	$48,624
Net Loss	$117,781	$128,521	$122,298
Loss per share	$0.01	$0.01	$0.01

The net loss in the fourth quarter of 2010, $117,781, decreased from $128,521 in the fourth quarter of 2009 (2008 - $122,298) the decrease was principally caused by a reduction in research and development during the fourth quarter of 2010. Of the $117,781 (2009 – $128,521) $85,378 (2009 - $60,514) is wages and benefits of which $73,897 (2009 - $2,380) is the payment of wages that were accrued during the year. Removing this payment for accrued wages decreases the expense for the quarter to $43,884 (2009 - $126,141).

Research and development expenses was higher in 2008, $48,624 than in 2009 due to the government grants received in 2009 which offset the research and development expenses that year.

The Issuer does not anticipate earning any revenue in the foreseeable future.

Net loss, quarter over quarter is influenced by a number of factors including the scope and stage of clinical development and research. Consequently, expenses may vary from quarter to quarter. General and administrative expenses are dependent on the infrastructure required to support the clinical and business development activities of the Issuer. A material decrease in general and administrative costs is anticipated over the short term as the Issuer has taken steps to reduce salaries, professional fees and consulting costs in 2011.

During the fourth quarter, founders of the Issuer contributed $57,000 to re-price 3,000,000 Common Shares to $0.02 per share. The re-pricing was conducted to meet CNSX listing requirements for builders shares. The CNSX requirement is that the total number of shares issued at a prices per share of less than $0.02 cannot be greater than 20% of the issued and outstanding shares. Other than this contribution there were no extraordinary items during the fourth quarter that affected the Issuer's financial condition, cash flows or results of operations.

Proposed Transactions

As at the date of this Prospectus, there are no business or asset acquisitions or dispositions proposed other than those in the ordinary course of business before the Board for consideration.

Critical Accounting Estimates

The Issuer's accounting policies are presented in note 2 of the December 31, 2010 audited financial statements. The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to select accounting policies and make estimates. Such estimates may have a significant impact on the financial statements. Actual amounts could differ materially from the estimates used and, accordingly, affect the results of the operations. These include:

- the assumptions used for the determinations of the timing of future income tax events
- the carrying values of Intangible assets, technology license and patents, other long lived assets
- the valuation of stock-based compensation expense

Changes in Accounting Policies including Initial Adoption

Effective January 1, 2009 the Issuer adopted the new recommendations from the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, "Goodwill and Intangible Assets". Section 3064 "Goodwill and Intangible Assets", establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The adoption of this new standard did not result in any changes to the accounts.

The financial statements of the Issuer have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Issuer will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Issuer's continued existence is dependent upon its ability to raise additional financing and to generate profitable operations in the future. The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate because management believes that the actions already taken or planned, such as future equity financings, will mitigate the adverse conditions and events which raise doubts about the validity of the going concern assumption used in preparing these financial statements. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption may be permitted but it will require exemptive relief on a case by

case basis from the Canadian Securities Administrators. The Issuer's first consolidated financial statements presented in accordance with IFRS is the three-month period ended March 31, 2011, which includes presentation of its comparative results for fiscal 2010 under IFRS. In order to prepare for the changeover to IFRS, the Issuer developed an IFRS conversion plan comprising of three phases:

PHASE	DESCRIPTION AND STATUS
PRELIMINARY PLANNING AND SCOPING	The IFRS conversion plan includes consideration of the impacts of IFRS on the Issuer's financial statements, internal control over financial reporting, information systems and business activities such as, compensation metrics, and personnel and training requirements. Based on Management's review of IFRS and current processes used by the Issuer, there is no impact on information systems and compensation metrics.
DETAILED IMPACT ASSESSMENT	This phase involved detailed review of IFRS relevant to the Issuer and identification of all differences between existing Canadian GAAP and IFRS that will result in accounting and/or disclosure differences in the Issuer's financial statements, along with quantification of impact on key line items and disclosures. The phase included identification, evaluation and selection of accounting policies necessary for theIssuer's conversion to IFRS and evaluation of the impact on outstanding operational elements such as debt covenants and budgeting. The Issuer has completed this phase. The significant areas that were discussed were: (1) Research and Development– the Issuer will continue to expense Research and Development until such time as an impairment exists or the project is abandoned. (2) Financial Instruments – the accounting policy will be amended to include changes to impairments on financial assets and their possible reversal. (3) Impairment of assets – the accounting policy will be amended to change the assessment method of whether impairment exists, instead of using the two-step approach under Canadian GAAP, where discounted cash flows are taken as an indication to determine impairment. No numerical adjustments were required for the opening balance sheet as at January 1, 2010.
IMPLEMENTATION	This phase embed the required changes for conversion to IFRS into the underlying financial close and reporting process and business processes. This process has been completed and finalized for the Issuer's interim financial statements as at March 31, 2011.

Financial Instruments

The Issuer's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and amounts due to and from shareholders. Unless otherwise noted, it is management's opinion that the Issuer is not exposed to significant interest, currency or credit risks arising from financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity for prompt liquidation.

Foreign exchange risk is the risk arising from changes in foreign currency fluctuations. The Issuer does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency rates. It is the opinion of management that the foreign exchange risk to which the Issuer is exposed is minimal.

Disclosure Controls and Procedures

The Issuer will update its disclosure controls and procedures to ensure they are appropriate for reporting under IFRS. The Issuer will continue to maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to National Instrument 52-109 is recorded, processed, summarized and reported in the manner specified by the relevant securities laws applicable to the Issuer.

Limitations of Controls and Procedures

The Issuer's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Issuer have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Other MD&A Requirements

Additional Information in Relation to the Issuer

Additional information relating to the Issuer may be found in the Issuer's audited financial statements for the fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008 included within this Prospectus.

Additional Disclosure for Venture Issuers

The following table sets forth certain financial information for the Issuer, which has been derived from the Issuer's financial statements as contained in this Prospectus. This summary should be read in conjunction with the Issuer's financial statements, including the notes thereto, included elsewhere in this Prospectus.

The following table details the Issuer's expenditures for the fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008:

Expenditures	**Year ended December 31, 2010**	**Year ended December 31, 2009**	**Year ended December 31, 2008**
Net research costs expensed	$242,622	$163,678	217,505
Loss on Abandonment of Option	Nil	Nil	18,382
Corporate costs	43,376	$59,205	68,675
Depreciation and amortization	5,553	$5,078	5,582
Interest income	Nil	($179)	(2,107)
Stock based compensation	$Nil	$Nil	63,309
Recovery of future income taxes	$Nil	$Nil	
Net Loss	$291,551	$227,782	371,346

Additional Disclosure for Venture Issuers Without Significant Revenue

Expensed Research and Development Costs

	Year ended December 31, 2010	**Year ended December 31, 2009**	**1st Quarter Ended March 31, 2011**	**1st Quarter Ended March 31, 2010**
Research and Development Expenses				
Personnel, Consulting, and Stock-based Compensation	$15,461	$11,809	Nil	$16,040
License Fees and Subcontract research	$8	($386)	Nil	Nil
Facilities and Operations	Nil	Nil	Nil	Nil
Less: Government contributions	Nil	($75,326)	Nil	Nil
Total	$15,469	($63,903)	Nil	$16,040

Additional Disclosure for Junior Issuers

The Issuer is not raising any funds under this prospectus, however after listing the Issuers shares on the CNSX the Issuer will have enough capital to fund its operations for 12 months.

The issuer will require $314,661 to fund its research and development partnership as well as other operating costs over the next 12 months.

The issuer does not plan to make any material capital expenditures over the 12 months following becoming a reporting issuer.

Interim MD&A for the Quarter Ended March 31, 2011

The following MD&A is dated as of the date of this Prospectus and discloses specified information up to that date. The financial statements are prepared in accordance with IFRS.

Overall Performance

During the quarter ended March 31, 2011 the Issuer completed equity financings and entered into the IntelGenx Development and Commercialization Agreement for the formulation and initial human testing of PTL-202. Overall during the period ended March 31, 2011 the issuer raised $80,068 in share capital and $300,000 under the Irrevocable Subscription Agreements as well as had expenditures of $71,605 consisting of operating expenses.

The Issuer will continue to operate virtually, outsourcing all non-core activities such as pre-clinical research and clinical trials and manufacturing. The Issuer will continue to build core skills in managing clinical development of therapies, licensing and commercialization. The Issuer will use its skills, taking in-licensed approved and late stage drug candidates through final human clinical trials for rare fibrosis indications including Idiopathic Pulmonary Fibrosis, Liver Cirrhosis, Scleroderma Associated Pulmonary Fibrosis, Lung Transplant Rejection and others. The Issuer's strategy is to sell or out-license its product candidates and technologies after completing Phase 2 clinical trial proof of principal studies. At this stage of development the value of product candidates has been maximized in relation to the capital spent to develop them.

Corporate Highlights

In the first quarter of 2011 the Issuer accomplished the following milestones,

- January 15, 2011, the Company repriced 4,800,000 Class A common shares, consisting of 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 repricing an additional 300,000 Class A common shares originally issued for proceeds of $0.0007 per share to $0.02 per share, the Issuer received total proceeds of $5,800.

- January 31, 2011, the Issuer completed a private placement of 140,000 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.

- January 31, 2011, 300,000 common share purchase warrants were exercised, and 300,000 common shares were issued, for total proceeds of $30,000.

- January 26, 2011, the Issuer 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. As a bonus for placing the subscription funds in trust, the Issuer issued 550,000 Class A common shares based on 20% of the principal value of the subscription and a deemed price per share of $0.10. The Issuer also issued 2,200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The shares and warrants were issued as of the effective date of the Irrevocable Subscription Agreements and Escrow Agreement, January 31, 2011.

- February 2, 2011, the Issuer received a further $25,000 in subscription funds 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 Issuer 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 Issuer issued 50,000 Class A common shares based on 20% of the principal value of the subscription and a deemed price per share of $0.10. The Issuer also issued 200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The shares and warrants were issued as of the effective date of the Irrevocable Subscription Agreements and Escrow Agreement, January 31, 2011.

- February 28, 2011, 300,000 Class A common shares controlled by a company controlled by the Issuer's CEO were re-priced from the post split subscription price of $0.00067 per share to $0.02 per share for total proceeds of $5,800.

- February 28, 2011, the Issuer 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.

- On February 28, 2011 the Issuer entered into the IntelGenx Development and Commercialization Agreement. This agreement supersedes the letter of intent between the companies. The agreement calls for the companies to collaborate in the formulation and bio-equivalency testing of PTL-202. The completion of this work will be a significant milestone for PTL-202 as it will include data from human testing. This data may provide the information required to decide to move PTL-202 in to further clinical testing. See also *"Material Agreements"*

- Under the terms of the Dalhousie License Agreement, the Issuer 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. As at December 31, 2010, the Issuer had not met any of the requirements of the agreement outlined above. During the three months ended March 31, 2011, the Issuer received a waiver from Dalhousie for the requirement (a) and (b) above, and requirement (c) was amended to also include a requirement that a first human subject being dosed by December 31, 2012 and initiation of a Phase II study by December 12, 2015. See also *'Material Agreements"*.

Subsequent Events

Subsequent to the end of the first quarter ended March 31, 2011, all but one of the subscribers to the Irrevocable Subscription Agreements with an effective date of January 31, 2011 in letters dated March 31, 2011 have agreed to amend the Irrevocable Subscription Agreements to extend the date at which they may terminate the Irrevocable Subscription Agreements to January 1, 2013 from April 30, 2011. Therefore $275,000 represented by Irrevocable Subscription Agreements with an effective date of January 31, 2011 may not be terminated by the subscriber prior to January 1, 2013.

Subsequent to the end of the first quarter, on May 16, 2011 the Issuer entered into a series of Irrevocable Subscription Agreement's with a group of investors for total proceeds of $75,000. In addition the Issuer entered into an Irrevocable Subscription Agreement Escrow Agreement with the investors and Fasken Martineau Dumoulin LLP. As an incentive to have the investors enter into the subscription agreements the Issuer, issued a total of 150,000 Class A common shares and 600,000 warrants to the investors. The warrants are exercisable for up to two years at a price of $0.15 per share. See also "*Material Agreements"*

Interest on the funds in escrow will accrue at 1% per month, to be paid quarterly by the Issuer to the subscribers in arrears. Under the terms of the Irrevocable Subscription Agreement the Issuer has the option to return any of the funds in escrow to the subscribers at any time prior to 24 months from the Effective Date, May 16, 2013.

Under the terms of the Irrevocable Subscription Agreement dated May 16, 2013, the Issuer may, at its option, draw down from the escrow account (on a pro-rata basis) by issuing $50,000 of its Common Shares by way of a private placement at any time over the next 24 months from the Effective Date of the Irrevocable Subscription Agreements. Each draw down will be at a subscription price equal to the greater of: (a) $0.10 per share; and (b) the CNSX closing price for the Common Shares on the day 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 escrow until such shares are drawn down. For each draw of $50,000 the Issuer will issue a maximum of 500,000 Common Shares at a minimum price of $0.10 per share. The maximum total Common Shares that may be issued under the agreement is 750,000.

On May 31, 2011 the Issuer received a letter from the CEO postponing the payment of $122,822 in unpaid salary and shareholder loans owed to him by the Issuer until the earlier of when the Issuer has working capital of at least $500,000 remaining after any payment made by the Issuer in respect of all or part of the indebtedness, or January 1, 2013. This letter replaces the letter from the CEO dated March 11, 2011. See also *'Material Agreements"*.

On May 31, 2011 the Issuer received a letter from the CFO agreeing not to demand payment of $36,220 in unpaid fees owed to him by the Issuer until the earlier of when the Issuer has working capital of at least $500,000 remaining after any payment made by the company in respect of all or part of the indebtedness, or January 1, 2013. This letter replaces the letter from the CFO dated March 11, 2011. See also *'Material Agreements"*.

Selected Quarterly Information

The financial information reported here has been prepared in accordance with IFRS. The Issuer uses the Canadian dollar (CDN) as its reporting currency. Selected un-audited financial data for quarterly operations of the Issuer during the quarters ended March 31, 2011, and March 31, 2010 is presented below:

Selected Statement of Operations Data

Period ended	**Quarter ended March 31, 2011**	**Quarter ended March 31, 2010**
Total revenues	$Nil	Nil
Net loss	$(71,605)	$(81,194)
Basic loss per share	($0.004)	($0.005)

Diluted loss per share (Unaudited)	($0.004)	($0.005)
Weighted average shares(1)	16,306,604	15,388,118

Weighted average shares reported on a post split basis to account the stock split on December 30, 2010

The loss from operations decreased in 2011 due to a decrease in research and development expenditures during the quarter and a decrease in salaries of the CEO and CFO. A decrease in salaries and professional fees will continue to contribute to reduced operating expenses in 2011.

Selected Balance Sheet data;

Period ended	**March 31, 2011**	**March 31, 2010**
Cash & Equivalents	$308,557	$18,410
Current assets	$327,525	$87,067
Property and equipment	$7,716	$9,766
Total Assets	$406,277	$141,319
Current liabilities	$119684	$87,271
Total liabilities	$483,994	$87,271
Working Capital	$207,841	$(203)

Cash and equivelents increased by $290,147, from $18,410 in 2010 to 308,557 in 2011. In addition, current liabilities increased nominally by $7,413 from 87,271 in 2010 to $119684 in 2011. The increase in cash an equivelents is due to the Irrevocable Subscription Agreements of $300,000. The increase in working capital is also due to the Irrevocable Subscription Agreements.

Results of Operations

As the focus of management during the first quarter of 2011 was on organizing the Issuer and negotiating with Intelgenx Corp. on the IntelGenx Development and Commercialization Agreement as well as initiating the formulation of PTL-202, no revenues were realized. During this period outstanding warrants were exercised for total gross proceeds of $30,000. The warrants had been issued as part of a private placement of units which was closed in two tranches February 13 and March 9, 2009. The warrants were exercisable up until January 31, 2011 at a price of $0.10 per share on a pre-split basis.

During the first quarter the Issuer received $30,000 for the subscription of 200,000 units in a private placement. The private placement was closed in two tranches on January 31, 2011 and February 28, 2011. Each Unit consists of one Common Share and one warrant. The warrants are exercisable for 2 years at a price of $0.25 per share.

As a listing requirement of the CNSX no more than 20% of the outstanding shares of the Issuer may have been issued for less than $0.02 per share. In order to meet this requirement, on January 15, 2011 the Issuer received $30,000 from two founders to re-price 4,500,000 Common Shares to $0.02 per share. Also on January 15, 2011 a company controlled by a founder of the Issuer paid $5,800 and re-priced 300,000 Common Shares owned by him to $0.02 per share.

On January 31, 2011 the Issuer entered into a series of Irrevocable Subscription Agreements with a group of investors for total proceeds of $300,000. In addition the Issuer entered into an escrow agreement with the investors and Fasken Martineau Dumoulin LLP. As an incentive to have the investors enter into the subscription agreements the Issuer, issued a total of 600,000 Class A common shares and 2,400,000 warrants to the investors. The warrants are exercisable for up to two years at a price of $0.15 per share. See also "*Material Agreements"*

Interest on the funds in escrow will accrue at 1% per month, to be paid quarterly by the Issuer to the subscribers in arrears. Under the terms of the Irrevocable Subscription Agreement the Issuer has the option to return any of the funds in escrow to the subscribers at any time on written notice.

Under the terms of the Irrevocable Subscription Agreement the Issuer may, at its option, draw down from the escrow account (on a pro-rata basis) by issuing $50,000 of its Common Shares by way of a private placement at any time over the next 24 months from the Effective Date of the Irreveocable Subscription Agreements. Each draw down will be at a subscription price equal to the greater of: (a) $0.10 per share; and (b) the CNSX closing price for the Common Shares on the day 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 escrow until such shares are drawn down. For each draw of $50,000 the issuer will issue a maximum of 500,000 Common Shares at a minimum price of $0.10 per share. The maximum total Common Shares that may be issued under the agreement is 3,000,000.

During the quarter ended March 31, 2011 the Issuer entered into the IntelGenx Development and Commercialization Agreement. This agreement supersedes the letter of intent between the companies. The agreement calls for the companies to collaborate in the formulation and bio-equivalency testing of PTL-202. The completion of this work will be a significant milestone for PTL-202 as it will include data from human testing. This data may provide the information required to decide to move PTL-202 in to further clinical testing. See also *"Material Agreements"*

Also during the quarter the Issuer renegotiated its license with Dalhousie University. Under the terms of the license agreement with Dalhousie date April 20, 2007 as amended on, January 25, 2010, March 24, 2009, July 9, 2008 and May 6, 2008, the Issuer 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. As at December 31, 2010, the Issuer had not met any of the requirements of the agreement outlined above. Subsequent to the year end, the Issuer received a waiver from Dalhousie for the requirement (a) and (b) above, and requirement (c) was amended to also include a requirement that a first human subject being dosed by December 31, 2012 and initiation of a Phase II study by December 12, 2015. See also *'Material Agreements"*.

Also on February 28, 2011 a company controlled by a founder of the Issuer paid $5,800 and re-priced 300,000 Common Shares owned by him to $0.02 per share.

On March 1, 2011 the Issuer received a letter from the CEO voluntarily reducing his salary to $120,000 per year until January 31, 2013 or until such time as the Issuer has a working capital balance in excess of $750,000. See also *'Material Agreements"*

On March 1, 2011 the Issuer received a letter from the CFO voluntarily reducing his annual base fee to $18,000 per year until January 31, 2013 or until such time as the Issuer has a working capital balance in excess of $750,000. See also *'Material Agreements"*.

On March 11, 2011 the Issuer received a letter from the CEO postponing the payment of $72,879.65 in unpaid salary owed to him by the Issuer until the earlier of when the Issuer has working capital of at least

$500,000 remaining after any payment made by the company in respect of all or part of the indebtedness, or January 1, 2013. See also *'Material Agreements"*.

On March 11, 2011 the Issuer received a letter from the CFO agreeing not to demand payment of 16,380 in unpaid fees owed to him by the Issuer until the earlier of when the Issuer has working capital of at least $500,000 remaining after any payment made by the company in respect of all or part of the indebtedness, or January 1, 2013. See also *'Material Agreements"*.

Revenues

The Issuer has no drug therapies approved or for sale and has not generated any revenue from the sale of drug therapies. The Issuer has not recognized any revenue since inception through December 31, 2010. The Issuer does not expect to receive any revenues until after the completion of the Phase 2 trial of PTL-202. The Issuer expects to complete this trial by the end of 2015.

The Issuer's revenues will be earned through upfront payments from licenses, milestone payments included in-licenses and royalty income from licenses. The Issuer's revenues will depend on out licensing the Issuer's drug candidates to suitable development and commercialization partners and its partners' abilities to successfully complete clinical trials and commercialize the Issuer's drug candidates worldwide.

Research & Development Expense

Research and development expense consists primarily of salaries for management of research contracts and research contracts for pre-clinical studies, clinical studies and assay development as well as the development of clinical trial protocols and application to government agencies to conduct clinical trials, including consulting services fees related to regulatory issues and business development expenses related to the identification and evaluation of new drug candidates. Research and development costs are expensed as they are incurred.

From inception through to March 31, 2011, the Issuer incurred total expenses in the development of its intellectual property of $1,442,432, which includes $507,264 of research and development expenses (research and development expenses on the financial statements have been offset by $53,277 in IRAP funding and $187,427 in SR&ED tax credits), $244,234 of professional fees and $710,934 of wages and benefits.

	Quarter ended March 31, 2011	**Quarter ended March 31, 2010**
Research and Development Expenses		
Personnel, Consulting, and Stock-based Compensation	$Nil	$16,040
License Fees and Subcontract research	Nil	Nil
Facilities and Operations	Nil	Nil

Less: Government contributions	Nil	Nil
Total	$Nil	$16,040

The decrease in R&D expenses is a reflection of the completion of development of the bio-analytical assay for Pentoxifylline and NAC and the decrease in government contributions. The Issuer's R&D efforts in the first quarter of 2011 have been focused on negotiating and initiating the IntelGenx Development and Commercialization Agreement.

Additional research and development expenses of approximately $248,500 in 2011 are required to complete the formulation of PTL-202 and a pilot study of bioequivalence and drug/drug interaction. The results of this work will provide the information required to move PTL-202 to the next step of its development. Of this $248,500 the Issuer will incur expenses of approximately $67,000. The remaining expense of $181,500 will be paid by IntelGenx under the IntelGenx Development and Commercialization Agreement. "*See Material Agreements"*

In cooperation with IntelGenx and utilizing the funds available from the Irrevocable Subscription Agreements the Issuer will have the funds available to complete the formulation of PTL-202 and test its bio-equivalency in humans. Additional financing will be required to complete the development and commercialize PTL-202 beyond the formulation and pilot study Phase 1 trial that is planned for 2011. There is no assurance that such financing will be available or that the Issuer will have the capital to complete this proposed development and commercialization.

The Issuer anticipates completing the formulation, drug/drug interaction study of PTL-202, analyzing the blood samples and analyzing the data in 2011; however, the Issuer may not be able to do so on schedule. The Issuer's clinical development studies and regulatory considerations relating to PTL-202 are subject to risks and uncertainties that may significantly impact its expense estimates and development schedules, including:

- the scope, rate of progress and cost of the development of PTL-202;
- uncertainties as to future results of the drug/drug interaction study of PTL-202;
- uncertainties as to future results of the formulation development and pilot study of PTL-202;
- the issuers ability to enrol subjects in clinical trials for current and future studies;
- the Issuer's ability to raise additional capital; and
- the expense and timing of the receipt of regulatory approvals.

In addition to the formulation and clinical development plans for PTL-202 the Issuer may begin development of PTL-303 for the treatment of Liver Cirrhosis. The Issuer will only be able to begin development of PTL-303 if additional funds are available. There is no guarantee that these funds will be available to the Issuer and, if they are available, they may not be available on acceptable terms. Development of PTL-303 may significantly impact the Issuer's expense projections and development timelines. See also *"Risk Factors"*

General and administrative Expenses

General and administrative costs consist primarily of personnel related costs, non-intellectual property related legal costs, accounting costs and other professional and administrative costs associated with general corporate activities.

The Issuer expects general and administrative expenses to decrease during the next year. This decrease will be due to decreased wages, advertising and promotion, computer costs, travel and professional fees. The savings will be possible as the major thrust of the Issuers operations will be the development of PTL-202 in partnership with IntelGenx.
As part of these reductions:

- the CEO has agreed to reduce his salary by $60,000 per year;
- the CFO has agreed to reduce his annual fees by $18,000; and
- $14,000 in consulting fees will not be recurring in 2011.

From 2012 and beyond as PTL-202 begins clinical development and as operations are developed to move PTL-202 and other drug candidates through the clinical trial process General and Administrative expenses will increase. Increases in personnel costs, professional fees and expenses related to additional equipment will make up a significant portion of these planned expenditures.

Intellectual Property and Intangible Assets

All license and option fees paid to licensors for intellectual property licenses are accrued to intangible assets on the Issuer's financial statements. In addition, any expenses for intellectual property protection including patent lawyers services fees and any filing fees with government agencies or the WIPO are accrued to intangible assets. This expense will decrease this year as no new filings are anticipated. It is expected that approximately 1% of the currently available funds will be used for intangible assets.

Interest Income

Interest income consists of interest earned on the Issuers cash and cash equivalents. There was no interest income in the quarter ended March 31, 2011 (2010 – $Nil).

Profits

At this time, the Issuer is not anticipating profit from operations. Until such time as the Issuer is able to realize profits from the out licensing of products under development, the Issuer will report an annual deficit and quarterly deficit and will rely on its ability to obtain equity/or debt financing to fund on-going operations. For information concerning the business of the Issuer, please see "*Description of the Business*".

Liquidity and Capital Resources

At March 31, 2011, the Issuer had cash and cash equivalents of $308,557 (2010 - $18,410) and working capital of $207,841 (2010 – $203). Working capital is defined as cash and cash equivelents, accounts receivable and prepaid expenses less accounts payable, unearned revenue, security deposit and amounts due to shareholders within the current fiscal year. The Issuer estimates that general and administrative expenses will total $217,661 over the 12 months following the Issuer becoming a reporting issuer. The Issuer must also make payments of $67,000 over the next 12 months under the IntelGenx Development and Commercialization Agreement. See *"Use of Available Funds"*

The use of the Issuer's available funds during the next twelve months following the listing date is consistent with the Issuer's stated business objectives of completing the formulation and initiating human trials of PTL-202.

Cash and equivelents increased by $290,147, from $18,410 in 2010 to 308,557 in 2011. In addition, current liabilities increased nominally by $7,413 from 87,271 in 2010 to $119684 in 2011. The increase in cash an equivelents is due to the Irrevocable Subscription Agreements of $300,000. The increase in working capital is also due to the Irrevocable Subscription Agreements.

The Issuer's cash inflows from financing activities comprised proceeds from Irrevocable Subscription Agreements, share issuances, shareholder loans and re-pricing of founders shares during the first 3 months ended March 31, 2011 totalling $393,093 (2010 – $63,500), Cash from financing activities increased by $329,593 between the 3 months ended March 31, 2011 and the three months ended March 31, 2010. $300,000 was due to the Irrevocable Subscription Agreements.

As part of the CNSX listing requirements no more than 20% of the issued and outstanding shares of a company listed on the exchange may be Builders Shares. Builders Shares include any share issued at a price of less than $0.02 per share. In order to meet this listing requirement the founders of the Issuer contributed $30,000 (2010 - $Nil) to re-price 4,500,000 common shares to $0.02 per share. In addition a company controlled by a founder of the Issuer re-priced an additional 600,000 founders shares to $0.02 during the quarter for proceeds of $11,600 (2010 - $Nil). This $41,600 (2010 – $Nil) is included in the Issuer's financing activities for the three month period ended March 31, 2011.

Cash utilized in operating activities during the quarter ended March 31, 2011 was $114,715 (2010 – $130,126). This difference was mostly due to a decrease in research and development expense in the first quarter of 2011 $Nil (2010 - $16,040).

At March 31, 2011, share capital was $1,513,203 comprising 17,030,451 issued and outstanding Common Shares and 1,703,250 issued and outstanding Preferred Shares (2010 – $1,433,136 comprising 10,356,301 issued and outstanding Common Shares and 1,135,500 issued and outstanding Preferred Shares). The Issuer's shares were split at a ratio of 1.5 new shares for every 1 existing share on December 30, 2010.

Contributed Surplus at March 31, 2011, which arises from the recognition of the estimated fair value of stock options and warrants, was $18,482 (2010 – $18,482).

As a result of the net loss for the quarter ending March 31, 2011 of $71,605 (2010 – $81,194), the deficit at March 31, 2010 increased to $1,609,352 from $1,537,747 at December 31, 2010.

During the quarter ended March 31, 2011, the Issuer's net cash provided by financing activities increased to $393,093 (2010 – $63,500) mostly due to $300,000 provided in Irrevocable Subscription Agreements.

At present, the Issuer's operations do not generate cash inflows and its financial success after 2011 is dependent on management's ability to continue to obtain sufficient funding to sustain operations through the development stage and successfully bring the Issuer's technologies to the point that they may be out licensed so that the Issuer achieves profitable operations. The research and development process can take many years and is subject to factors that are beyond the Issuer's control. See *"Risk Factors"*.

In order to finance the Issuer's future research and development and to cover administrative and overhead expenses in the coming years the Issuer may raise money through equity sales. Many factors influence the Issuer's ability to raise funds, including the Issuer's track record, and the experience and calibre of its management. Actual funding requirements may vary from those planned due to a number of factors, including the progress of research activities. Management believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control.

Should those risks fully materialize, it may not be able to raise adequate funds to continue its operations. Please see *"Risk Factors"*.

Off Balance Sheet Arrangements

There are currently no off balance sheet arrangements which could have an effect on current or future results or operations or the financial condition of the company.

Transactions with related Parties

During the quarter ended March 31, 2011 the Issuer received $30,000 from two founders to re-price 4,500,000 Common Shares to $0.02 per share.

Also during the quarter a company controlled by the CEO of the Issuer paid $11,600 and re-priced 600,000 Common Shares owned by it to $0.02 per share.

Of the $300,000 in subscription proceeds from the Irrevocable Subscription Agreements received by the Issuer with an Irrevocable Subscription Agreement Effective date of January 31, 2011, $75,000 was received from directors and officers of the Issuer.

Proposed Transactions

As at the date of this prospectus there are no transactions currently contemplated by the Issuer.

Changes in Accounting Policies including Initial Adoption

The Issuer has adopted IFRS as discussed in the "Annual MD&A for the years ended December 31, 2010 - *Changes in Accounting Policies including Initial Adoption – International Financial Reporting Standards ("IFRS")"*

Financial Instruments and Other Instruments

The Issuer's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and amounts due to and from shareholders. Unless otherwise noted, it is management's opinion that the Issuer is not exposed to significant interest, currency or credit risks arising from financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity for prompt liquidation.

Foreign exchange risk is the risk arising from changes in foreign currency fluctuations. The Issuer does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency rates. It is the opinion of management that the foreign exchange risk to which the Issuer is exposed is minimal.

Disclosure of Outstanding Share Data

The table below provides information concerning the designation and number of each class of equity securities for which there are securities outstanding as of the dates noted below:

Type of Security	**As at the date of this Prospectus** [(1)]	**Year ended December 31, 2010** [(1)]	**Year ended December 31, 2009**

Type of Security	As at the date of this Prospectus [1]	Year ended December 31, 2010 [1]	Year ended December 31, 2009
Common Shares	17,180,451	15,930,451	10,216,301
Preferred Shares Series 1 [2]	1,500,000	1,500,000	1,000,000
Preferred Shares Series 2 [3][4]	2,538,237 [4]	203,250	135,500
Preferred Shares Series 2 Warrants [3][4]	1,269,118	0	0
Options	1,800,000	1,875,000	1,350,000
Outstanding Warrants	3,909,267	1,009,267	961,480
Total	28,197,073	20,490,968	13,663,281

(1) These share amounts include a 1.5 to 1 forward split of the Issuer's equity as of December 30, 2010. Includes 600,000 bonus common shares issued on January 31, 2011 as an inducement for investors to enter into the Irrevocable Subscription Agreement. Includes 300,000 common shares issued on January 31, 2011 on the exercise of warrants. Includes 200,000 common shares issued as a part of a unit on January 31 and February 28, 2011. Includes 150,000 bonus common shares issued on May 16, 2011 as an inducement for investors to enter into the Irrevocable Subscription Agreements.

(2) The Class B Preferred Shares Series 1 will automatically convert to Common Shares on a 1 to 1 basis upon listing of the Common Shares on a stock exchange.

(3) The Class B Preferred Shares Series 2 will automatically convert to Common Shares upon listing of the Common Shares on a stock exchange. Each Series 2 Preferred Share will convert into Common Shares at a 25% discount to the Transaction Price. In addition for each common share issued on the conversion of the Series 2 Preferred Share, one-half of one warrant will be issued.

(4) The Class B Preferred shares Series 2 will be converted to common shares upon listing of the common shares on the CNSX. The number of common shares to be issued on conversion assumes the initial listing price of the Common Shares is $0.15.

DESCRIPTION OF SECURITIES DISTRIBUTED

Authorized and Issued Share Capital

The authorized capital of the Issuer consists of an unlimited number of Common Shares without par value and unlimited number of Class B Preferred Shares without par value issuable in series. As at the date of this prospectus there are 17,180,451 Common Shares issued and outstanding as fully paid and non-assessable shares, 1,500,000 Class B Preferred Shares Series 1 issued and outstanding as fully paid and non-assessable shares and 203,250 Class B Preferred Shares Series 2 issued and outstanding as fully paid and non-assessable shares.

Common Shares

The holders of Common Shares are entitled to receive notice of and to attend and vote at all meetings of shareholders of the Issuer and each Common Share shall confer the right to one vote in person or by proxy at all meetings of the shareholders of the Issuer. The holders of the Common Shares, are entitled to receive dividends as and when declared by the directors and, subject to the rights of holders of any shares ranking in priority to or on a parity with the Common Shares, to participate rateably in any distribution of property or assets upon the liquidation, winding-up or other dissolution of the Issuer.

Preferred Shares

All Preferred Shares will convert into Common Shares on the listing of the Common Shares on the CNSX.

Class B Series I Preferred Shares

Each Series I Class B Preferred Share automatically converts into one (1) Common Share when the Common Shares of the Issuer are listed for trading on a recognized stock exchange.

In the event of a change in control of the Issuer involving greater than fifty percent (50%) of the issued and outstanding Common Shares of the Issuer at a valuation of less than $0.40 per share, or the liquidation, dissolution or wind-up of the Issuer or any other distribution of the assets of the Issuer among its shareholders for the purpose of winding up its affairs, the holders of the Series I Preferred Shares shall be entitled to receive, in preference and priority to any payment or distribution to the holders of the Common Shares or any other class of shares ranking junior to the Series I Preferred Shares, an amount equal to $0.20 per share, 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 Issuer.

Subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of the Issuer, the holders of the Series I Preferred Shares shall be entitled to receive any dividends declared and payable by the Issuer on the Series I Preferred Shares. No dividend shall be declared or paid or set apart for the Class A Common Shares then issued and outstanding until an equal or greater dividend on all Series I Preferred Shares then issued and outstanding shall have been declared or paid or provided

for at the date of such declaration or payment or setting apart. No dividend has been declared on the Series I Preferred Shares.

Class B Series 2 Preferred Shares

Subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of the Issuer, the holders of the Series II Preferred Shares shall be entitled to receive any dividends declared and payable by the Issuer on the Series II Preferred Shares. No dividend shall be declared or paid or set apart for the Class A Common Shares then issued and outstanding until an equal or greater dividend on all Series I Preferred Shares and all Series II Preferred Shares then issued and outstanding shall have been declared or paid or provided for at the date of such declaration or payment or setting apart. A 12% annual cumulative dividend shall be paid on the Series II Preferred Shares. This dividend shall be paid "in-kind" to the holders in the form of Class A Common Shares of the Issuer converted at the Transaction Price at the time of a Transaction. For greater certainty, any unpaid cumulative dividend(s) due to the holders of Series II Preferred Shares shall be paid to the holders at the time of the Transaction in that number Class A Common Shares equal to the amount of any unpaid cumulative dividend(s) due to the holders divided by the Transaction Price. No fractional shares shall be issued upon the granting of any dividend in-kind of Class A Common Shares.

Each Series II Preferred Share shall be automatically converted upon either of the following events occurring (the "Transaction"):

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

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

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

Each Series II Preferred Share shall convert into Class A Common Shares at the Conversion Rate plus one-half (1/2) of a purchase warrant in the capital of the Issuer where one (1) full Series II Purchase Warrant may be exercised at the Transaction Price for a period of two (2) years from its date of issue to purchase one (1) Class A Common Share. No fractional shares shall be issued under any conversion into Class A Common Shares.

In addition to the Common Shares issued and outstanding, a further 13,851,622 Common Shares are reserved for issue as at the date of this prospectus as follows.

Common Shares issuable on the conversion of Series 1 Preferred Shares	1,500,000
Common Shares issuable on the conversion of Series 2 Preferred Shares [(1)]	2,538,237
Common Shares issuable upon the exercise of warrants which will be	1,269,118

issued as part of the conversion of the Series 2 Preferred Shares [(1)]	
Common Shares issuable upon the exercise of outstanding warrants	2,994,267
Common Shares issuable upon the exercise of stock options granted to directors, officers, employees and consultants	1,800,000
Common Shares issuable upon the draw downs pursuant to the Irrevocable Subscription Agreement[(2)]	3,750,000
Total	13,851,622

(1) Assumes an initial listing price of $0.15 per Common Share

(2) Assumes the Common Shares are issued at the minimum price of $0.10 under the Irrevocable Subscription Agreement.

Options

The Issuer has granted stock options to acquire Common Shares to directors, officers, employees and consultants of the Issuer under its Stock Option Plan. The options and the Stock Option Plan are described below at "*Options to Purchase Securities*".

CONSOLIDATED CAPITALIZATION

The following table sets forth information respecting the capitalization of the Issuer as at December 31, 2010and December 31, 2009 and as at the date hereof. The shares outstanding as of December 31, 2010 and the date of the prospectus reflect a 1.5 to 1 share split on December 30, 2010.

Designation of Security	Amount authorized or to be authorized	Amount outstanding as of the date of listing	Amount outstanding as of the date of this prospectus	Amount outstanding as of December 31, 2010	Amount outstanding as of December 31, 2009
Common Shares[1] [2]	Unlimited	21,218,688 $1,513,204	17,180,451 [4][5][6] $1,077,704	15,930,451 $997,636	10,216,301 $863,956
Class B Preferred Shares Series I [3]	1,500,000	0	1,500,000 $300,000	1,500,000 $300,000	1,000,000 $300,000
Class B Preferred Shares Series II [3]	1,000,000	0	203,250 $135,500	203,250 $135,500	135,500 $135,500

(1) Does not include 2,628,200 Warrant Shares that may be issued pursuant to the outstanding Warrants. Does not include 1,269,118 Warrant Shares that may be issued pursuant to the exercise of warrants issued on the conversion of the Series 2 Preferred Shares

(2) As of the date of this Prospectus, a total of 1,800,000 Common Shares have been reserved for issuance pursuant to incentive stock options to be granted to directors, officers and consultants of the Issuer exercisable at prices ranging from $0.20 to $0.27 and expiring on dates ranging from October 14, 2011 to March 5, 2015. See "*Options to Purchase Securities*".

(3) Class B Preferred Shares Series 1 and 2 will convert into Common Shares upon the listing of the Common Shares on a recognized stock exchange.

(4) Includes 600,000 bonus Common Shares issued as an inducement to enter into the Irrevocable Subscription Agreement and 300,000 Common Shares issued on the exercise of warrants for total proceeds of $30,000 and 140,000 Common Shares issued to subscribers on January 31, 2010 for total proceeds of $21,000

(5) Includes 60,000 Common Shares issued on February 28, 2011 for $9,000 cash

(6) Includes 150,000 bonus Common Shares issued as an inducement to enter into the Irrevocable Subscription Agreement

As at the date of this prospectus, the Issuer has no outstanding loans or other debt obligations and there has been no material change in the loan capital of the Issuer since the date of its most recent balance sheet contained in the prospectus. There have been material changes in the Issuer's share capital and the sales of securities as described in footnotes 4 and 5 above. See also "*Prior Sales*" and "*Options to Purchase Securities*" also see *"Material Agreements"*.

OPTIONS TO PURCHASE SECURITIES

As of the date of this Prospectus, the Issuer has granted options to purchase up to 1,800,000 Common Shares at exercise prices ranging from $0.20 to $0.27 and expiring on dates ranging from October 16, 2011 to August 14, 2015. All of the options vest either quarterly, semi-annually or annually over a period ranging from one to four years.

The following table sets out details of the Issuer's stock options outstanding as of the date of this Prospectus:

Holders (current and former positions)	No. of Shares Under Option	Exercise Price	Expiry Date
Directors (including directors which are also officers)			
Douglas H. Unwin	150,000	$0.20	October 14, 2012
(CEO & President, Director)	75,000	$0.27	January 31, 2012
	375,000	$0.27	March 5, 2015
M. Greg Beniston	150,000	$0.20	October 14, 2012
(Chairman of the Board)	75,000	$0.27	January 31, 2012
	150,000	$0.27	August 14, 2013
Wendi Rodrigueza (Director)	150,000	$0.27	November 4, 2014
Officers (who are not also directors)			
Derick Sinclair (CFO)	150,000	$0.27	September 1, 2012
T.J. Louis McKinney (Former Director)	75,000	$0.27	January 31, 2012
Dr. Karim Qayumi (Member of the Issuer's Scientific Advisory Board)	75,000	$0.20	October 16, 2011
Brooke Wade (Consultant, Former Director)	150,000	$0.27	May 1, 2012
Lola Maksimova	75,000	$0.27	June 1, 2012
(Consultant, Former VP of Drug Development)	75,000	$0.27	August 14, 2013
Hassan Salari (Consultant, Former Director)	75,000	$0.27	January 31, 2012
Total Options	1,800,000		

The Stock Option Plan was approved by the Issuer's directors in November 2005. The purpose of the Stock Option Plan is to assist the Issuer in attracting, retaining and motivating directors, officers, employees and consultants of the Issuer and of its affiliates and to motivate them to advance the interests of the Issuer by affording them with the opportunity to acquire an equity interest in the Issuer through options granted under the Stock Option Plan to purchase Common Shares. If, as and when the Common Shares of the Issuer are listed on a stock exchange, the Stock Option Plan will be subject to the review and approval of the stock exchange.

The Stock Option Plan will be administered by the compensation committee of the Issuer, which will have full and final authority with respect to the granting of all options thereafter.

The Common Shares available for issuance under the 2005 plan vest over an 18 month period from the date granted. The Options are exercisable for up to 5 years. In December 2007 the directors approved an amendment to the 2005 plan to increase the maximum aggregate number of Common Shares issuable under the 2005 plan to 850,000 Common Shares. In December 2008 the Directors approved an amendment to the 2005 plan to increase the maximum aggregate number of Common Shares issuable under the 2005 plan to 1,250,000 Common Shares. The plan was also amended to increase the maximum exercise period to 7 years. In November 2009 the directors approved an amendment to the 2005 plan to increase the maximum aggregate number of Common Shares issuable under the 2005 plan to 1,350,000 Common Shares. Due to the stock split of the issuer's equity of 1.5 to 1 the maximum aggregate number of Class A Common Shares issuable under the 2005 plan increased to 1,875,000 Common Shares.

Options may be granted under the Stock Option Plan as the compensation committee may from time to time designate. The exercise prices shall be determined by the compensation committee. Options may be exercised up to 90 days following cessation of the optionee's position with the Issuer, provided that if the cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option. Options will expire not later than the date which is seven years from the date of grant. Options granted under the Stock Option Plan are not transferable or assignable other than by will or other testamentary instrument or pursuant to the laws of succession. The compensation committee of the Issuer may, in its absolute discretion, impose such limitations or conditions on the exercise or vesting of any options granted under the Stock Option Plan as it deems appropriate, including limiting the number of Common Shares for which any option may be exercised during any period as may be specified by the compensation committee.

The Issuer will adopt a new Stock Option Plan upon the Issuer obtaining a receipt from the British Columbia Securities Commission for its final prospectus. See *"Stock Option Plan*".

PRIOR SALES

Common Shares

Since the date of incorporation and prior to the date of this prospectus, 17,180,451 Common Shares of the Issuer, including 5,310,150 Common Shares issued to reflect the 1.5 to 1 stock split and 750,000 common shares issued as bonus shares as an inducement for funders to invest under the Irrevocable Subscription Agreements have been issued as follows:

Date	Number of Common Shares[4]	Issue price per Common Share	Aggregate Proceeds	Consideration Received
September 12, 2005 [1]	1	$0.01	$0.01	Cash
September 12, 2005[1]	1,650,000	$0.00067	$1,100.00	Cash
September 12, 2005[1]	2,850,000	$0.02	57,00.00	Cash
October 12, 2005[1]	2,250,000	$0.00067	$1,500.00	Cash
October 12, 2005[1]	2,250,000	$0.02	$45,000.00	Cash
December 1, 2005	675,000	$0.0667	$45,000.00	Cash
December 22, 2005	75,000	$0.0667	$5,000	Cash
February 28, 2006	150,000	$0.20	$30,000	Cash
April 7, 2006	120,000	$0.20	$24,000	Cash
May 31, 2006	510,000	$0.20	$102,000	Cash
June 30, 2006[3]	75,000	$0.20	$15,000	Cash
June 30, 2006[3]	45,000	$0.20	$9,000	Services
January 31, 2007[3]	585,000	$0.20	$117,000	Cash
February 27, 2007	495,000	$0.20	$99,000.00	Cash
February 27, 2007 [1][5]	75,000	$0.000667	$50.00	Services
February 27, 2007 [1][6]	10,500	$0.00667	$70.00	Services
February 27, 2007[7]	4,500	$0.20	$900.00	Services
February 27, 2007 [8]	51,000	$0.20	$10,200.00	Services
May 1, 2007	45,000	$0.20	$9,000.00	Cash
March 5, 2008[1][9]	180,000	$0.20	$36,000	Services
August 14, 2008([10]	90,000	$0.20	$18,000	Services
December 31, 2008	270,000	$0.0667	$18,000	Cash
February 13, 2009	120,000	$0.0667	$8,000	Cash
March 9, 2009	1,230,000	$0.0667	$82,000	Cash
June 12, 2009	13,650	$0.0667	$910	Services
November 25, 2009 [3]	1,308,000	$0.1667	$218,000	Cash
November 25, 2009 [3][11][12]	196,800	$0.1667	$32,800	Services

February 22, 2010	135,000	$0.10	$13,350	Exercise of Warrants
February 22, 2010	75,000	$0.2667	$20,000	Cash
March 16, 2010	300,000	$0.10	$30,000	Exercise of Warrants
August 20, 2010	96,000	$0.3333	$32,000	Cash
January 31, 2011 [(2)(3)]	600,000	$0.00	$Nil	Bonus shares
January 31, 2011 [(2)]	300,000	$0.10	$30,000	Exercise of Warrants
January 31, 2011 [(2)]	140,000	$0.15	$21,000	Cash
February 28, 2011[(2)]	60,000	$0.15	$9,000	Cash
May 16, 2011[(2)(3)]	150,000	$0.00	$Nil	Bonus Shares

(1) All of these shares will be subject to the terms of the Escrow Agreement between the Issuer, the holders of such shares and Transfer Agent See "*Escrowed Securities*".

(2) All of these shares will be subject to a four month hold period where 20% of such shares released each month following the Listing Date with the first release occurring on the Listing Date.

(3) Some of these shares will be subject to escrow and/or other resale restrictions as imposed by the Exchange. Please see the table below for additional information.

(4) Additionally, any Common Shares listed above and held by a Principal or a Principal's spouse or immediate family will be subject to the terms of the Escrow Agreement. See "*Escrowed Securities*".

(5) Common Shares issued to Mr. Lou McKinney for services as agreed to in January 2006 and due to him in January 2006

(6) Payment of a finder's fee in relation to a financing closed December 1, 2005. $700 finder's fee as 7% of investment found paid in shares at $0.10 per share on a pre split basis, the per share value of shares sold during the financing

(7) Common Shares issued for services provided in 2006. Common Shares priced the same as the current financing in February of 2007

(8) Common Shares issued for services rendered in 2006. Common Shares priced the same as the current financing in February of 2007

(9) Common Shares issued to Mr. Unwin as a bonus for the fiscal years 2006 and 2007

(10) Common Shares issued for services rendered in 2007

(11) 168,000 post split shares at the current offering price to settle a portion of back wages owed Mr. Unwin for the 2009 fiscal year

(12) 28,800 post split shares at the current offering price for services rendered in November 2009

Preferred Shares

Since the date of incorporation and prior to the date of this prospectus, 1,500,000 Class B Series 1 Preferred Shares and 203,250 of the Class B Series 2 Preferred Shares of the Issuer have been issued as follows:

Date	Number of Preferred Shares Series 1[(1)]	Issue price per Preferred Shares Series 1	Aggregate Proceeds	Consideration Received
February 27, 2007	1,500,000	$0.20	$300,000	Cash

Date	Number of Preferred Shares Series 2 [(1)(3)]	Issue price per Preferred Shares Series 2 [(2)]	Aggregate Proceeds	Consideration Received
March 12, 2008	60,000	$0.6667	$40,000	Cash
May 7, 2008	75,000	$0.6667	$50,000	Cash
July 30, 2008	22,500	$0.6667	$15,000	Services
August 14, 2008	10,500	$0.6667	$7,000	Employee Bonus
August 14, 2008	5,250	$0.6667	$3,500	Services
September 25, 2008	30,000	$0.6667	$20,000	Cash

1) The number of Preferred Shares is presented on a post split basis. The Issuer's shares were split 1.5 to 1 on December 30, 2010.

2) The price per share reflects the price per Preferred Share on a post split basis. The Issuer's equity was split 1.5 to 1 on December 30, 2011.

3) The total Class B series 2 Preferred Shares outstanding as at the date of the Prospectus is 203,250. Assuming an initial listing price of $0.15 the Series 2 Preferred Shares would convert to 2,538,237 Common shares and 1,269,118 Warrants to purchase Common Shares at the time the Common Shares are listed on an exchange.

Trading Price and Volume

Neither the Common Shares nor Preferred Shares of the Issuer are currently listed for trading on any stock exchange.

ESCROWED SECURITIES

Escrowed Securities

Under the applicable policies and notices of the Canadian Securities Administrators, securities held by Principals are required to be held in escrow in accordance with the national escrow regime applicable to initial public distributions as set out in National Policy 46-201 – *Escrow for Initial Public Offerings*. Equity securities owned or controlled by Principals, including Shares and Shares issued on the exercise of previously issued options are subject to escrow requirements.

A total of 9,981,001 Shares representing 58% of the issued and outstanding Common Shares prior to conversion of the Preferred Shares and 47% including Common Shares on the conversion of the Preferred Shares will be deposited into escrow.

Following the Closing Date, the Issuer will be classified as an "emerging issuer" under National Policy 46-201. An "emerging issuer" is one that does not meet the "established issuer" criteria based on the Issuer being an "emerging issuer", the Escrowed Securities will be subject to a three year escrow.

If the Issuer achieves "established issuer" status during the term of the Escrow Agreement, it will 'graduate', resulting in a catch-up release and an accelerated release of any securities remaining in escrow under the 18 month schedule applicable to established issuers as if the Issuer had originally been classified as an established issuer.

Upon obtaining a receipt from the BCSC for the final Prospectus, the Principals of the Issuer and holders of Shares having an issuance price of less than $0.02 per Share will enter into an escrow agreement among the Issuer, the Transfer Agent the Principals of the Issuer and holders of Shares having an issuance price of less than $0.02 per Share, as required pursuant to the policies of the Exchange, (collectively with the Principals, the "**Escrow Holders**"), the Escrow Holders will agree to deposit in escrow their Shares (the "**Escrowed Securities**") with the Transfer Agent. Under the Escrow Agreement, 10% of the Escrowed Securities will be released from escrow on the Listing Date (the **"Initial Release**") and an additional 15% will be released on the dates which are 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release.

Pursuant to the terms of the proposed Escrow Agreement, the Escrowed Securities may not be transferred or otherwise dealt with during the term of the Escrow Agreement unless the transfers or dealings within escrow are:

(1) transfers to continuing or, upon their appointment, incoming directors and senior officers of the Issuer or of a material operating subsidiary, with approval of the Issuer's Board;

(2) transfers to an RRSP or similar trustee plan provided that the only beneficiaries are the transferor or the transferor's spouse, children or parents;

(3) transfers upon bankruptcy to the trustee in bankruptcy; and

(4) pledges to a financial institution as collateral for a *bona fide* loan, provided that upon a realization the securities remain subject to escrow.

Tenders of Escrowed Securities to a take-over bid are permitted provided that, if the tenderer is a Principal of the successor corporation upon completion of the take-over bid, securities received in exchange for tendered Escrow securities are substitute in escrow on the basis of the successor corporation's escrow classification.

The following table sets out, as at the date of this prospectus, the number of Common Shares of the Issuer which are to be held in escrow:

Name and Municipality of Residence	**Common Shares**	**Number of Common Shares held in Escrow** (1)	**Percentage of Common Shares** (6)
Douglas H. Unwin North Vancouver	1,605,001	1,605,001	7.6%
Douglas Cove Capital Ltd.(2) North Vancouver	1,660,500	1,660,500	7.8%
Donna Armstrong North Vancouver(3)	1,155,000	1,155,000	5.4%
Derick Sinclair North Vancouver	210,000	210,000	1%
Randi Sinclair (5) North Vancouver	110,000	110,000	0.5%
T.J. Louis McKinney West Vancouver	75,000	75,000	0.4%
M. Greg Beniston Vancouver	100,000	100,000	0.5%
Wendi Rodrigueza Boston	100,000	100,000	0.5%
Douglas E. Wallis Vancouver	125,000	125,000	0.6%
Hassan Salari Vancouver	1,836,000	1,836,000	8.7%
Julian Salari Vancouver	1,500,000	1,500,000	7.1%
Frederick Salari Vancouver(4)	1,504,500	1,504,500	7.1%
Total	**9,981,001**	**9,981,001**	**47%**

(1) Shares subject to the Escrow Agreement will be released pro rata to the shareholders as to 10% on the Listing Date and as to the remainder in six equal tranches of 15% every six months thereafter for a period of 36 months.

(2) Douglas Cove Capital Ltd. is a private holding company controlled by Douglas H. Unwin.

(3) Donna Armstrong is the spouse of Douglas H. Unwin. 45,000 of the shares controlled by Donna Armstrong were purchased for cash at prices between $0.17 and $0.20.

(4) 4,500 of the shares controlled by Frederick Salari were issued in exchange for services at $0.20 per share.

(5) Randi Sinclair is the spouse of Derick Sinclair.

(6) Calculated as a percentage of the outstanding common shares after the conversion of the preferred shares at the time of listing the common shares on the CNSX.

Where the Shares of the Issuer which are required to be held in escrow are held by a non-individual (a "holding company"), each holding company pursuant to the Escrow Agreement, has agreed, or will agree, not to carry out any transactions during the currency of the Escrow Agreement which would result in a change of control of the holding company, without the consent of the Exchange. Any holding company must sign an undertaking to the Exchange that, to the extent reasonably possible, it will not permit or authorize any issuance of securities or transfer of securities could reasonably result in a change of control of the holding company. In addition, the Exchange may require an undertaking from any control person of the holding company not to transfer the shares of that company.

The complete text of the Escrow Agreement will be available for inspection at the at the head office of the Issuer, Suite 1023, 409 Granville Street, Vancouver, British Columbia, during normal business hours for a period of 30 days after receipt of the final prospectus by the British Columbia Securities Commisson.

PRINCIPAL SHAREHOLDERS

To the knowledge of the directors and senior officers of the Issuer, as of the date of this Prospectus the only persons who beneficially own, directly or indirectly, or exercise control or direction over, 10% or more of the issued Common Shares of the Issuer are as follows:

Name and Municipality of Residence of Shareholder	Number of Common Shares Presently Owned	Percentage of Common Shares Outstanding [3]
Douglas H. Unwin [1][2] North Vancouver, BC	4,420,501	21%

1) Of these, 1,155,000 are held by Donna Armstrong, Mr. Unwin's spouse.
2) Of these 1,660,500 are held by Douglas Cove Capital Corp. a company jointly owned between Mr. Unwin and his spouse Donna Armstrong.
3) On a fully diluted basis the total percentage of common shares owned by Mr. Unwin, his spouse and Douglas Cove Capital Corp. is 19.6%

DIRECTORS AND OFFICERS

Name, Address, Occupation and Security Holdings

The following is a list of the current directors and officers of the Issuer, their municipality and province/state of residence, their current positions with the Issuer, their principal occupations during the past five years and the number of Common Shares of the Issuer beneficially owned, directly or indirectly, or over which control or direction is exercised. The statements as to securities beneficially owned, directly or indirectly, or over which control or direction is exercised by the directors and officers hereinafter named in each instance is based upon information furnished by the person concerned and is current as at the date of this Prospectus.

Name and Municipality of Residence and Position	Principal Occupation for Past Five Years	Date of Appointment to Office	Common Shares Held	Percentage of Common Shares Outstanding[2]
Douglas H. Unwin North Vancouver, BC President, CEO, Director [1]	President & CEO of the Issuer since September 2005, Managing Partner Douglas Cove Capital since October 2003, CEO of Med BioGene Inc. September 2004 – April 2005	September 12, 2005	4,420,501[3][4]	20.8%
Douglas Wallis Vancouver, BC Director [1]	Partner Smyth Ratcliffe Chartered Accountants	May 10, 2011	125,000	0.6%
M. Greg Beniston, BA, LLB Vancouver, BC Chairman [1]	Senior Legal Counsel, CHC Helicopter May 2006 to present, M. Greg Beniston Sole Practitioner, January 2004 to present	October 31, 2007 Corp. Secretary September, 2005 to October 31, 2007	100,000	0.5%
Wendi Rodrigueza Boston, Mass Director	VP Product Development, ProNAi Therapeutics, Inc. September 2006 to present, Director Project Management, Novartis September 2005, to September 2008, Sr. Program Manager, Curagen Corp. September 2003 to December 2004	November 5, 2009	100,000	0.5%
Derick Sinclair, CA North Vancouver, BC CFO and Corp. Secretary	CFO, Cadan Resource Corporation, May 2007 to present, CFO Image Innovations Holdings Inc. January 2003 to February 2006	Chief Financial Officer September 1, 2007 Corp. Secretary October 31, 2007	210,000	1.0%

(1) Members of the Audit Committee.

(2) As of the date of this Prospectus, the directors and officers of the Issuer, as a group, beneficially own, directly or indirectly, 23.4% of the issued and outstanding Common Shares of the Issuer after giving effect for the conversion of the preferred shares into Class A Common Shares

(3) Of these, 1,155,000 are held by Donna Armstrong, Mr. Unwin's spouse.

(4) Of these 1,660,500 are held by Douglas Cove Capital Corp. a company owned jointly between Douglas H. Unwin and his spouse Donna Armstrong.

The term of office of the directors expires annually at the time of the Issuer's annual general meeting. The term of the office of the officers expires at the discretion of the Issuer's directors.

Management of Junior Issuers:

The following is a brief description of the background of the key management, directors and the promoters of the Issuer:

Douglas H. Unwin, B.Sc., MBA

President and Chief Executive Officer & Director - Mr. Unwin, 54, is our founder and has served as President and Chief Executive Officer since the Issuer's inception in September 2005. He is a full time employee of the Issuer and devotes the majority of his working hours to the Issuer's business. Mr. Unwin is responsible for the Issuer's overall strategic direction and the implementation of that strategy. He is based at the Issuer's head office in Vancouver, British Columbia. Mr. Unwin is an experienced executive with 18 years of diverse experience including 16 years as an entrepreneur in life sciences, aquaculture and

telecommunications. He has spent his last 6 years focused on life science start-ups, technology commercialization and venture capital financing. Mr. Unwin was an associate with Neuro Discovery Inc. a venture capital company focused on investing in therapies for neurological disorders. During his tenure Mr. Unwin reviewed numerous business plans and assisted in the structuring of investments. Prior to founding the Issuer, Mr. Unwin was the CEO of Med BioGene Inc. a start-up medical device company.

Derick Sinclair, B.Comm., CA

Chief Financial Officer - Mr. Sinclair, 54, is an experienced CFO having worked with US and Canadian public and private companies for over 20 years. He is a contractor and devotes approximately 15% of his time to the Issuer. His duties with the Issuer include, bookkeeping, financial management and reporting, assisting the CEO where necessary and liaising between the board and the Issuer's auditors. Mr. Sinclair began his accounting career in 1982 as an auditor with KPMG Peat Marwick Thorne. He received his CA designation in 1985 and his Bachelor of Commerce (Honours) University of Windsor in 1982. From 1985 to 2003, Mr. Sinclair was employed by BC Rail and its subsidiaries and their successors. He began at BC Rail as a Manager in General Accounting rising in 1998 to the role of CFO & VP Administration Westel Telecommunications Ltd. Mr. Sinclair currently operates DR Financial Services Limited focused on providing controller services to small and medium size public companies. He is also CFO of Cadan Resources Corporation, a publicly traded exploration company on the TSX Venture Exchange.

M. Greg Beniston, BA, LLB

Chairman Of the Board & Director - Mr. Beniston, 54, is an experienced counsel with expertise in technology, corporate/commercial, securities, corporate governance and aviation. Mr. Beniston devotes less than 10% of his time to the affairs of the Issuer. He was Legal Counsel and Corporate Secretary for Xillix Technologies Corp. (TSX) a cancer imaging company from 1993 until 2000 and was Vice President Legal and Corporate Secretary of MDSI Mobile Data Solutions Inc. (TSX, NASDQ) from 1996 to 2003. Since 2007 Mr. Beniston has been employed by The CHC Helicopter Group Of Companies as Senior Legal Counsel. Mr. Beniston also served as the Issuer's Corporate Secretary from inception through October, 2006.

Douglas Wallis CA,

Director - A Chartered Accountant for over 30 years, Doug Wallis specializes in work with Canadian and US public companies. Mr. Wallis devotes less than 10% of his time to the affairs of the Issuer. This work involves everything from assisting in the structure of initial public offerings to comprehensive audit services. Doug's extensive experience in accounting and the rules of professional conduct are also highly valued at Smythe Ratcliffe LLP. As a partner heavily involved in Professional Standards, he brings a commitment to integrity, professionalism and quality that permeates throughout the entire leadership team. Previously, Doug was the Director of Professional Advisory Services, Institute of Chartered Accountants of BC.

Besides his work at Smythe Ratcliffe, Doug is the Past Chairman of the Board for the Canadian Network for International Surgery (CNIS).

Wendi Rodrigueza, PhD.

Director – Dr. Rodrigueza, 44, brings over 15 years of drug development experience to the Issuer's Board of Directors. Ms. Rodrigueza devotes less than 10% of her time to the affairs of the Issuer.From 1994 – 1998 she conducted post doctorate fellow studies at Thomas Jefferson University and The Medical College of Pennsylvania. Wendi received her Ph.D. from the University of British Columbia in 1994. From 1998 to 2003 she was employed by Esperion Therapeutics Inc. culminating in the position of Director, Product Development. Dr. Rodrigueza was a co-inventor of the technology Esperion was founded on. Esperion was sold to Pfizer Global Research and Development for $1.3 billion in 2003. She is currently VP of Drug Development for ProNAi Therapeutics and since 2003 has been a consultant to several companies including CuraGen Corporation and Novartis Institute of Biomedical Research.

Other Reporting Issuer Experience

The following table sets out the directors, officers and promoters of the Issuer that are, or have been within the last five years, directors, officers or promoters of other issuers that are or were reporting issuers in any Canadian jurisdiction:

Name of Director, Officer or Promoter	Name of Reporting Issuer	Exchange	Position	Period
Derick Sinclair, CA	Cadan Resources Corporation	TSX Venture	CFO	May 2007 - Present
	Madeira Minerals Ltd.	NEX	CFO	May 2009 - Present

Aggregate Ownership of Securities

The directors and officers of the Issuer, as a group, beneficially own, directly or indirectly, 4,995,501 Common Shares representing 23.4% of the issued and outstanding Common Shares of the Issuer after giving effect for the conversion of the Preferred Shares into Common Shares upon listing of the Common Shares on CNSX.

Corporate Cease Trade Orders or Bankruptcies

Except as disclosed below, no director, officer, Insider or Promoter of the Issuer has, within the last 10 years, been a director, officer, Insider or Promoter of any reporting issuer that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the company access to any statutory exemption for a period of more than 30 consecutive days or was declared a bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or been subject to or instituted any proceedings, arrangements or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

Derick Sinclair, the CFO of the Issuer, was the CFO and a director of Image Innovations Holdings Inc. in July 2006 when Image Innovations Holdings Inc. and its three subsidiaries filed for bankruptcy protection and reorganization relief under Chapter 11 of the United States Bankruptcy Code in the United States bankruptcy Court for the Southern District of New York.

Penalties and Sanctions

No director, officer, Insider or Promoter of the Issuer, or any shareholder holding sufficient securities of the Issuer to materially affect the control of the Issuer, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulatory authority that would be likely to be considered important to a reasonable investor making an investment decision.

Personal Bankruptcies

No director, officer, Insider or Promoter of the Issuer, or any shareholder holding sufficient securities of the Issuer to affect materially the control of the Issuer, or a personal holding company of any such persons, has, within the 10 years preceding the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold their assets.

Conflicts of Interest

There are potential conflicts of interest to which some or all of the directors, officers, Insiders and Promoters of the Issuer will be subject to in connection with the operations of the Issuer. The directors and officers of the Issuer will not be devoting all of their time to the affairs of the Issuer. Some of the directors and officers of the Issuer are directors and officers of other companies. See "*Other Reporting Issuer Experience*". Accordingly, situations may arise where some or all of the directors, officers, Insiders or Promoters of the Issuer will be in direct competition with the Issuer. The directors and officers of the Issuer are required by law to act in the best interests of the Issuer. They have the same obligations to the other companies in respect of which they act as directors and officers. Discharge by the directors and officers of their obligations to the Issuer may result in a breach of their obligations to the other companies, and in certain circumstances this could expose the Issuer to liability to those companies. Similarly, discharge by the directors and officers of their obligations to the other companies could result in a breach of their obligation to act in the best interests of the Issuer. Such conflicting legal obligations may expose the Issuer to liability to others and impair its ability to achieve its business objectives. Conflicts will be subject to the procedures and remedies as provided for under the BCBCA.

EXECUTIVE COMPENSATION

Named Executive Officers

During the financial year ended December 31, 2010, the Issuer had two Named Executive Officers, being: Douglas H. Unwin, the President and Chief Executive Officer of the Issuer, and Derick Sinclair, being the Chief Financial Officer of the Issuer. "Named Executive Officer" or "NEO" means: (a) each Chief Executive Officer, (b) each Chief Financial Officer, (c) each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the Chief Executive Officer and Chief Financial Officer, at the end of the most recently completed financial year whose total compensation was, individually, more than $150,000; and (d) each individual who would be an NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the Issuer, nor acting in a similar capacity, at the end of that financial year.

Compensation Discussion and Analysis

The Board of Directors recognizes that the Issuer's success depends greatly on its ability to attract, retain and motivate superior employees, which can only occur if the Issuer has an appropriately structured and implemented compensation program.

The principal objectives of the Issuer's executive compensation program are as follows:

- to attract and retain qualified executive officers;
- to have compensation competitive with the marketplace;
- to align executives' interests with those of shareholders; and
- to reward leadership and performance.

The Board of Directors is responsible for establishing compensation policies and guidelines for the Issuer. The Issuer does not have a formal compensation program with set benchmarks. However, the Issuer does have a compensation program which seeks to regard an executive officer's current and future expected performance. Individual performance in connection with the achievement of corporate milestones and objectives is also reviewed for all executive officers.

Elements of Executive Compensation Program

The Issuer's compensation program consists of (a) base salary or consulting fees, (b) bonuses and (c) equity participation through the Issuer's Stock Option Plan. The Issuer plans to pay its executives bonuses in addition to their salary, as is the standard practise in the industry, and does anticipate issuing stock options to the Issuer's current executive, and is reserving an allotment of stock options for new Board Members and employees. While the Issuer does not actively benchmark its executive compensation program, and the individual components thereof, with comparable companies, it may review the compensation practices of comparable entities to ensure the compensation that it is paying to its executive officers is competitive with those other entities. In determining the base salary of an executive officer, the Board of Directors will consider the following factors:

- the particular responsibilities related to the position;
- the experience level of the executive officer;
- the amount of time and commitment which the executive officer devotes to the Issuer; and
- the executive officer's overall performance and performance in relation to the achievement of the Issuer's milestones and objectives.

The Issuer encourages equity participation in the Issuer through its Stock Option Plan. The granting of stock options is intended to encourage the maximization of shareholder value by better aligning the interests of the executive officers and the shareholders. Individual grants are determined by an assessment of the individual's current and expected future performance, level of responsibilities, the importance of his or her position and contribution to the Issuer, and previous option grants and exercise prices.

There were no stock options granted to Named Executive Officers during the most recently completed financial year.

SUMMARY COMPENSATION TABLE

Summary of Compensation

The following table sets forth all annual and long term compensation for services, in all capacities, to the Issuer in the most recent three financial years ended December 31, 2010, December 31, 2009 and December 31, 2008 respectively, in respect of the Named Executive Officers.

Name and principal position (a)	Year (b)	Salary ($) (c)	Share-based awards ($) (d)	Option-based awards ($) (e)	Non-equity incentive plan compensation ($) (f)		Pension value ($) (g)	All other compensation(1) ($) (h)	Total compensation ($) (i)
					Annual incentive plans (f1)	Long-term incentive plans (f2)			
Douglas H. Unwin, CEO	2010	160,000	Nil	Nil	Nil	Nil	Nil	Nil	160,000
	2009	160,000	Nil	Nil	Nil	Nil	Nil	Nil	160,000
	2008	116,668	36,479(2)	Nil	Nil	Nil	Nil	36,479	153,147
Derick Sinclair, CFO	2010	36,000	Nil	Nil	Nil	Nil	Nil	Nil	36,000
	2009	36,000	Nil	Nil	Nil	Nil	Nil	Nil	36,000
	2008	22,500	Nil	Nil	Nil	Nil	Nil	Nil	22,500

(1) Perquisites and other personal benefits, securities or property that do not in the aggregate exceed the lesser of $50,000 and 10% of the total of the annual salary and bonus for the Named Executive Officers for the financial year, if any, are not disclosed.

(2) Mr. Unwin elected to receive this amount in shares. He received 180,000 Common Shares at a value of $0.20/share.

Agreements with Named Executive Officers

The Issuer entered into an employment agreement with Mr. Unwin effective as of January 1, 2010. This is the only employment agreement the Issuer has entered into. Mr Unwin currently receives an annual base salary of $160,000, subject to increases at the discretion of the Issuer's board of directors. Mr. Unwin is also eligible for a discretionary performance bonus as determined by the Issuer's board of directors. Under the agreement, other than in the event of a change in control of the Issuer, Mr. Unwin may terminate his employment at any time by giving three months prior written notice of the effective date of his resignation. If the Issuer terminates Mr. Unwin's employment without cause, the Issuer is obligated to pay to him a lump sum of up to 12 months of his then current base salary plus such other sums owed for arrears of salary, vacation pay and any performance bonus. The Issuer is also obligated to maintain Mr. Unwin's benefits during the notice period. If Mr. Unwin obtains a new source of remuneration for personal services, the payment of benefits will cease six months from the date of termination of his employment, excluding the notice period.

As of March 1st 2011 Mr. Unwin voluntarily reduced his annual base salary to $120,000. This reduction will remain in place until January 31, 2013 or until the Issuers working capital balance exceeds $750,000. On June 1st Mr. Unwin took a further annual base salary reduction to $100,000.

As of March 1st 2011 Mr. Sinclair voluntarily reduced his base annual fee to $18,000. This reduction will remain in place until January 31, 2013 or until the Issuers working capital balance exceeds $750,000.

These voluntary reductions will remain in place after the Issuer becomes a reporting issuer.

Change in Control Agreements

As part of his Employment Agreement the Issuer entered into a change of control agreement with Mr. Unwin effective as of January 1, 2010. This is the only change of control agreement the Issuer has entered into. In the event of a potential change in control and until 12 months after a change in control, unless Mr. Unwin terminates his employment with the Issuer for good reason, Mr. Unwin will continue to diligently carry out his duties and obligations under his employment agreement. If within 12 months following a change of control of the Issuer, Mr. Unwin terminates his employment for good reason, or the issuer terminates his employment other than for cause, the Issuer is obligated to pay to Mr. Unwin a lump sum equal to 12 months of his then current base salary plus other sums owed for arrears of salary, vacation pay and any performance bonus. In such case, The Issuer is also obligated to maintain Mr. Unwin's benefits for the 12-month period and his unvested stock options will immediately vest.

DIRECTOR COMPENSATION

Other than compensation paid to the Named Executive Officers, no compensation was paid to directors in their capacity as directors of the Issuer, in their capacity as members of a committee of the board of directors, or as consultants or experts, during the Issuer's most recently completed financial year. There were no stock options granted to directors in their capacity as directors of the Issuer during the most recently completed financial year.

Long-term Incentive Plan ("LTIP") Awards

A long term incentive plan ("LTIP") is a plan providing compensation intended to motivate performance over a period greater than one financial year and does not include option or stock appreciation rights plans or plans for compensation through shares or units that are subject to restrictions on resale. The Issuer did not award any LTIPs to any Named Executive Officer during the most recently completed financial year.

Outstanding Share Based Awards and Option Based Awards

A stock appreciation right ("SAR") is a right to receive a payment of cash or an issue or transfer of shares based wholly or in part on changes in the trading price of Shares. No SARS were granted to or exercised by any Named Executive Officer or any directors during the most recently completed financial year.

No options to purchase Common Shares were granted during the fiscal year ended December 31, 2010 to Named Executive Officers.

No stock options were exercised during the financial year ended December 31, 2010 or subsequent thereto. No stock options were re-priced during the financial year ended December 31, 2010 or subsequent thereto.

The following table sets forth details of the number of unexercised options held by the Named Executive Officers as of December 31, 2010 and the financial year-end value of unexercised options on an aggregated basis.

	Option-based Awards				Share-based Awards	
Name	**Number of securities underlying unexercised options (#)**	**Option exercise price ($)**	**Option expiration date**	**Value of unexercised in-the-money options ($)**	**Number of shares or units of shares that have not vested (#)**	**Market or payout value of share-based awards that have not vested ($)**
(a)	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**	**(g)**
Douglas H. Unwin - CEO	150,000	$0.20	October 14, 2012	$Nil	Nil	$Nil
	75,000	$0.27	January 31, 2012	$Nil	Nil	$Nil
	375,000	$0.27	March 5, 2015	$Nil	Nil	$Nil
Derick Sinclair - CFO	150,000	$0.27	September 1, 2012	$Nil	Nil	$Nil

(1) Based on the difference between the option exercise price and the closing market price of the Common Shares, on the date of exercise. As the Common Shares were not listed for trading on any Exchange as at the date of this Prospectus, no value can be determined.

Incentive plan awards – Value Vested or Earned During the Year

Name	**Option-based awards – Value vested during the year ($)**	**Share-based awards – Value vested during the year ($)**	**Non-equity incentive plan compensation – Value earned during the year ($)**
(a)	**(b)**	**(c)**	**(d)**
Douglas H. Unwin - CEO	$Nil	$Nil	$Nil
Derick Sinclair CFO	$Nil	$Nil	$Nl

Confidentiality Agreements and Assignments of Inventions

Under the Issuer's employment agreement with Mr. Unwin, he has entered into a confidentiality agreement and assignment of inventions and agreed to keep strictly confidential all of the Issuer's confidential information and all other information belonging to the Issuer or acquired by them in any

capacity as a result of their involvement with the Issuer and to inform the Issuer and assign to it all inventions conceived or reduced to practice during the term of his employment that make use of confidential information or trade secrets or which relate to the Issuer's business. Mr. Unwin has further agreed not to compete with the Issuer, solicit its customers or provide services to the Issuer's customers or solicit its employees or service providers during the term of his employment with the Issuer and for twelve months following his termination.

Management Contracts

Management functions of the Issuer are not, to any substantial degree, performed by a person or persons other than the directors or senior officers of the Issuer.

STOCK OPTION PLAN

The Issuer's board of directors will adopt a new stock option plan, effective as of the issue of a receipt for the final prospectus, the purpose of which will be to provide incentives to attract, retain and motivate executive officers, directors and employees whose present and future contributions are important to the Issuer. Subject to regulatory approval, the maximum number of the Issuer's Common Shares reserved for issuance pursuant to stock options granted under the stock option plan will, at any time, be 10% of the number of Common Shares then outstanding. The number of the Issuer's Common Shares that may be issued to any one person shall not exceed 5% of the Common Shares issued and outstanding on a non-diluted basis. The price at which the Issuer's Common Shares may be issued under the stock option plan will be determined from time to time by the Issuer's board of directors in compliance with the rules and policies of any stock exchange upon which the Issuer's Common Shares are listed. The vesting of options granted under the stock option plan will be determined by the board of directors at the time of the grant. Options granted under the stock option plan may be exercisable over a maximum period of 5 years. They will generally have a term of 5 years and vest over four years, 25% on each of the first four anniversaries of the date of grant, provided the optionee is in continuous service to the Issuer. The board of directors may amend the terms of the stock option plan from time to time, to the extent permitted by the stock option plan and any rules and policies of any stock exchange on which the Common Shares are listed, or terminate it at any time. If the Issuer accepts any offer to amalgamate, merge or consolidate with any other company (other than a wholly-owned subsidiary) or if holders of greater than 50% of the Issuer's Common Shares accept an offer made to all or substantially all of the holders of the Issuer's Common Shares to purchase in excess of 50% of our current issued and outstanding Common Shares, any then-unvested options will automatically vest in full.

Equity Compensation Plan Information at December 31, 2010

Plan Category	Column (a) Number of securities to be issued upon exercise of outstanding options	Column (b) Weighted-average exercise price of outstanding options	Column (c) Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	1,800,000	0.26	Nil
Equity compensation plans not approved by security holders	Nil	N/A	Nil
Total	1,800,000	0.26	Nil

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No director or officer of the Issuer or any associate or affiliate of them was indebted to the Issuer as at the date of this Prospectus.

AUDIT COMMITTEE

The audit committee has various responsibilities as set forth in Multilateral Instrument 52-110 ("MI 52-110"). The Audit Committee oversees the accounting and financial reporting practices and procedures of the Issuer and the audits of the Issuer's financial statements. The principal responsibilities of the Audit Committee include: (i) overseeing the quality, integrity and appropriateness of the internal controls and accounting procedures of the Issuer, including reviewing the Issuer's procedures for internal control with the Issuer's auditors and Chief Financial Officer; (ii) reviewing and assessing the quality and integrity of the Issuer's internal and external reporting processes, its annual and quarterly financial statements and related management discussion and analysis, and all other material continuous disclosure documents; (iii) establishing separate reviews with management and external auditors of significant changes in procedures or financial and accounting practices, difficulties encountered during auditing, and significant judgments made in management's preparation of financial statements; (iv) monitoring compliance with legal and regulatory requirements related to financial reporting; (v) reviewing and pre-approving the engagement of the auditor of the Issuer and independent audit fees; and (vi) assessing the Issuer's accounting policies,

and considering, approving, and monitoring significant changes in accounting principles and practices recommended by management and the auditor.

Audit Committee Charter

A copy of the Charter of the Audit Committee may be viewed during normal business hours at the head office of the Issuer, located at Suite 1023, 409 Granville Street, Vancouver, British Columbia.

Composition of the Audit Committee

As noted above, the members of the audit committee are Douglas Unwin, Greg Beniston and Douglas Wallis, all of whom are considered independent pursuant to NI 52-110, except Mr. Unwin who is an officer of the Issuer. All members of the Audit Committee are considered to be financially literate.

A member of the audit committee is *independent* if the member has no direct or indirect material relationship with the Issuer. A material relationship means a relationship which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment.

A member of the audit committee is considered *financially literate* if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Issuer.

Relevant Education and Experience

Douglas H. Unwin, B.Sc., MBA
Mr. Unwin is an experienced executive with 18 years of diverse experience, including 16 years as an entrepreneur in Life Sciences, Aquaculture and Telecommunications. He has spent his last 6 years focused on Life Science start-ups, technology commercialization and venture capital financing. Mr. Unwin was an Associate with Neuro Discovery Inc., a venture capital company focused on investing in therapies for neurological disorders. During his tenure, Mr. Unwin reviewed numerous business plans and assisted in the structuring of investments. Prior to founding the Issuer, Mr. Unwin was the CEO of Med BioGene Inc., a start-up medical device company

M. Greg Beniston, BA, LLB
Mr. Beniston was Legal Counsel and Corporate Secretary for Xillix Technologies Corp. (TSX), a cancer imaging company from 1993 until 2000 and was Vice President Legal and Corporate Secretary of MDSI Mobile Data Solutions Inc. (TSX, NASDQ) from 1996 to 2003. Since 2007, Mr. Beniston has been employed by The CHC Helicopter Group Of Companies as Senior Legal Counsel. Mr. Beniston also served as the Issuer's Corporate Secretary from inception through October 2006.

Douglas Wallis, CA
A Chartered Accountant for over 30 years, Doug Wallis specializes in work with Canadian and US public companies. This work involves everything from assisting in the structure of Initial Public Offerings to comprehensive audit services. Doug's extensive experience in accounting and the rules of professional conduct are also highly valued at Smythe Ratcliffe. Previously, Doug served as the Director of Professional Advisory Services for the Institute of Chartered Accountants of BC. Besides his work at Smythe Ratcliffe, Doug is the past Chairman of the Board for the Canadian Network for International Surgery (CNIS).

Audit Committee Oversight

The audit committee has not made any recommendations to the Board to nominate or compensate any external auditor.

Reliance of Certain Exemptions

The Issuer's auditors have not provided any material non-audited services.

The Issuer is relying on the exemptions provided for in Section 6.1 of MI 52-110 in respect of the composition of its audit committee and in respect of certain of its reporting obligations under MI 52-110.

Pre-Approval Policies on Certain Exemptions

The audit committee has not adopted specific policies and procedures for the engagement of non-audit services.

External Auditor Services Fees

The audit committee has pre-approved the nature and amount of the services provided by UHY LDMB Advisors Inc., Chartered Accountants, to the Issuer to ensure auditor independence. Fees incurred with UHY LDMB Advisors Inc. for audit services in the last two fiscal years are outlined below:

Nature of Services	Fees Paid to Auditor in Year Ended December 31, 2010	Fees Paid to Auditor in Year Ended December 31, 2009
Audit Fees[(1)]	$10,500 estimated	$10,000
Audit Related Fees [(2)]	-	-
Tax Fees [(3)]	$850 estimated	$1,500
All other Fees [(4)]	$5,000	-
Total	$16,350	$11,500

(1) "Audit Fees" include fees necessary to perform the annual audit and quarterly reviews of the Issuer's consolidated financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.

(2) "Audit-Related Fees" include services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.

(3) "Tax Fees" include fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.

(4) "All Other Fees" - Review of Offering Memorandum and providing consent letter thereto

CORPORATE GOVERNANCE

General

Effective June 30, 2005, NI 58-101 and NP 58-201 were adopted in each of the provinces and territories of Canada. NI 58-101 requires issuers to disclose the corporate governance practices that they have adopted. NP 58-201 provides guidance on corporate governance practices.

The Board believes that good corporate governance improves corporate performances and benefits all shareholders. The Canadian Securities Administrators ("CSA") have adopted NP 58-201, which provides non-prescriptive guidelines on corporate governance practices for reporting issuers such as the Issuer. In addition, the CSA have implemented NI 58-101, which prescribes certain disclosure by the Issuer of its corporate governance practices. This section sets out the Issuer's approach to corporate governance and addresses the Issuer's compliance with NI 58-101.

Composition of the Board

The Board facilitates its exercise of independent supervision over management by ensuring that the Board is composed of a majority of independent directors. Directors are considered to be independent if they have no direct or indirect material relationship with the Issuer. A "material relationship" is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's independent judgment. The Board has four directors, three of which are considered to be independent. Mr. Beniston, Mr.Wallis, and Ms. Rodrigueza are considered to be independent directors for the purposes of NI 58-101, and Mr. Unwin is not considered to be independent as he is also a senior officer.

The mandate of the Board is to act in the best interests of the Issuer and to supervise management. The Board is responsible for approving long-term strategic plans and annual operating budgets recommended by management. Board consideration and approval is also required for material contracts and business transactions, and all debt and equity financing transactions. Any responsibility which is not delegated to management or to the committees of the Board remains with the Board. The Board meets on a regular basis consistent with the state of the Issuer's affairs and also from time to time as deemed necessary to enable it to fulfill its responsibilities.

The Chairman of the Board is Mr. Greg Beniston, LLB, who is an independent director.

Directorship

The following is a list of each director of the Issuer who is also a director of other reporting issuers (or equivalent) in a Canadian or foreign jurisdiction as of the date of this Prospectus:

Name of director	Other reporting issuer
Nil	Nil

Position Descriptions

The Board has not developed written position descriptions for the chair or the chair of any board committees or for the CEO. Given the size of the Issuer's infrastructure and the existence of only a small number of officers, the Board does not feel that it is necessary at this time to formalize position descriptions in order to delineate their respective responsibilities.

Meetings of Independent Directors

The Board has appointed two committees, the Audit Committee and the Compensation Committee. The Audit committee is comprised of a majority of independent directors and meets regularly. Additional information concerning the committee is found in '*Audit Committee*' above and in the disclosure below in this '*Corporate Governance*' section.

The Compensation Committee is comprised of two independent directors plus the CEO. This committee meets as required.

Orientation and Continuing Education

When new directors are appointed, they receive orientation, commensurate with their previous experience, on the Issuer's technologies, product candidates, business and industry and on the responsibilities of directors. New directors also receive historical public information about the Issuer and the mandates of the committees of the Board. Board meetings may also include presentations by the Issuer's management and employees to give the directors additional insight into the Issuer's business. In addition, new directors are encouraged to visit and meet with management on a regular basis and to pursue continuing education opportunities where appropriate.

Ethical Business Conduct

The Board has approved a Code of Business Conduct and Ethics (the "Code") to be followed by the Issuer's directors, officers, employees and principal consultants and those of its subsidiaries. The Code is also to be followed, where appropriate, by the Issuer's agents and representatives, including consultants where specifically required. The purpose of the Code is to, among other things, promote honest and ethical conduct, avoid conflicts of interest, protect confidential or proprietary information and comply with the applicable government laws and securities rules and regulations. In the event that a director, officer or employee departs from the Code, the Issuer is authorized to file a material change report. The board does not actively monitor compliance with the Code, but requires prompt notification of apparent or actual breaches so that it may investigate and take action. The Code has been circulated to all employees.

When proposed transactions or agreements in which directors or officers may have an interest, material or not, are presented to the Board, such interest is disclosed and the persons who have such an interest are excluded from all discussion on the matter and are not allowed to vote on the proposal.

Nomination of Directors

The Issuer does not have a formal process or committee for proposing new nominees for election to the Board of Directors. The nominees are generally the result of recruitment efforts by the Board members, including both formal and informal discussions among Board members.

Compensation

The Board has established a compensation committee. The Compensation Committee is responsible for reviewing the adequacy and form of compensation paid to the Issuer's executives and key employees, and ensuring that such compensation realistically reflects the responsibilities and risks of such positions. In fulfilling its responsibilities, the Board evaluates the performance of the chief executive officer and other senior management in light of corporate goals and objectives, and makes recommendations with respect to compensation levels based on such evaluations.

Other Board Committees

Other than the Audit Committee and Compensation Committee described in this Circular under the heading "*Audit Committee*" and *"Compensation"*, the Board has no other committees.

Assessments

The Board regularly assesses its own effectiveness and the effectiveness and contribution of each Board committee member and Director.

RISK FACTORS

An investment in the Common Shares of the Issuer must be considered highly speculative due to the nature of the Issuer's business. The risk and uncertainties below are not the only risks and uncertainties facing the Issuer. Additional risks and uncertainties not presently known to the Issuer or that the Issuer currently considers immaterial may also impair the business, operations and future prospects of the Issuer and cause the price of the Common Shares to decline. If any of the following risks actually occur, the business of the Issuer may be harmed and its financial condition and results of operations may suffer significantly. In addition to the risks described elsewhere and the other information in this Prospectus, the Issuer notes the following risk factors:

Issuer Risk - risks that are specific to the Issuer

Insufficient Funds to Accomplish the Issuer's Business Objectives

The Issuer remains under constant working capital pressures. The amount of available funding is fully allocated and does not allow for any working capital reserves. In the near future, potential revenues cannot support existing and upcoming expenses or other capital requirements. When the current funding has been expended, the Issuer will require and is planning for additional funding. There is no assurance that this funding will be available when required by the Issuer and/or available on suitable terms.

Substantial Capital Requirements for Research and Development

The Issuer anticipates that it may make substantial research and development expenditures for clinical trials in the future. As the Issuer has no operating revenue being generated from its research and development activities, the Issuer does not expect to generate any revenue in the near future and may have limited ability to expend the capital necessary to undertake or complete future research and development work. There can be no assurance that debt or equity financing will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Issuer. Moreover, future activities may require the Issuer to alter its capitalization significantly. If the Issuer is unable to obtain additional financing, it may be unable to complete the development and commercialization of PTL-202 and PTL-303 or continue its research and development programs.

Unanticipated Costs and Delays

The Issuer may be subject to unanticipated costs or delays that would accelerate its need for additional capital or increase the costs of individual clinical trials. If the Issuer is unable to raise additional capital when required or on acceptable terms, it may have to significantly delay, scale back or discontinue the development and/or commercialization of one or more of its product candidates. The Issuer may also be required to:

- seek collaborators for our product candidates at an earlier stage than otherwise would be desirable and on terms that are less favourable than might otherwise be available; or

- relinquish or license on unfavourable terms its rights to technologies or product candidates that it otherwise would seek to develop or commercialize itself.

Uncertainty of Additional Financing

The Issuer expects that its existing capital resources will be sufficient to fund operations to complete the formulation of PTL-202 and complete a pilot bio-availability study providing information for future development studies. The Issuer anticipates that it will need to raise additional capital, through private placements or public offerings of its equity or debt securities, in addition to the capital on hand, to complete the long term development and commercialization of its current product candidates. The inability of the Issuer to access sufficient additional capital for its operations could have a material adverse effect on the Issuer's financial condition, results of operations or prospects. In particular, failure to obtain such financing on a timely basis could cause the Issuer to miss certain acquisition opportunities and reduce or terminate its business.

Dilution

To date the Issuer's sources of cash have been limited primarily to proceeds from the founders and angel investors. It is likely that the Issuer will enter into more agreements to issue Common Shares and warrants and options to purchase Common Shares.

The impact of the issuance of a significant amount of Common Shares from the exercise of the Issuer's outstanding warrants and options could place downward pressure on the market price of the Common Shares.

The Issuer cannot be certain that additional funding will be available on acceptable terms, or at all. To the extent that the Issuer raises additional funds by issuing equity securities, its shareholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants, such as limitations on the Issuer's ability to incur additional indebtedness, limitations on its ability to acquire or license intellectual property rights and other operating restrictions that could adversely impact its ability to conduct business.

No History of Sales or Profits

The Issuer does not have a history of earnings or profit, has never had any products available for commercial sale and has not generated any revenue from product sales. The Issuer does not anticipate that it will generate revenue from the sale of products for the foreseeable future and has not yet submitted any products for approval by regulatory authorities. The Issuer continues to incur research and development and general and administrative expenses related to its operations. There is no assurance that in the future the Issuer will develop revenues, operate profitably or provide a return on investment. Therefore, investors should not invest on the expectation of receiving dividends or any guaranteed return on their investment of any nature. The Issuer is expected to continue to incur losses for the foreseeable future and expects these losses to increase as it continues research activities and development of its product candidates, seeks regulatory approvals for its product candidates, and acquires rights to additional products for development. If the Issuer's product candidates fail in clinical trials or do not gain regulatory approval, or if its product candidates do not achieve market acceptance, the Issuer may never become profitable. Even if the Issuer achieves profitability in the future, it may not be able to sustain profitability in subsequent periods.

No History of Paying Dividends

An increase in the market price of the Issuer's Common Shares, which is uncertain and unpredictable, may be an investor's sole source of gain from an investment in the Issuer's Common Shares. An investment in the Issuer's Common Shares may not be appropriate for investors who require dividend income.

No dividends have been paid on the Issuer's Common Shares since inception and there is no assurance that such dividends will be earned or paid in the future. For the foreseeable future, the Issuer expects to re-invest in its operations all cash flow that might otherwise be available for distribution to shareholders in the form of cash dividends. While the payment of stock dividends is an alternative, there is no assurance that these will be paid in the foreseeable future. The Issuer does not anticipate paying any dividends on the Shares in the foreseeable future. As a result, capital appreciation, if any, of the Issuer's Common Shares will be the shareholder's sole source of gain for the foreseeable future.

Influence of Principal Shareholders

Upon receipt of the final prospectus, seven shareholders will own approximately 62% of the issued and outstanding Common Shares of the Issuer. As a result, these shareholders, together or individually will have the ability to control or influence the outcome of most corporate actions requiring shareholder approval, including the election of directors of the Issuer and the approval of certain corporate transactions. The concentration of ownership of the Issuer may also have the effect of delaying or preventing a change in control of the Issuer.

Commercializing of Drug Candidates

In order to successfully commercialize drugs, the issuer must enter into collaborations with partners to develop a capable sales, marketing and distribution infrastructure. The Issuer intends to enter into partnering, co-promotion and other distribution arrangements to commercialize products in most markets. However, the Issuer may not be able to enter into collaborations on acceptable terms, if at all, and may face competition in its search for partners with whom to collaborate. If the Issuer is unable to develop collaborations with one or more partners to perform these functions, it may not be able to successfully commercialize its products, which could cause the Issuer to cease operations.

Dependence on the Success of PTL-202

PTL-202 the Issuer's lead product candidate has been tested in pre-clinical models of lung Fibrosis. These tests indicate that PTL-202 may be an effective drug to treat Pulmonary Fibrosis. PTL-202 has not been cleared by any regulatory agency to begin trials in humans. The Issuer expects to be cleared by regulators to begin Phase 1 clinical trials during 2011. Once approved, this trial should take approximately 6 weeks to complete.

In order to market PTL-202, the Issuer, in conjunction with its collaborators, will have to conduct additional clinical trials, including Phase 2 proof of principal clinical trials as well as Phase 3 clinical trials, to demonstrate safety and efficacy. The Issuer has not initiated any Phase 1, Phase 2 or Phase 3 clinical trials with any of its product candidates. If the proposed Phase 1 and II clinical trials generate safety concerns or demonstrate a lack of efficacy, or competitive products developed by third parties show significant benefit in the indications in which the Issuer is developing product candidates, any planned clinical trial may be delayed, altered or not initiated and PTL-202 may never receive regulatory approval or be successfully commercialized.

The Issuer's other product candidate, PTL-303, has only been tested in cellular assays to determine a signal as a possible drug candidate. PTL-303 has not been tested in animals or humans.

Even if the Issuers product candidates receive regulatory approval, the issuer or its collaborators may not be successful in marketing them for a number of reasons, including the introduction by competitors of more clinically-effective or cost-effective alternatives or failure in the Issuer or collaborator's sales and marketing efforts.

Any failure to obtain approval of PTL-202 or PTL-303, and successfully commercialize them, would have a material and adverse impact on the Issuer's business, which could cause the Issuer to cease operations.

Reliance on the Issuer's management

While the available funds have been specifically allocated, investors will in large part entrust their funds to the directors, management, and other professional advisors in whose judgment investors must depend with only limited information about their specific evaluation of the "sound business reasons" on which any reallocation of funds would be based. The Issuer's financing and enterprise acquisition/development policies and practices may be changed at the discretion of the Board of Directors. Persons who are not willing to rely on the Issuer's management or Directors should not purchase the Issuer's Shares.

Attraction and Retention of the Issuer's Management

The Issuer will need to expand and effectively manage its managerial, operational, financial, development and other resources in order to successfully pursue its research, development and commercialization efforts of existing and future product candidates. The Issuer's success depends on its continued ability to attract, retain and motivate highly qualified management, pre-clinical and clinical personnel. The loss of the services of any of the Issuer's senior management could delay or prevent the commercialization of its product candidates. Although the Issuer has entered into an employment agreement with Douglas H. Unwin, its Chief Executive Officer, the agreement permits the executive to terminate his employment with the Issuer at any time, subject to providing the Issuer with advance written notice. At this time, the Issuer does have a ''key man'' insurance policy on the life of Mr. Unwin.

The Issuer may not be able to attract or retain qualified management and scientific personnel in the future due to the intense competition for qualified personnel among specialty pharmaceutical, biotechnology, pharmaceutical and other businesses. If the Issuer is not able to attract and retain the necessary personnel to accomplish its business objectives, the achievement of its development objectives, its ability to raise additional capital and its ability to implement its business strategy may be significantly reduced. In particular, if the Issuer loses any members of its senior management team, it may not be able to find suitable replacements in a timely fashion, or at all, and the business may be harmed as a result.

Use of Contract Personnel

From time to time the Issuer will need to contract additional personnel to continue its expansion. The Issuer uses scientific, clinical and regulatory advisors extensively to assist in formulating its development and clinical strategies. These advisors are not the Issuer's employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to the Issuer. In addition, these advisors may have arrangements with other companies to assist those companies in developing products or technologies that may compete with the Issuer's. If the Issuer is unable to contract the correct personnel, it may be unable to implement or complete its product development programs,

resulting in the inability to commercialize its product candidates or generate sufficient revenue to continue in business.

Dependence on key employees, suppliers or agreements

Executive management of the Issuer's business is primarily provided by the Issuer's CEO, CFO, and Board of Directors. At this stage of its corporate development, the Issuer has necessarily limited the establishment of extensive administrative and operating infrastructure. Instead, the Issuer may rely, for necessary skills, on external adviser/consultants with extensive senior level management experience in such fields as formulation, drug development, pharmaceutical regulations, finance, manufacturing, marketing, law, and investment. The future success of the Issuer is very dependent upon the ongoing availability and commitment of its directors, officers and advisor consultants, not all of whom are or will be bound by formal contractual employment agreements. The absence of these formal contractual relationships may be considered to represent an area of risk.

Dependence on Third Parties to Conduct Clinical Trials

The Issuer will hire third parties to conduct clinical trials. If these third parties do not perform as contracted or expected, the issuer may not be able to obtain regulatory approval for its drug candidates, preventing the Issuer from becoming profitable.

The Issuer relies on third parties, such as contract research organizations, medical institutions, clinical investigators and contract laboratories, to conduct its pre-clinical research and clinical trials. Although the Issuer relies on these third parties to conduct its clinical trials, it is responsible for ensuring that each of its clinical trials is conducted in accordance with its investigational plan and protocol, as approved by the FDA and non-U.S. regulatory authorities. Moreover, the FDA and non-U.S. regulatory authorities require the Issuer to comply with regulations and standards, commonly referred to as Good Clinical Practices, or GCPs, for conducting, monitoring, recording and reporting the results of clinical trials to ensure that the data and results are scientifically credible and accurate and that the clinical trial subjects are adequately informed of the potential risks of participating in clinical trials.

The Issuer’s reliance on third parties does not relieve it of the above responsibilities and requirements. If the third parties conducting the Issuer’s clinical trials do not perform their contractual duties or obligations, do not meet expected deadlines or need to be replaced, or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to GCPs or for any other reason, the Issuer may need to enter into new arrangements with alternative third parties, and its clinical trials may be extended, delayed or terminated. In addition, a failure by third parties to perform their obligations in compliance with GCPs may cause the Issuers clinical trials to fail to meet regulatory requirements, which may require the Issuer to repeat its clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, the Issuer may be unable to obtain regulatory approval for or commercialize its current and future product candidates.

Marketing and Distribution Risk

If the Issuer is unable to develop its sales and marketing and distribution capability on its own or through collaborations with marketing partners, it will not be successful in commercializing its product candidates. The Issuer currently does not have a marketing staff nor a sales or distribution organization. The Issuer does not intend to develop a sales or distribution organization internally.

The Issuer currently does not have marketing, sales or distribution capabilities. The Issuer has decided to collaborate with third parties that have direct sales forces and established distribution systems, either to

augment or substitute in lieu of its own sales force and distribution systems. To the extent that the Issuer enters into co-promotion or other licensing arrangements, its product revenue is likely to be lower than if the Issuer directly marketed or sold its products, when and if it has any. In addition, any revenue received will depend in whole or in part upon the efforts of such third parties, which may not be successful and will generally not be within the Issuer's control. If the Issuer is unable to enter into such arrangements on acceptable terms or at all, it may not be able to successfully commercialize its existing and future product candidates. If the Issuer is not successful in commercializing its existing and future product candidates, either on its own or through collaborations with one or more third parties, future product revenue will suffer and the Issuer may incur significant additional losses.

Industry Risk - risks faced by the Issuer because of the industry in which it operates

Research and Development

The Issuer is developing new, proprietary substances, methods and processes intended to enhance the therapeutic effects of existing drugs in the treatment of diseases characterized by progressive Fibrosis. The existing drugs that form the basis of the Issuer's efforts to develop new substances, methods and processes are well known, yet any scientific evidence that may exist to support the feasibility of the Issuer's goals is not conclusive. If the issuer is not successful in developing and marketing any new drugs or combinations of existing drugs it may never generate revenues and the business may fail.

Clinical Trial Design

The Issuer's business strategy is to combine and reformulate existing drugs for the treatment of new indications, and these new drug combinations may have the ability to treat many indications. The Issuer may incorrectly assess the market opportunities of an indication or may incorrectly estimate or fail to fully appreciate the scientific and technological difficulties associated with treating a specific indication. Furthermore, the quality and robustness of the results and data of any clinical study the Issuer conducts will depend upon the selection of a patient population for clinical testing. If the selected population is not representative of the intended population, further clinical testing of product candidates or termination of research and development activities related to the selected indication may be required. The Issuer's ability to commence clinical testing or the choice of clinical development path could compromise business prospects and prevent the achievement of revenue.

Product Failure in Clinical Trials

Clinical trials may fail to adequately demonstrate the safety and efficacy of product candidates. The Issuer will be required to demonstrate with substantial evidence through well-controlled clinical trials that its product candidates are safe and effective for use in a diverse population before the issuer can seek regulatory approvals for their commercial sale. Negative results from clinical trials will prevent the commercialization of a drug candidate. If the Issuer cannot show that its product candidates are both safe and effective in clinical trials, it will need to re-evaluate its strategic plans.

Positive results from pre-clinical studies and early clinical trials should not be relied upon as evidence that later-stage or large-scale clinical trials will succeed. Success in early clinical trials does not mean that future clinical trials will be successful because product candidates in later-stage clinical trials may fail to demonstrate sufficient safety and efficacy to the satisfaction of the FDA and other non-U.S. regulatory authorities, despite having progressed through initial clinical trials.

Even after the completion of Phase 3 clinical trials, the FDA or other non-U.S. regulatory authorities may disagree with the Issuer's clinical trial design and its interpretation of data, and may require the Issuer to conduct additional clinical trials to demonstrate the efficacy of its product candidates.

Regulatory Risk and Market Approval

Any products that the Issuer develops will be subject to extensive government regulations relating to development, clinical trials, manufacturing and commercialization. In the United States, for example, the drug combinations that the Issuer intends to develop and market are regulated by the FDA under its new drug development and review process. Before any therapeutic products can be marketed, the sponsor company must obtain clearance from the FDA by submitting an investigational new drug application, then by successfully completing human testing under three phases of clinical trials, and finally by submitting a new drug application.

The time required to obtain approvals for drug combinations from the FDA and other agencies in foreign locales with similar processes is unpredictable. There is no assurance that the Issuer will ever receive regulatory approval to use its proprietary drug combinations as human therapeutics. If such regulatory approval is not obtained, the issuer may never become profitable.

Failure to Receive Regulatory Approval for Clinical Trials

The Issuer's clinical development programs for PTL-202 and PTL-303 may not receive regulatory approval for clinical trials if the Issuer fails to demonstrate that they are safe and effective in pre-clinical trials. Consequently, failure to obtain necessary approvals from the FDA or similar non-U.S. regulatory agencies to operate clinical trials for the Issuer's product candidates could result in delays to the Issuer's product development efforts.

Manufacture and Supply of Drug Candidates

The Issuer does not own or operate manufacturing facilities, and it depends on third-party contract manufacturers for production of its product candidates. The Issuer has no experience in drug formulation or manufacturing, and it lacks the resources and the capability to manufacture any of its product candidates. To date, its product candidates have been purchased in limited quantities for pre-clinical studies from scientific supply houses. For Phase 1 and 2 clinical trials of PTL-202, the Issuer will need to obtain additional quantities of active pharmaceutical ingredients. The Issuer will need to contract a manufacturer for a supply of PTL-303 for pre-clinical, and Investigational New Drug-enabling toxicology studies and initial clinical trials (Phase 1 and 2). If, in the future, one of the Issuer's product candidates is approved for commercial sale, the Issuer or its collaborator will need to manufacture that product candidate in commercial quantities. The Issuer cannot guarantee that the third-party manufacturers with which it has previously contracted will have sufficient capacity to satisfy future manufacturing needs of PTL-202 or PTL-303, or that the Issuer will be able to negotiate additional purchases of active pharmaceutical ingredients or drug products from these or alternative manufacturers on terms favourable to the Issuer, or at all.

Third party manufacturers may fail to perform under their contractual obligations, or may fail to deliver the required commercial quantities of bulk active ingredients or finished product on a timely basis and at commercially reasonable prices. Any performance failure on the part of the Issuer's contract manufacturers could delay clinical development or regulatory approval of the Issuers product candidates or commercialization of its future product candidates, depriving the Issuer of potential product revenue and resulting in additional losses.

If the Issuer is required to identify and qualify an alternate manufacturer, it may be forced to delay or suspend its clinical trials, regulatory submissions, required approvals or commercialization of its product candidates, which may cause it to incur higher costs and could prevent the successfully commercializing its product candidates. If the Issuer is unable to find one or more replacement manufacturers capable of production at a reasonably favourable cost, in enough volume, of adequate quality, and on a timely basis, the Issuer would likely be unable to meet demand for its product candidates and its clinical trials could be delayed or it could lose potential revenue. The Issuer's ability to replace an existing active pharmaceutical ingredient manufacturer may be difficult because the number of potential manufacturers may be limited and the FDA must approve any replacement manufacturer before it can begin manufacturing the Issuer's product candidates. Such approval would require new testing and compliance inspections. It may be difficult or impossible for the issuer to identify and engage a replacement manufacturer on acceptable terms in a timely manner, or at all.

The Issuer expects to continue to depend on third-party contract manufacturers for the foreseeable future. The Issuer's product candidates require precise, high quality manufacturing. Any of the Issuer's contract manufacturers will be subject to ongoing periodic unannounced inspection by the FDA and non-U.S. regulatory authorities to ensure strict compliance with current Good Manufacturing Practice, or cGMP, and other applicable government regulations and corresponding standards. If the Issuer's contract manufacturers fail to achieve and maintain high manufacturing standards in compliance with cGMP regulations, the Issuer may experience manufacturing errors resulting in patient injury or death, product recalls or withdrawals, delays or interruptions of production or failures in product testing or delivery, delay or prevention of filing or approval of marketing applications for the Issuer's product candidates, cost overruns or other problems that could seriously harm its business.

Significant scale-up of manufacturing may require additional validation studies, which the FDA must review and approve. Additionally, any third party manufacturers the Issuer retains to manufacture its product candidates on a commercial scale must pass an FDA pre-approval inspection for conformance to the cGMPs before the Issuer can obtain approval of its product candidates. If the Issuer is unable to successfully increase the manufacturing capacity for a product candidate in conformance with cGMPs, the regulatory approval or commercial launch of any related products may be delayed or there may be a shortage in supply.

Market Acceptance of the Issuer's Products

Even if the Issuer receives the necessary regulatory approvals to commercially sell its drug candidates, the success of these candidates will depend on their acceptance by physicians and patients, and reimbursement among other things.

In the United States and elsewhere, the Issuer's product revenues will depend principally upon the reimbursement rates established by third-party payors, including government health administration authorities, managed-care providers, public health insurers, private health insurers and other organizations. These third-party payors are increasingly challenging the price, and examining the cost effectiveness, of medical products and services. In addition, significant uncertainty exists as to the reimbursement status, if any, of newly approved drugs, pharmaceutical products or product indications. The Issuer may need to conduct post-marketing clinical trials in order to demonstrate the cost-effectiveness of products. Such clinical trials may require the Issuer to commit a significant amount of management time, financial and other resources. If reimbursement of the Issuer's product candidates is unavailable or limited in scope or amount or if pricing is set at unsatisfactory levels, the Issuer's revenues could be reduced.

In some countries other than the United States, particularly the countries of the European Union and Canada, the pricing of prescription pharmaceuticals is subject to government controls. In these countries, obtaining pricing approval from government authorities can take six to twelve months or longer after the receipt of regulatory marketing approval of a product for an indication. To obtain reimbursement or pricing approval in some countries, the Issuer may be required to conduct a clinical trial that compares the cost-effectiveness of its product candidate to other available therapies. The Issuer's revenues could be reduced if reimbursement of a product candidate is unavailable or limited in scope or amount or if pricing is set at unsatisfactory levels.

Canadian, US, European and other foreign governments continue to propose and pass legislation designed to reduce the cost of healthcare, including drugs. In the United States, there have been, and the Issuer expects that there will continue to be, federal and state proposals to implement similar government control. In addition, increasing emphasis on managed care in the United States will continue to put pressure on the pricing of pharmaceutical products. For example, the *Medicare Prescription Drug Improvement and Modernization Act* of 2003 reforms the way Medicare will cover and reimburse for pharmaceutical products. The legislation expands Medicare coverage for drug purchases by the elderly and eventually will introduce a new reimbursement methodology based on average sales prices for certain drugs. In addition, the new legislation provides authority for limiting the number of outpatient drugs that will be covered in any therapeutic class. As a result of the new legislation and the expansion of federal coverage of drug products, the Issuer expects that there will be additional pressure to contain and reduce costs.

The Medicaid program and state healthcare laws and regulations may also be modified to change the scope of covered products and/or reimbursement methodology. Cost control initiatives could decrease the established reimbursement rates that the Issuer receives for any products in the future, which would limit its revenues and profitability. Legislation and regulations affecting the pricing of pharmaceutical products, including PTL-202 and PTL-303, may change at any time, which could further limit or eliminate reimbursement rates for PTL-202 or other product candidates.

If the Issuer's drug candidates fail to gain market acceptance, it may be unable to generate sufficient revenue to continue in business.

Failure to Obtain Regulatory Approval Outside the United States

The Issuer intends to market certain of its existing and future product candidates in non-North American markets. In order to market its existing and future product candidates in the European Union and many other non-North American jurisdictions, the Issuer must obtain separate regulatory approvals. The Issuer has had no interactions with non-North American regulatory authorities, and the approval procedures vary among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval.

Approval by the FDA or other regulatory authorities does not ensure approval by regulatory authorities in other countries, and approval by one or more non-North American regulatory authorities does not ensure approval by regulatory authorities in other countries or by the FDA. The non-North American regulatory approval process may include all of the risks associated with obtaining FDA approval. The Issuer may not obtain non-North American regulatory approvals on a timely basis, if at all. In addition, the Issuer may not be able to file for non-North American regulatory approvals and may not receive necessary approvals to commercialize its existing and future product candidates in any market. If such regulatory approval is not obtained, the issuer may never become profitable.

Product Liability

The use of the Issuer's drug candidates in clinical trials and the sale of any products for which regulatory approval is obtained may expose the Issuer to product liability claims from consumers, health care providers, pharmaceutical companies or other entities. Any claim brought against the Issuer may cause the diversion of resources from normal operations or cause the Issuer to cease the sale, distribution and marketing of its products that have received regulatory approval. This may cause the Issuer to cease operations.

Intellectual Property Rights

The Issuer's commercial success will depend, in part, on obtaining and maintaining patent protection, trade secret protection and regulatory protection of its proprietary technology and information as well as successfully defending third-party challenges to its proprietary technology and information. The Issuer will be able to protect its proprietary technology and information from use by third parties only to the extent that valid and enforceable patents, trade secrets or regulatory protection cover them and the Issuer has exclusive rights to utilize them. The ability of the Issuer's licensors, collaborators and suppliers to maintain their patent rights against third-party challenges to their validity, scope or enforceability will also play an important role in determining the Issuer's future.

Reliance on Licensors to Maintain Patent Rights

The Issuer's commercial success will also depend, in part, on maintaining patent rights that have been licensed related to products that the Issuer may market in the future. Since the Issuer will not fully control the patent prosecution of any licensed patent applications, it is possible that the licensors will not devote the same resources or attention to the prosecution of the licensed patent applications as the Issuer would if it controlled the prosecution of the applications. The licensor may not pursue and successfully prosecute any potential patent infringement claim, may fail to maintain their patent applications, or may pursue any litigation less aggressively than the issuer would. Consequently, the resulting patent protection, if any, may not be as strong or comprehensive.

Uncertainty of Patent Protection

The patent positions of life science companies including specialty pharmaceutical companies can be highly uncertain and involve complex legal and factual questions that include unresolved principles and issues. No consistent policy regarding the breadth of claims allowed in such companies' patents has emerged to date in the United States, and the patent situation outside the United States is even more uncertain. Changes in either the patent laws or in interpretations of patent laws in the United States or other countries may diminish the value of the Issuer's intellectual property rights. Therefore, the Issuer cannot predict with any certainty the range of claims that may be allowed or enforced in its patents or in-licensed patents.

Reliance on Trade Secrets

The Issuer also relies on trade secrets to protect its technology, especially where the Issuer does not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. While the Issuer seeks to protect confidential information, in part, through confidentiality agreements with employees, consultants, contractors, or scientific and other advisors, they may unintentionally or wilfully disclose the Issuer's confidential information to competitors. Enforcing a claim against a third

party related to the illegal acquisition and use of trade secrets can be expensive and time consuming, and the outcome is often unpredictable. If the Issuer is not able to maintain patent or trade secret protection on its technologies and product candidates, then the Issuer may not be able to exclude competitors from developing or marketing competing products, and the issuer may not be able to operate profitability.

Intellectual Property Infringement Claims

There has been, and there will continue to be, significant litigation and demands for licenses in the life sciences industry regarding patent and other intellectual property rights. Although the Issuer anticipates having a valid defence to any allegation that its current product candidates, production methods and other activities infringe the valid and enforceable intellectual property rights of any third parties, the Issuer cannot be certain that a third party will not challenge this position in the future. Other parties may own patent rights that the Issuer might infringe with its drug candidates, products or other activities, and the Issuer's competitors or other patent holders may assert that the Issuer's products and the methods employed are covered by their patents. These parties could bring claims against the Issuer causing substantial litigation expenses and, if successful, may require payment of substantial damages. Some of the Issuer's potential competitors may be better able to sustain the costs of complex patent litigation, and depending on the circumstances, the Issuer could be forced to stop or delay its research, development, manufacturing or sales activities. Any of these costs could cause the Issuer to go out of business.

Licensed Patent Rights

The Issuer has licensed patents and plans to license technologies and other patents if it believes it is necessary or useful to use third party intellectual property to develop its products, or if its product development threatens to infringe upon the intellectual property rights of third parties. The Issuer may be required to pay license fees or royalties or both to obtain such licenses, and there is no guarantee that such licenses will be available on acceptable terms, if at all. Even if the Issuer is able to successfully obtain a license, the rights may be non-exclusive, which would give the Issuer's competitors' access to the same intellectual property it has rights to, which could prevent the Issuer from commercializing a product.

The Issuer's licensors may terminate the license. Without protection for the intellectual property that is licensed, other companies may be able to offer substantially similar products for sale, the Issuer may not be able to market or sell the planned products or generate any revenues.

Licenses and Permits to Operate

The operations of the Issuer may require licenses and permits from various governmental authorities, in both domestic and foreign jurisdictions. There can be no assurance that the Issuer will be able to obtain all necessary licenses and permits that may be required to carry out its research and development of its projects. Without these licenses and permits the Issuer may not be able to market or sell the planned products or generate any revenues.

Competition

The pharmaceutical industry is intensely competitive in all its phases, and the Issuer competes with other companies that have greater financial resource and technical facilities. Competition could adversely affect the Issuer's ability to acquire suitable projects in the future.

Significant and increasing competition exists for pharmaceutical opportunities internationally. There are a number of large established pharmaceutical companies with substantial capabilities and far greater financial and technical resources than the Issuer. The Issuer may be unable to acquire additional

attractive pharmaceutical development opportunities on terms it considers acceptable and there can be no assurance that the Issuer's research and development programs will yield any new drugs or result in any commercially viable compounds or technologies.

Conflicts of Interest

Certain of the directors and officers of the Issuer will be engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies (including life science companies) and, as a result of these and other activities, such directors and officers may become subject to conflicts of interest. The BCBCA provides that in the event that a director has a material interest in a contract or proposed contract or agreement that is material to the issuer, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement, subject to and in accordance with the BCBCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA. To the knowledge of the management of the Issuer, there are no existing or potential material conflicts of interest between the Issuer and a proposed director or officer of the Issuer except as otherwise disclosed herein.

Foreign Currency Risk

A substantial portion of the Issuer's expenses and future revenues may be incurred in foreign currencies. The Issuer's business will be subject to risks typical of an international business including, but not limited to, differing tax structures, regulations and restrictions and general foreign exchange rate volatility. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have a material effect on the Issuer's business, financial condition and results of operations and could result in downward pressure for the Issuer's products or in losses from currency exchange rate fluctuations. The Issuer does not actively hedge against foreign currency fluctuations.

Public Company Risk - Risks related to the Issuer's shares being listed on a stock exchange

Price Volatility of Publicly Traded Securities

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experiences wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. In the event that the Issuer's shares become listed to trade on a stock exchange, there can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the Common Shares will be subject to market trends generally, notwithstanding any potential success of the Issuer in creating revenues, cash flows or earnings. The value of the Issuer's Common Shares if listed for trading will be affected by such volatility.

There is no public market for the Issuer's Common Shares. An active public market for the Common Shares might not develop or be sustained. If an active public market for the Common Shares does not develop, the liquidity of a shareholder's investment may be limited and the share price may decline below the initial price shareholders paid for their shares.

Certain Canadian Laws Could Delay or Deter a Change of Control

Limitations on the ability to acquire and hold the Issuer's Common Shares may be imposed by the C*ompetition Act* (Canada). This legislation permits the Commissioner of Competition (Canada) to review any acquisition of a significant interest in the Issuer. This legislation grants the Commissioner jurisdiction to challenge such an acquisition before the Canadian Competition Tribunal if the

Commissioner believes that it would, or would be likely to, result in a substantial lessening or prevention of competition in any market in Canada.

The *Investment Canada Act* (Canada) subjects an acquisition of control of a company by a non-Canadian to government review if the value of the Issuer's assets as calculated pursuant to the legislation exceeds a threshold amount. A reviewable acquisition may not proceed unless the relevant minister is satisfied that the investment is likely to be a net benefit to Canada.

Any of the foregoing could prevent or delay a change of control and may deprive or limit strategic opportunities for the Issuer's shareholders to sell their Common Shares.

The Issuer is at Risk of Securities Class Action Litigation

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for the Issuer because biotechnology, specialty pharmaceutical and biopharmaceutical companies have experienced significant stock price volatility in recent years. If the Issuer faces such litigation, it could result in substantial costs and a diversion of management's attention and resources, which could harm the Issuer's business.

Influence of Currently Outstanding Shares

Future sales of the Issuer's currently outstanding Shares could cause the market price of the Issuer's Common Shares to decrease significantly, even if its business is doing well. As at the date of this prospectus, the Issuer's current public shareholders will hold approximately 7,950,950 of the Issuer's Common Shares, representing a fully-diluted interest of approximately 61.9%. If any shareholder sells a substantial number of the Issuer's Common Shares in the public market, the market price of the Common Shares could fall. The perception among the public that such sales may occur could have the same effect.

PROMOTERS

Except as disclosed below, the Issuer has no promoters.

Douglas H. Unwin is considered to be the Promoter within the meaning of the *Securities Act* (British Columbia) for his role in substantially founding and organizing the Issuer. The Issuer has never acquired any assets from or entered into contractual relations with Mr. Unwin, except for subscription agreements for Shares entered into by him with the Issuer and his employment agreement as the Issuer's President and Chief Executive Officer. Mr. Unwin, in combination with his spouse and a company controlled by him and his spouse, has acquired 4,420,501 Common Shares of the Issuer pursuant to subscription agreements at prices ranging from $0.00067 to $0.20 per Common Share representing 21% of the issued and outstanding Common Shares as at the date of this Prospectus after giving effect for the conversion of the Preferred Shares to Common Shares upon listing of the Common Shares on the CNSX.

See "*Directors and Officers*" for information concerning the number of securities of the Issuer held by Mr. Unwin and his experience. No assets have been acquired or are to be acquired by the Issuer from Mr. Unwin. Other than as described in this Prospectus, Mr. Unwin has not received or will not receive anything of value, including money, property, contracts, options or rights of any kind from the Issuer in respect of acting as a promoter of the Issuer. Please see "*Executive Compensation*" for additional information concerning compensation paid to Mr. Unwin.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Issuer is not currently a party to any legal proceedings or regulatory actions, nor is the Issuer currently contemplating any legal proceedings or regulatory actions. Management of the Issuer is currently not aware of any legal proceedings or regulatory actions contemplated against the Issuer.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The directors and officers hold Shares and have been granted options to purchase Shares. See "*Directors, Officers and Promoters*" and "*Options to Purchase Securities*". Save and except for their interest in the subscription for treasury shares and as disclosed in "*Executive Compensation*", the directors, officers and principal shareholders of the Issuer, or any associate or affiliate of the foregoing, have had no material interest, direct or indirect, in any transactions in which the Issuer has participated within the three year period prior to the date of this Prospectus, or will have any material interest in any proposed transaction, which has materially affected or will material affect the Issuer.

Certain officers and directors of the Issuer may also be officers and directors of other life science, pharmaceutical or biotechnology companies from time to time. See "*Risk Factors – Conflicts of Interest"*.

AUDITOR, REGISTRAR AND TRANSFER AGENT

The auditor of the Issuer is UHY LDMB Advisors Inc., Chartered Accountants, located at 306 – 1688 152nd Street, Surrey, British Columbia V4A 4N2. The registrar and transfer agent of the Common Shares of the Issuer is Valiant Trust Company, located at 600 – 750 Cambie Street Vancouver, British Columbia, V6B 0A2.

MATERIAL CONTRACTS

The following are the material contracts of the Issuer entered into since September 12, 2005 and still in effect:

(a) Employment Agreement with the CEO dated January 1, 2010.
(b) License Agreement dated April 20, 2007 with Dalhousie University. See "*Description of the Business – Three Year History*".
(c) Amendment Agreement dated February 1, 2011 with Dalhousie University. See "*Description of the Business – Three Year History*".
(d) Contract Research Agreement with BRI dated December 12, 2009.
(e) Directors and Officers Insurance with an effective date of January 23, 2011.
(f) Irrevocable Subscription agreements dated January 31, 2011.
(g) Irrevocable Subscription agreements dated May 16, 2011.
(h) Escrow Agreement with the Investors in the Irrevocable Subscription Agreement and Fasken Martineau Dumoulin LLP as the trustee dated January 31, 2011.
(i) Escrow Agreement with the Investors in the Irrevocable Subscription Agreement and Fasken Martineau Dumoulin LLP as the trustee dated May 16, 2011.
(j) Co-development and Licensing agreement with IntelGenx Corp. dated February 28, 2010 This agreement supersedes the Letter of Intent between the parties dated November 23, 2010.
(k) Postponement Agreements with Douglas H. Unwin and Derick Sinclair dated March 11, 2011.
(l) Voluntary reduction in salary agreement with Douglas H. Unwin dated March 1, 2011
(m) Voluntary reduction in salary agreement with Douglas H. Unwin dated June 1, 2011
(n) Voluntary reduction in annual fee agreement with Derick Sinclair dated March 1, 2011

The material contracts described above may be inspected at the head office of the Issuer, located at Suite 1023, 409 Granville Street, Vancouver, British Columbia during normal business hours for a period of thirty days after the receipt of the Final Prospectus by the Securities Commission.

EXPERTS

Experts

UHY LDMB Advisors Inc. Chartered Accountants, the Issuer's current auditors, who have prepared an audit report in respect of the Issuer's consolidated financial statements with accompanying notes as at and for the fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008, report that they are independent of the Issuer in accordance with the Professional Rules of Conduct of the Institute of Chartered Accountants of British Columbia.

Certain legal matters relating to this Prospectus have been passed upon by Miller Thomson LLP.

Relationship between the Issuer and Professional Persons and Experts

There is no beneficial interest, direct or indirect, in any securities of the Issuer's issued capital or property of the Issuer or of an associate or affiliate of the Issuer, held by a professional person as referred to in section 106(2) of the Rules under the *Securities Act* (British Columbia), a responsible solicitor or any partner of a responsible solicitor's firm or by any person or company whose profession or business gives authority to a statement made by a person or company and who is named as having prepared or certified a part of this Prospectus or prepared or certified a report or valuation described or included in this Prospectus.

OTHER MATERIAL FACTS

To management's knowledge, there are no other material facts relating to the Issuer that are not otherwise disclosed in this prospectus, or are necessary in order for the prospectus to contain full, true and plain disclosure of all material facts relating to the Issuer.

FINANCIAL STATEMENTS

Attached to and forming a part of this Prospectus as Schedule "A" are the audited financial statements of the Issuer for the fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008.Also attached to and forming a part of this Prospectus are the un-audited financial statements of the Issuer prepared by management for the quarter ended March 31, 2011.

SCHEDULE "A"

FINANCIAL STATEMENTS

Pacific Therapeutics Ltd.
(A Development Stage Company)

Interim Financial Statements
Three month periods ended March 31, 2011 and 2010
(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

UHY LDMB Advisors Inc.
Chartered Accountants

South Surrey
1688 – 152nd Street
Suite 306
South Surrey, BC
Canada V4A 4N2

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Langley
Vancouver

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June 13, 2011

To the Audit Committee
Pacific Therapeutics Ltd.

Dear Sirs / Mesdames:

In accordance with our engagement letter dated June 6, 2011 we have reviewed the condensed interim balance sheet of Pacific Therapeutics Ltd. as at March 31, 2011, the interim statements of operations, comprehensive loss and deficit and cash flows for the three-months then ended. These financial statements are the responsibility of the company's management.

We performed our review in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor. Such an interim review consists principally of applying analytical procedures to financial data, and making inquiries of and having discussions with persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the financial statements; accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our review, we are not aware of any material modification that needs to be made for these interim financial statements to be in accordance with the Canadian generally accepted accounting principles.

This report is solely for the use of the Audit Committee of Pacific Therapeutics Ltd. to assist it in discharging its regulatory obligation to review these financial statements, and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance or decisions made based on it, are the responsibility of such third party. we accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

Yours very truly,

UHY LDMB Advisors Inc.

CHARTERED ACCOUNTANTS
UHY LDMB Advisors Inc.

Pacific Therapeutics Ltd.
(A Development Stage Company)
Condensed Interim Balance Sheets
Unaudited
(Expressed in Canadian dollars)

	March 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Assets			
Current			
Cash and cash equivalents	308,557	30,457	85,587
Goods and services tax recoverable	6,370	5,319	4,282
Prepaid expenses	12,598	4,434	21,143
	327,525	40,210	111,012
Property and equipment	7,716	8,168	10,612
Intangible assets	71,036	71,540	43,934
	406,277	119,918	165,558
Current liabilities			
Accounts payable and accrued liabilities (Note 4)	74,059	106,788	93,816
Unearned revenues	-	2,600	-
Security deposit	2,400	2,400	-
Shareholder demand loan (Note 5)	12,225	5,000	-
Irrevocable subscription (Note 6)	25,000	-	-
Irrevocable subscription interest (Note 6)	6,000	-	-
	119,684	116,788	93,816
Non-current liabilities			
Shareholders' long term loan (Note 7)	89,260	89,260	-
Irrevocable subscription (Note 6)	275,000	-	-
	483,944	206,048	93,816
Shareholders' equity (deficiency)			
Share capital (Note 8)	1,513,203	1,433,136	1,299,456
Contributed surplus	18,482	18,482	18,482
Deficit accumulated during the development stage	(1,609,352)	(1,537,748)	(1,246,196)
	(77,667)	(86,130)	71,742
	406,277	119,918	165,558

Nature and Continuance of Operations (Note 1) and **Commitment** (Note 11)

On behalf of the Board:

"Douglas H. Unwin" Director
Douglas H. Unwin

"Doug Wallis" Director
Doug Wallis

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

	Period from 12 September 2005 (inception) to 31 March 2011 $	For the three month period ended 31 March 2011 $	For the three month period ended 31 March 2010 $
Expenses			
Advertising and promotion	20,103	723	970
Amortization	21,195	1,234	846
Bank charges and interest	10,046	6,118	(1,420)
Computer	10,385	-	-
Insurance	30,431	3,633	3,695
Office and miscellaneous	16,733	697	435
Professional fees	244,224	17,525	16,239
Rent and occupancy costs	118,572	3,898	1,587
Research and development	256,559	-	16,040
Stock-based compensation	78,018	-	-
Telephone and utilities	20,705	1,110	530
Travel	58,012	-	-
Wages and benefits	713,160	36,667	42,272
	(1,598,143)	(71,605)	(81,194)
Other income/(expenses)			
Interest income	7,173	-	-
Loss on abandonment of option	(18,382)	-	-
Net loss	(1,609,352)	(71,605)	(81,194)
Deficit accumulated during the development stage, beginning of period		(1,537,747)	(1,246,196)
Deficit accumulated during the development stage, end of period		(1,609,352)	(1,327,390)
Loss per share		(0.004)	(0.005)
Weighted average number of common shares Outstanding		16,306,604	15,388,118

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)

	Period from 12 September 2005 (inception) to 31 March 2011 $	For the three month period ended 31 March 2011 $	For the three month period ended 31 March 2010 $
Cash flows used in operating activities			
Net loss	(1,609,352)	(71,605)	(81,194)
Adjustments for items not affecting cash			
Amortization	21,195	1,234	846
Loss on abandoned option	18,382	-	-
Stock-based compensation	134,666	-	-
Changes in non-cash working capital balances			
Goods and services tax recoverable	(6,370)	(1,051)	1,933
Prepaid expenses	(12,598)	(8,164)	(7,665)
Security deposit	2,400	-	-
Un-deposited funds	-	(2,600)	(37,500)
Accounts payable and accrued liabilities	92,260	(32,529)	(6,546)
	(1,359,417)	(114,715)	(130,126)
Cash flows used in investing activities			
Additions to property and equipment	(22,300)	-	-
Deposit paid to acquire medical technology license	(32,924)	-	-
Additions to intangible assets	(63,105)	(278)	(551)
	(118,329)	(278)	(551)
Cash flows from financing activities			
Irrevocable subscription	300,000	300,000	-
Shareholder loan	107,285	13,025	-
Issuance of common shares for cash	969,018	80,068	63,500
Issuance of preferred shares for cash	410,000	-	-
	1,786,303	393,093	63,500
Increase (decrease) in cash and cash equivalents	308,557	278,100	(67,177)
Cash and cash equivalents, beginning of period	-	30,457	85,587
Cash and cash equivalents, end of period	308,557	308,557	18,410
Supplemental Disclosures with Respect to Cash Flows:			
Interest paid	-	-	-
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 Specialty Pharmaceutical Company focused on developing proprietary drugs to treat certain types of lung disease including fibrosis. PTL will develop its technology until the end of proof of principal trails in humans and then look to out-license its technology to companies with the resources to complete clinical trials and commercialize the technology.

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 may 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. However including the cash available under the irrevocable subscription agreements the company does have the cash on-hand to fund operations in the coming year. PTL has funded its operations to date primarily from government and corporate grants and capital contributions from private investors. The Company will not be generating any product-based revenues or realizing cash flows from operations in the near term, and will require additional financing to continue performing research and development activities. The Company is involved in active discussions with several potential investors and anticipates securing additional investors during 2011. 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. Significant Accounting Policies

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

Basis of presentation

These are the Company’s first International Financial Reporting Standards (“IFRS”) condensed interim financial statements for the first quarter of the period covered by the first IFRS annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2011 and IFRS 1 First-Time Adoption of IFRS has been applied. The impact of the transition from Canadian Generally Accepted Accounting Principles (GAAP) to IFRS is explained in note 12.

These condensed interim financial statements were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements.

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 day or less.

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.

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 generally accepted accounting criteria for deferral and amortization. No such costs have been deferred as at March 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 three months ended March 31, 2011, no SR&ED amounts were received.

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, 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.

Stock-based compensation

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, *"Stock-Based Compensation and Other Stock Based Payments"*, establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments to both employees and non-employees. Section 3870 recommends that certain stock-based transactions, such as the grant of stock options, be accounted for at fair value. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the grant date. Any consideration received from the exercise of stock options is credited to share capital.

Income taxes

Future 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 future income tax asset if it is not more likely than not that the asset will be realized. As at March 31, 2011, the Company's net future income tax assets are fully offset by a valuation allowance.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivable and accounts payable. These fair value estimates are subjective in nature and involve uncertainties and matters of significant judgment, and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates. 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 five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet either at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash as held-for-trading and amounts receivable as loans and receivables. Accounts payable are classified as other liabilities, which are measured at amortized cost.

Financial Instrument Standards

Effective 1 October 2006, the Company adopted the new CICA Handbook Section 3855, *"Financial Instruments – Recognition and Measurement"*; Section 3865, *"Hedges"*; Section 1530, *"Comprehensive Income"* and Section 3861, *"Financial Instruments – Disclosure and Presentation"* (the "Financial Instrument Standards"). As required by the transitional provision of these new standards, these new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

The principal changes resulting from the adoption of the Financial Instrument Standards are as follows:

Financial Assets and Financial Liabilities

Under the new standards, financial assets and liabilities are initially recognized at fair value and are subsequently measured based on their classification as held-to-maturity, loans and receivables, available-for-sale or held-for-trading, as described below. The classification is not changed subsequent to initial recognition.

Held-to-Maturity and Loans and Receivables

Financial instruments that have a fixed maturity date, where the Company intends and has the ability to hold to maturity, are classified as held-to-maturity and measured at amortized cost using the effective interest rate method. Loans and receivables are measured at amortized cost using the effective interest method.

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 other comprehensive income. Available-for-sale securities are written down to fair value through earnings 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.

Held-for-Trading

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments are measured at fair value with the change in the fair value recognized in income.

Derivatives and Hedge Accounting

The Company does not hold or have any exposure to derivate instruments and accordingly is not impacted by CICA Handbook Section 3865, *"Hedges."*

Comprehensive Income

Comprehensive income is composed of the Company's earnings and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale securities, foreign currency translation gains and losses on the net investment in self-sustaining operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income which is presented (if applicable) as a new category in shareholders' equity.

Use of estimates

The preparation of financial statements in conformity with IFRS which require 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.

Comparative figures

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

Recent Accounting Pronouncements

a) Business Combinations, Non-controlling Interest and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1582 "*Business Combinations*", 1601 "*Consolidated Financial Statements*" and 1602 "*Non-controlling Interests*" which replace CICA Handbook Sections 1581 "*Business Combinations*" and 1600 "*Consolidated Financial Statements*". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after 1 October 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual financial statements for its fiscal year beginning 1 October 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

The Company does not anticipate the adoption of the above standards will have a significant impact on the Company's financial statements.

3. Amounts receivable

Amounts receivable are non-interest bearing, unsecured and have settlement dates within one year.

4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are non-interest bearing, unsecured and have settlement dates within one year.

5. Shareholder demand loan

A shareholder of the Company is owed $12,225 (December 31, 2010 $5,000, March 31, 2010, $Nil). The demand loan is unsecured and non-interest bearing and has no fixed terms of repayment.

6. 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. 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 and a deemed price per share of $0.10 . The Company also issued 2,200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The shares and warrants were issued as of the effective date of the Irrevocable Subscription Agreements and Escrow Agreement.

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 Agreements 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 50,000 Class A common shares based on 20% of the principal value of the subscription and a deemed price per share of $0.10. The Company also issued 200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 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 his funds from the trust account any time after three months of the closing date if the company's common shares are not listed for trading on the CNSX.
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 and a deemed purchase price of $0.10 per share.

vi) The Company will also issue 200,000 purchase warrants for each. 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 prorata 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.

7. Shareholders' long term loan

Shareholders of the Company are owed $89,260 (March 31, 2010, $Nil). The loans are unsecured and non-interest bearing and are payable at the earlier of January 1, 2013 and at such time when the Company has $500,000 in working capital.

8. 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 and fully paid Class A Common Shares

	Number of shares	Stated value
Balance, beginning	-	$ -
Issue of common shares for cash	6,501,000	56,000
Balance, December 31, 2005	6,501,000	56,000
Issue of common shares for cash	570,000	171,000
Issue of common shares for services	30,000	9,000
Share issue costs	-	(5,040)
Balance, December 31, 2006	7,101,000	230,960
Issue of common shares for cash	749,001	225,000
Issue of common shares for services	94,000	11,850
Share issue costs	-	(700)
Balance, December 31, 2007	7,944,001	467,110
Issue of common shares for cash	180,000	18,000
Issue of common shares for services	180,000	54,000
Balance, December 31, 2008	8,304,001	539,110
Issue of common shares for cash	1,772,000	308,000
Issue of common shares for services	140,300	33,710
Share issue costs	-	(16,864)
Balance, December 31, 2009	10,216,301	863,956
Issue of common shares for cash	398,000	92,500
Issue of common shares for services	6,000	3,000
Re-pricing of common shares	-	57,000
Stock split	5,310,150	-
Share issue costs	-	(18,820)
Balance, December 31, 2010	15,930,451	997,636
Re-pricing of common shares	-	41,600
Exercise common share warrants	300,000	30,000
Issue of common shares for cash	200,000	30,000
Issue of common shares under an Irrevocable Subscription Agreement	600,000	-
Share issue costs	-	(21,533)
Balance, March 31, 2011	17,030,451	$ 1,077,703

Issued and fully paid Class B Series I Preferred Shares

	Number of shares	Stated value
Balance, December 31, 2006	-	$ -
Issue of preferred shares for cash	1,000,000	300,000
Balance, December 31, 2009, 2008 and 2007	1,000,000	$ 300,000
Stock split	500,000	-
Balance, March 31, 2011 and December 31, 2010	1,500,000	$ 300,000

Issued and fully paid Class B Series II Preferred Shares

	Number of shares	Stated value
Balance, December 31, 2007	-	$ -
Issue of preferred shares for cash	110,000	110,000
Issue of preferred shares for services	25,500	25,500
Balance, December 31, 2009, 2008 and 2007	135,500	$ 135,500
Stock split	67,750	-
Balance, March 31, 2011 and December 31, 2010	203,250	$ 135,500

(b) Private Placements

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 repriced 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 repricing 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 repricing.

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. 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 and a deemed price per share of $0.10. The Company also issued 2,200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The shares and warrants were issued as of the effective date of the Irrevocable Subscription Agreements and Escrow Agreement, January 31, 2011.

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, and 300,000 common shares were issued, for gross proceeds of $30,000.

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 Agreements 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 50,000 Class A common shares based on 20% of the principal value of the subscription and a deemed price per share of $0.10. The Company also issued 200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The shares and warrants were issued as of the effective date of the Irrevocable Subscription Agreements and Escrow Agreement, January 31, 2011.

On February 28, 2011, the Company repriced 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 was received as a result of the repricing.

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.

Class B Series I Preferred Shares

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 arms 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.

In the event of a change in control of the Company 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 shall 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.

Class B Series II Preferred Shares

Each Series II Class B preferred share entitles the holder to a 12% annual cumulative dividend payable "in kind" with Class A common shares. The shares automatically convert 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 either of the following events:

(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.

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.

The Company may have an obligation to pay dividends under the right awarded to holders of the Class B Series II Preferred Shares. This obligation is disclosed in Note 10 (b).

Stock options

At March 31, 2011, the Company had 1,800,000 (December 31, 2010 - 1,875,000) stock options outstanding, of which 1,608,750 (2010 – 1,608,750) are exercisable, at a weighted average exercise price of $0.25 (2010 - $0.25) per common share and expiring at various dates from January 13, 2011 to August 14, 2015.

Details of the stock option transactions since inception are summarized as follows:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance, beginning	-	$ -
Granted	300,000	0.30
Balance, December 31, 2005	300,000	0.30
Granted	100,000	0.30
Balance, December 31, 2006	400,000	0.30
Granted	450,000	0.40
Balance, December 31, 2007	850,000	0.35
Granted	400,000	0.40
Balance, December 31, 2008	1,250,000	0.37
Granted	100,000	0.40
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, March 31, 2011	1,800,000	$ 0.25

During quarter ended March 31, 2011, under the fair value based method $Nil [2010- $Nil] in compensation expense was recorded in the statements of loss and deficit as no stock options were granted to directors and consultants.

Warrants

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

	Issued	Exercise Price	Expiry Date
December 31, 2007	375,000	$ 0.40	January 31, 2011
Issued in 2008	90,000	0.15	January 31, 2011
December 31, 2008	465,000	0.35	
Issued in 2009	450,000	0.15	January 31, 2011
Issued in 2009	18,800	0.15	March 1, 2012
Issued in 2009	27,680	0.40	November 25, 2011
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	(915,000)	0.25	
Issued in 2011	140,000	0.15	January 31, 2013
Exercised in 2011	(300,000)	0.10	
Issued in 2011	2,400,000	0.15	January 31, 2013
Issued in 2011	60,000	0.15	February 28, 2013
March 31, 2011	**2,394,267**	**$ 0.15**	

On January 31, 2011, the Company completed a private placement of 140,000 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.

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

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. 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 and a deemed price per share of $0.10 . The Company also issued 2,200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The shares and warrants were issued as of the effective date of the Irrevocable Subscription Agreements and Escrow Agreement.

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 Agreements 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 50,000 Class A common shares based on 20% of the principal value of the subscription and a deemed price per share of $0.10. The Company also issued 200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The shares and warrants were issued as of the effective date of the irrevocable Subscription Agreements and Escrow Agreement.

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.

9. Capital Disclosure

Capital is comprised of the Company's shareholders' equity and any debt that it may issue. As at March 31, 2011, the Company's shareholders' deficiency was $81,242 (December 31, 2010 - $86,129) and its Debt was $89,260 (March 31, 2011, $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.

10. Financial Instruments and Risk

Financial Instruments

As at 31 March 2011, the Company's financial instruments consist of cash and cash equivalents, amounts receivable and accounts payable. The fair values of these financial instruments approximate their carrying values because of their current nature.

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 have settlement dates within one year and are subject to normal trade terms. The Company does not have investments in any asset-backed deposits.

Foreign Exchange Risk

The Company does not have significant foreign exchange risk as its administrative operations are all located in Canada.

Interest Rate Risk

At 31 March 2011, the Company had cash and cash equivalents and did not have any interest-bearing investments or debt.

11. 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 secure $2,000,000 in capital or debt financing by December 31, 2009.

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.

As at December 31, 2010, the Company had not met any of the requirements of the agreement outlined above. Subsequent to the year end, the Company received a waiver from Dalhousie for the requirement (a) and (b) above, and requirement (c) was amended to also 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	$45,300
2012	$26,400

12. Transition to IFRS

As stated in Note 2, these are the Company's first condensed interim financial statements for the period covered by the first annual financial statements prepared in accordance with IFRS. An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position and comprehensive loss is set out in this note.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the period ended March 31, 2011, the comparative information presented in these financial statements for the period ended March 31,2010 and in the preparation of an opening IFRS Balance Sheet at 1 January 2010 (the Company's date of transition).

IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However, there are important differences with regard to recognition, measurement and disclosure. Adoption of IFRS did not change the Company's Balance Sheet, Statement of Comprehensive Loss, Statement of Cash Flow and Statement of Changes in Equity.

13. Subsequent Events

The following events occurred during the period from the three month period ended 31 March 2011 to the date the financial statements were available to be issued on 15 June 2011:

On 16 May 2011, investors placed and additional $75,000 of subscription funds in escrow. 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 May 16, 2011. 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 and a deemed price per share of $0.10. 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. The shares and warrants were issued as of the effective date of the irrevocable Subscription Agreements and Escrow Agreement. Other than the effective date and the termination date the terms of the Irrevocable Subscription Agreements are the same as those described in note 6.

During May 2011 funders who invested in the company under the Irrevocable Subscription Agreements with an effective date of January 31, 2011, have signed amendments to section 6.3 of the Irrevocable Subscription Agreements to extend the date at which they may terminate the Irrevocable Subscription Agreements to June 30, 2011 from April 30, 2011.

On May 31, 2011 officers of the Company amended the letters postponing payment of money owed them to increase the amount to be postponed to a total of $159,042.

PACIFIC THERAPEUTICS LTD.

(a development stage company)

FINANCIAL STATEMENTS (RESTATED)

DECEMBER 31, 2010

PACIFIC THERAPEUTICS LTD.

(a development stage company)

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DECEMBER 31, 2010

UHY LDMB Advisors Inc.
Chartered Accountants

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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 balance sheets as at December 31, 2010 and 2009, and the statements of loss and deficit 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 Canadian Generally Accepted Accounting Principles 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, 2010 and 2009, and the results of its operations and cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

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 $291,553 during the year ended December 31, 2010 and, as of that date, the Company's current liabilities exceeded its total current assets by $76,578. These conditions, 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.

Other matters
Our previous Auditor's Report dated February 21, 2011 has been withdrawn and the financial statements have been revised. The statements of loss and deficit have been reclassified and Notes 9 and 11 to the financial statements have been modified based on new information obtained subsequent to the issuance of our audit report dated February 21, 2011.

UHY LDMB Advisors Inc.

Chartered Accountants
Surrey, British Columbia
May 30, 2011

PACIFIC THERAPEUTICS LTD.
(a development stage company)
BALANCE SHEETS

AS AT DECEMBER 31,		2010	2009
ASSETS			
CURRENT			
Cash		$ 30,457	$ 85,587
Harmonized sales tax recoverable		5,319	4,282
Prepaid expenses		4,434	21,143
		40,210	111,012
PROPERTY AND EQUIPMENT	(Note 5)	8,168	10,612
INTANGIBLE ASSETS	(Note 6)	71,540	43,934
		$ 119,918	$ 165,558
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		$ 106,788	$ 93,815
Unearned revenue		2,600	-
Security deposit		2,400	-
Due to shareholders	(Note 9)	5,000	-
		116,788	93,815
DUE TO SHAREHOLDERS	(Note 9)	89,260	-
		206,048	93,815
SHAREHOLDERS' EQUITY	(Notes 8, 11)		
Share capital		1,433,136	1,299,456
Contributed surplus		18,482	18,482
Deficit accumulated during the development stage		(1,537,748)	(1,246,195)
		(86,130)	71,743
		$ 119,918	$ 165,558

OPERATIONS (Note 1)
COMMITMENTS (Note 10)
SUBSEQUENT EVENTS (Note 11)

APPROVED BY THE DIRECTORS:

___"Douglas Unwin"_____ Director

____"Douglas Wallis"_____ Director

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

PACIFIC THERAPEUTICS LTD.
(a development stage company)
STATEMENTS OF LOSS AND DEFICIT (RESTATED)

FOR THE YEAR ENDED DECEMBER 31,	2010	2009	Period From September 12, 2005 (Inception) To December 31, 2010
	(Reclassified)		
REVENUE	$ -	$ -	$ -
EXPENSES			
Advertising and promotion	1,979	1,742	19,381
Amortization	5,553	5,078	19,960
Bank charges	527	1,246	3,927
Computer	4,382	(50)	10,385
Insurance	14,701	4,283	26,798
Office and miscellaneous	2,935	2,667	15,987
Professional fees	67,443	68,360	226,746
Rent and occupancy costs	14,556	45,715	114,673
Research and development	15,469	(63,903)	256,560
Stock-based compensation	-	-	78,018
Telephone and utilities	2,699	2,747	19,596
Travel	1,600	855	58,014
Wages and benefits	159,709	159,221	676,493
	291,553	227,961	1,526,538
OTHER (INCOME) EXPENSE			
Interest income	-	(179)	(7,172)
Loss on abandonment of option	-	-	18,382
NET LOSS	(291,553)	(227,782)	(1,537,748)
DEFICIT, beginning	(1,246,195)	(1,018,413)	-
DEFICIT, ending	$(1,537,748)	$(1,246,195)	$(1,537,748)

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

PACIFIC THERAPEUTICS LTD.
(a development stage company)
STATEMENTS OF CASH FLOWS (RESTATED)

FOR THE YEAR ENDED DECEMBER 31,	2010	2009	Period From September 12, 2005 (Inception) To December 31, 2010
CASH FLOWS (USED IN) PROVIDED BY:			
OPERATING ACTIVITIES			
Net loss	$ (291,553)	$ (227,782)	$(1,537,748)
Adjustments for items not affecting cash:			
Amortization	5,553	5,078	19,960
Loss on abandonment of option	-	-	18,382
Stock-based compensation	3,000	32,800	134,668
Changes in non-cash working capital balances:			
Goods and services tax recoverable	(1,037)	(1,288)	(5,319)
Prepaid expenses	16,709	(17,346)	(4,434)
Accounts payable and accrued liabilities	12,971	14,720	124,789
Security deposit	2,400	-	2,400
Unearned revenue	2,600	-	2,600
	(249,357)	(193,818)	(1,244,702)
FINANCING ACTIVITIES			
Advances by shareholders	94,260	-	94,260
Issuance of common shares for cash	130,680	294,010	888,950
Issuance of preferred shares for cash	-	-	410,000
	224,940	294,010	1,393,210
INVESTING ACTIVITIES			
Additions to property and equipment	-	-	(22,300)
Amount paid to acquire medical technology license	(9,500)	(10,000)	(32,924)
Additions to intangible assets	(21,213)	(10,011)	(62,827)
	(30,713)	(20,011)	(118,051)
INCREASE (DECREASE) IN CASH	(55,130)	80,181	30,457
CASH, beginning	85,587	5,406	-
CASH, ending	$ 30,457	$ 85,587	$ 30,457
NON-CASH FINANCING ACTIVITIES			
Shares issued for share issuance costs	$ -	$ 2,874	$ 2,874
Shares issued for services	3,000	32,800	118,150
Payables settled with shares	-	-	18,000
Stock-based compensation	-	-	16,518

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

PACIFIC THERAPEUTICS LTD.
(a development stage company)
NOTES TO THE FINANCIAL STATEMENTS (RESTATED)

DECEMBER 31, 2010

1. NATURE 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 Specialty Pharmaceutical Company focused on developing proprietary drugs to treat certain types of lung disease. PTL will retain the marketing rights to its compounds and build its own sales and marketing expertise to access Fibrosis and Lung Transplant markets.

PTL has financed its cash requirements primarily from share issuances and government grants. 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 may 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. As at December 31, 2010, the Company has never generated any significant revenue and incurred a loss from operations of $291,553. In addition, the Company has a working capital deficit of $76,578 and does not have sufficient cash on-hand to fund operations in the coming year. PTL has funded its operations to date primarily from government grants and capital contributions from private investors. The Company will not be generating any product-based revenues or realizing cash flows from operations in the near term, and will require additional financing to continue performing research and development activities. The Company is involved in active discussions with several potential investors and anticipates securing additional investors during 2011. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars.

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

(a) Cash and cash equivalents

The Company's cash and cash equivalents consist of cash on hand and highly liquid investments with an original maturity of 90 days or less, which are carried at the lower of amortized cost or fair market value.

(b) Property and equipment

Property and equipment are recorded at cost. Amortization is provided 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Leases

Leases have been classified as either capital or operating leases. Leases which transfer substantially all the benefits and risks incidental to the ownership of assets are accounted for as if there was an acquisition of an asset and incurrence of a corresponding obligation at the inception of the lease. All other leases are accounted for as operating leases in which payments are expensed as incurred.

(d) Future income taxes

Future income taxes represent the estimated taxes payable on the difference between the values of assets and liabilities recorded for accounting purposes and the values that would be used for the calculation of income taxes.

Future income tax assets and future income tax liabilities are computed annually for differences between the financial statement values and tax values, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Future income tax assets are evaluated periodically and if realization is not considered more likely than not, a valuation allowance is provided.

(e) Revenue recognition

Revenues from licensing agreements are recognized when key deliverables are completed, and collection is assured.

(f) Government grants

Government grants are recorded as a reduction of the related expenditure when there is reasonable assurance that the Company has complied with all conditions necessary to receive the grants, collectability is reasonably assured, and the amounts are non-refundable.

(g) 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 generally accepted accounting criteria for deferral and amortization. No such costs have been deferred as at December 31, 2010 and 2009. 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.

(h) 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, calculated based on undiscounted future cash flows, is less than the carrying value, the asset is written down to its fair value. The ultimate amount recoverable will be dependent upon the successful development and commercialization of products based on these rights.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Stock-based compensation

The Company grants stock options to executive officers, and directors pursuant to its stock option plan. The Company uses the fair value method of accounting for all stock-based awards granted, modified or settled during the period. Compensation expense is recorded based on the fair value of the award at the grant date, amortized over the vesting period.

(j) Measurement uncertainty

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Significant areas requiring the use of estimates relate to the assessment of net recoverable value and amortization period of technology licenses and patents, estimation of future income tax liabilities and assets and stock-based compensation. The reported amounts and note disclosure are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of action. Actual results could differ from those estimates.

(k) Long-Lived Assets and impairment

The carrying values of long-lived assets with fixed or determinable lives are reviewed for impairment whenever events of changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value determinations are based on management's estimates of undiscounted future net cash flows to be recovered from specific assets or groups of assets through use or future disposition. Impairment charges are recorded in the period in which determination of impairment is made by management. Assets with indefinite or indeterminable lives are not amortized and are reviewed for impairment on a reporting period basis using fair value determinations based on management's estimate of recoverable value.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS") effective January 1, 2011. In September 2009, the Accounting Standards Board ("AcSB") approved the issuance of a set of accounting standards for private enterprises in Canada. The new standards were issued in December 2009 and have been available for 2009 reporting for entities that choose to adopt them early. The private enterprise standards give Canadian businesses the ability to choose to adopt new “made in Canada” standards or International Financial Reporting Standards ("IFRS"). Private enterprises must decide which of the sets of standards to adopt for years beginning on or after January 1, 2011. The Company is currently evaluating the impact of the adoption of the new standards on its financial statements and is in the process of selecting the set of standards that will be the most suitable for the Company.

4. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of: cash and cash equivalents; accounts receivable; accounts payable; unearned revenues; and security deposits, for which carrying amounts approximate fair value due to their short-term nature. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net 2010
Computer equipment	$ 5,876	$ 5,169	$ 707
Furniture and fixtures	8,093	4,364	3,729
Leasehold improvements	8,330	4,598	3,732
	$ 22,299	$ 14,131	$ 8,168

	Cost	Accumulated Amortization	Net 2009
Computer equipment	$ 5,876	$ 4,591	$ 1,285
Furniture and fixtures	8,093	3,431	4,662
Leasehold improvements	8,330	3,665	4,665
	$ 22,299	$ 11,687	$ 10,612

6. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	Net book value 2010	2009
Technology License (i)	$ 30,738	$ -	$ 30,738	$ 21,238
Patents (ii)	46,632	5,830	40,802	22,696
Total	$ 77,370	$ 5,830	$ 71,540	$ 43,934

(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 $30,738 (2009: $21,238) 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 11(a).

(ii) The Company is currently pursuing a patent application for the compositions and methods of treating fibroproliferative disorders. Costs of this application incurred to date are $46,632 (2009: $25,418). The application is still pending as at December 31, 2010, 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) The Company reviews its intangible asset values periodically to evaluate the likelihood of impairment. In 2010, the Company concluded that no impairment in its intangible values existed and consequently no impairment loss was recognized in the year.

7. INCOME TAXES

The Company accounts for income taxes using the liability method of tax allocation. Future income 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 assets and liabilities:

	2010	2009
Future tax assets (liabilities):		
Operating loss carry-forwards	$ 190,053	$ 148,891
Property and equipment	7,677	(415)
Intangible assets	(7,351)	2,480
	190,379	150,956
Valuation allowance	(190,379)	(150,956)
Net future tax asset	$ -	$ -

(b) Loss carry-forwards

The Company has accumulated non-capital losses of approximately $1,412,000 which will expire as follows:

2015	$ 23,000
2026	130,000
2027	451,000
2028	245,000
2029	254,000
2030	309,000
	$ 1,412,000

The Company has capital cost allowance of $65,033 [2009 - $51,470] available to be deducted against future taxable income.

8. SHAREHOLDERS' EQUITY

(a) 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

8. SHAREHOLDERS' EQUITY, (cont'd)

Issued and fully paid Class A Common Shares

	Number of shares	Stated value
Balance, beginning	-	$ -
Issue of common shares for cash	6,501,000	56,000
Balance, December 31, 2005	6,501,000	56,000
Issue of common shares for cash	570,000	171,000
Issue of common shares for services	30,000	9,000
Share issue costs	-	(5,040)
Balance, December 31, 2006	7,101,000	230,960
Issue of common shares for cash	749,001	225,000
Issue of common shares for services	94,000	11,850
Share issue costs	-	(700)
Balance, December 31, 2007	7,944,001	467,110
Issue of common shares for cash	180,000	18,000
Issue of common shares for services	180,000	54,000
Balance, December 31, 2008	8,304,001	539,110
Issue of common shares for cash	1,772,000	308,000
Issue of common shares for services	140,300	33,710
Share issue costs	-	(16,864)
Balance, December 31, 2009	10,216,301	863,956
Issue of common shares for cash	398,000	92,500
Issue of common shares for services	6,000	3,000
Repricing of common shares	-	57,000
Stock split	5,310,150	-
Share issue costs	-	(18,820)
Balance, December 31, 2010	15,930,451	$ 997,636

Issued and fully paid Class B Series I Preferred Shares

	Number of shares	Stated value
Balance, December 31, 2006	-	$ -
Issue of preferred shares for cash	1,000,000	300,000
Balance, December 31, 2009, 2008 and 2007	1,000,000	300,000
Stock split	500,000	-
Balance, December 31, 2010	1,500,000	$ 300,000

8. SHAREHOLDERS' EQUITY, (cont'd)

Issued and fully paid Class B Series II Preferred Shares

	Number of shares	Stated value
Balance, December 31, 2007	-	$ -
Issue of preferred shares for cash	110,000	110,000
Issue of preferred shares for services	25,500	25,500
Balance, December 31, 2009, and 2008	135,500	135,500
Stock split	67,750	-
Balance, December 31, 2010	203,250	$ 135,500

(b) Private Placements

Class A Common Shares

On February 22, 2010, the Company completed a private placement of 50,000 shares at $0.40 per share, for gross proceeds of $20,000.

On February 22, 2010, the Company issued 90,000 shares at $0.15 per share, for gross proceeds of $13,500 on the exercise of common shares purchase warrants.

On March 16, 2010, the Company issued 200,000 shares at $0.15 per share, for gross proceeds of $30,000 on the exercise of common shares purchase warrants.

On August 20, 2010, the Company completed a private placement of 58,000 shares at $0.50 per share, for gross proceeds of $29,000.

On August 20, 2010, the Company issued 6,000 Class A common shares in lieu of consulting and research and development fees. The transaction was recorded at the fair market value of the services provided which were invoiced at $3,000. The fair market value of the services was used to record the transaction as this was considered to be the more reliable value.

On December 15, 2010, the Company repriced 3,000,000 Class A common shares originally issued for proceeds of $0.001 per share to $0.02 per share. Total proceeds of $57,000 was received as a result of the repricing.

On December 30, 2010, the Company performed a stock split, issuing 1.5 Class A common shares for each common share outstanding. A total of 5,310,150 additional common shares were issued.

Class B Series I Preferred Shares

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 arms 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.

8. SHAREHOLDERS' EQUITY, (cont'd)

Class B Series I Preferred Shares (cont'd)

(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.

In the event of a change in control of the Company 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 shall 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.

On December 30, 2010, the Company performed a stock split, issuing 1.5 Class B Series I preferred share for each Class B Series I preferred share outstanding. A total of 500,000 additional Class B Series II preferred shares were issued.

Class B Series II Preferred Shares

Each Series II Class B preferred share entitles the holder to a 12% annual cumulative dividend payable "in kind" with Class A common shares. The shares automatically convert 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 either of the following events:

(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.

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 30, 2010, the Company performed a stock split, issuing 1.5 Class B Series II preferred share for each Class B Series II preferred share outstanding. A total of 67,750 additional Class B Series I preferred shares were issued.

The Company may have an obligation to pay dividends under the right awarded to holders of the Class B Series II Preferred Shares. This obligation is disclosed in Note 10 (b).

(c) Contributed Surplus

	2010	2009
		(Reclassified)
Balance, beginning	$ 18,482	$ 16,518
Stock-based compensation	-	1,964
Balance, ending	$ 18,482	$ 18,482

8. SHAREHOLDERS' EQUITY, (cont'd)

(d) Stock Options

At December 31, 2010, the Company had 1,875,000 [2009 - 2,025,000] stock options outstanding, of which 1,645,000 [2009 - 1,608,750] are exercisable, at a weighted average exercise price of $0.25 [2009 - $0.25] per common share and expiring at various dates from January 13, 2011 to August 14, 2015.

Details of the stock option transactions for the year ended December 31, 2010 are summarized as follows:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance, beginning	-	$ -
Granted	300,000	0.30
Balance, December 31, 2005	300,000	0.30
Granted	100,000	0.30
Balance, December 31, 2006	400,000	0.30
Granted	450,000	0.40
Balance, December 31, 2007	850,000	0.35
Granted	400,000	0.40
Balance, December 31, 2008	1,250,000	0.37
Granted	100,000	0.40
Balance, December 31, 2009	1,350,000	0.37
Expired	(100,000)	0.30
Stock option split	625,000	0.12
Balance, December 31, 2010	1,875,000	0.25

During the year, under the fair value based method $Nil [2009 - $Nil] in compensation expense was recorded in the statements of loss and deficit for stock options granted to directors and consultants.

The fair value of share options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model with the following assumptions:

Risk free interest rates between	1.30% and 3.5%
Stock price volatility	0.10%
Expected life of options	3 - 6 years

On December 30, 2010, the Company's stock options were split by issuing 1.5 stock options for each stock option outstanding The exercise price of these options was reduced by the same ratio. A total of 625,000 additional stock options were issued.

8. SHAREHOLDERS' EQUITY, (cont'd)

(e) Warrants

As at December 31, 2010, the following share purchase warrants were outstanding:

	Issued	Exercise Price	Expiry Date
December 31, 2007	375,000	$ 0.40	January 31, 2011
Issued in 2008	90,000	0.15	January 31, 2011
December 31, 2008	465,000	0.35	
Issued in 2009	450,000	0.15	January 31, 2011
Issued in 2009	18,800	0.15	March 1, 2012
Issued in 2009	27,680	0.40	November 25, 2011
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**	**$ 0.20**	

On February 22, 2010, 90,000 common share purchase warrants were exercised for 90,000 Class A common share at $0.15 per share, for gross proceeds of $13,500.

On March 16, 200,000 common share purchase warrants were exercised for 200,000 Class A common share at $0.15 per share, for gross proceeds of $30,000.

On August 20, 2010, the Company issued 1,365 share warrants to purchase Class A common shares at $0.50 in lieu of finder's fees for private placements. The fair value of share warrants was determined to be a nominal amount of $10. The fair value of the warrants was calculated using the Black-Scholes pricing model with the following assumptions:

Risk free interest rate	1.30%
Stock price volatility	0.10%
Expected life of warrants	1 year

On December 30, 2010, the Company's common share purchase warrants were split by issuing 1.5 common share purchase warrant for each common share purchase warrant outstanding. The exercise price of the warrants was reduced by the same ratio. A total of 336,422 additional common shares purchase warrants were issued.

9. RELATED PARTY TRANSACTIONS

	2010	2009
Research and development and professional fees paid to officers and directors of the Company and/or companies controlled by them	$ -	$ 15,888
Initial fee under a letter of intent for a licensing agreement received from a company controlled by a shareholder of the Company	$ 10,000	$ -
Sublease revenues from a company controlled by a shareholder of the Company	$ 31,200	$ -
Accounting fees paid to a shareholder of the Company	$ 36,000	$ 36,000
Website design fees paid to an individual related to a shareholder of the Company	$ 4,382	$ -
Finder's fees relating to equity investments in the Company paid to officers and directors of the Company	$ -	$ 2,275
Finder's fees relating to equity investments in the Company paid to individuals closely related to a director of the Company	$ -	$ 7,350
Amounts owing to a shareholder of the Company are unsecured and non-interest bearing, $16,380 is payable at the earlier of January 1, 2012 and at such time when the Company has $100,000 in working capital, and the remainder has no terms of repayment	$ 26,460	$ -
Amounts owing to a director of the Company are unsecured and non-interest bearing, $72,880 is payable at the earlier of January 1, 2012 and at such time when the Company has $100,000 in working capital, and the remainder has no terms of repayment	$ 112,943	$ 34,045

These amounts are recorded at the exchange amount based on the amounts paid and/or received by the parties.

10. COMMITMENTS

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.

10. COMMITMENTS (cont'd)

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

As at December 31, 2010, the Company had not met any of the requirements of the agreement outlined above. Subsequent to the year end, the Company received a waiver from Dalhousie for the requirement (a) and (b) above, and requirement (c) was amended to also include a requirement that a first human subject being dosed by December 31, 2012 and initiation of a Phase II study by December 12, 2015.

b) 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.

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

2011	$	45,300
2012	$	26,400

11. SUBSEQUENT EVENTS

a) Licensing agreement

Subsequent to year-end, the Company re-negotiated their license agreement with Dalhousie University ("Dalhousie"). The terms of the original agreement and re-negotiation are disclosed in Note 10.

b) Equity transactions

On January 15, 2011, 4,500,000 Class A common shares were repriced from the original subscription price of $0.01333 per share to $0.02 per share for total proceeds of $30,000.

On January 15, 2011 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 repricing.

On January 31, 2011, the Company completed a private placement of 140,000 units at $0.15 per unit for total 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, and 300,000 common shares were issued, for total proceeds of $30,000.

On February 28, 2011, 300,000 Class A common shares were re-priced from the original subscription price of $0.00067 per share to $0.02 per share for total proceeds of $5,800.

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.

11. SUBSEQUENT EVENTS (cont'd)

c) Irrevocable investment subscription agreement

On January 26, 2011, the Company received $275,000 in subscription funds 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. 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 and a deemed price per share of $0.10. The Company also issued 2,200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The shares and warrants were issued as of the effective date of the Irrevocable Subscription Agreements and Escrow Agreement, January 31, 2011.

On February 2, 2011, the Company received a further $25,000 in subscription funds 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. 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 and a deemed price per share of $0.10. The Company also issued 200,000 common share purchase warrants with an exercise price of $0.15 per warrant and a term of 2 years. The shares and warrants were issued as of the effective date of the irrevocable Subscription Agreements and Escrow Agreement, January 31, 2011.

The terms of the Irrevocable Subscription Agreement 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 his funds from the trust account any time after three months of the closing date if the company's common shares are not listed for trading on the CNSX.

iii) The funds are also retractable and the Company may terminate the investors'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 and a deemed purchase price of $0.10 per share.

vi) The Company will also issue 200,000 purchase warrants for each $25,000 placed in to the escrow account. 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 prorata 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.

d) On 16 May 2011, Investors placed and additional $75,000 in subscription funds in trust. These funds are governed by the terms of the irrevocable subscription agreements and escrow agreements as described in Note 6. In connection with these agreements the company issued 150,000 common shares and 600,000 warrants to purchase common shares under the terms described in Note 6. The date at which these subscribers may terminate the agreements is June 30, 2011.

11. SUBSEQUENT EVENTS (cont'd)

e) During May 2011 funders who invested in the company under the Irrevocable Subscription Agreements with an effective date of January 31, 2011, have signed amendments to section 6.3 of the Irrevocable Subscription Agreements to extend the date at which they may terminate the Irrevocable Subscription Agreements to June 30, 2011 from April 30, 2011.

12. COMPARATIVE FIGURES

Certain of the 2009 amounts have been reclassified to conform with the current year's presentation.

PACIFIC THERAPEUTICS LTD.

(a development stage company)

FINANCIAL STATEMENTS

DECEMBER 31, 2009

PACIFIC THERAPEUTICS LTD.

(a development stage company)

CONTENTS

DECEMBER 31, 2009

UHY LDMB Advisors Inc.
Chartered Accountants

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South Surrey, BC
Canada V4A 4N2

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AUDITORS' REPORT

To the Shareholders of:
Pacific Therapeutics Ltd.

We have audited the balance sheets of Pacific Therapeutics Ltd. as at December 31, 2009 and 2008 and the statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

UHY LDMB Advisors Inc.

Chartered Accountants
Surrey, British Columbia
January 29, 2010

PACIFIC THERAPEUTICS LTD.
(a development stage company)
BALANCE SHEETS

AS AT DECEMBER 31,		2009	2008
			(Restated)
ASSETS			
CURRENT			
Cash		$ 85,587	$ 5,406
Goods and services tax recoverable		4,282	2,994
Prepaid expenses		21,143	3,797
		111,012	12,197
PROPERTY AND EQUIPMENT	(Note 6)	10,612	13,996
INTANGIBLE ASSETS	(Note 8)	43,934	25,618
		$ 165,558	$ 51,811
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		$ 93,815	$ 79,096
SHAREHOLDERS' EQUITY	(Notes 10, 13)		
Share capital		1,299,456	974,610
Contributed surplus		18,482	16,518
Deficit accumulated during the development stage		(1,246,195)	(1,018,413)
		71,743	(27,285)
		$ 165,558	$ 51,811

OPERATIONS (Note 1)
COMMITMENTS (Note 11)
SUBSEQUENT EVENTS (Note 14)

APPROVED BY THE DIRECTORS:

_____ Director

_____ Director

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

PACIFIC THERAPEUTICS LTD.
(a development stage company)
STATEMENTS OF LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31,	2009	2008 (Restated)	Period From September 12, 2005 (Inception) To December 31, 2009
REVENUE	$ -	$ -	$ -
EXPENSES (Note 13)			
Advertising and promotion	1,742	5,217	17,401
Amortization	5,078	5,582	14,407
Bank charges	1,246	1,133	3,400
Computer	(50)	750	6,003
Insurance	4,283	3,987	12,097
Office and miscellaneous	2,667	3,767	13,051
Professional fees	68,360	44,964	159,302
Rent and occupancy costs	45,715	32,352	100,117
Research and development	(63,903)	52,362	241,091
Stock-based compensation	-	63,309	78,018
Telephone and utilities	2,747	4,374	16,897
Travel	855	17,095	56,417
Wages and benefits	159,221	120,179	516,784
	227,961	355,071	1,234,985
OTHER (INCOME) EXPENSE			
Interest income	(179)	(2,107)	(7,172)
Loss on abandonment of option (Note 7 and 8)	-	18,382	18,382
NET LOSS	(227,782)	(371,346)	(1,246,195)
DEFICIT, beginning			
As previously reported	(1,018,413)	(665,316)	-
Restatement (Note 13)	-	18,249	-
As restated	(1,018,413)	(647,067)	-
DEFICIT, ending	$(1,246,195)	$(1,018,413)	$(1,246,195)

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

PACIFIC THERAPEUTICS LTD.
(a development stage company)
STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31,	2009	2008	Period From September 12, 2005 (Inception) To December 31, 2009
		(Restated)	
CASH FLOWS (USED IN) PROVIDED BY:			
OPERATING ACTIVITIES			
Net loss	$ (227,782)	$ (371,346)	$(1,246,195)
Adjustments for items not affecting cash:			
Amortization	5,078	5,582	14,407
Loss on abandonment of option	-	18,382	18,382
Stock-based compensation	32,800	63,309	131,668
Changes in non-cash working capital balances:			
Goods and services tax recoverable	(1,288)	28,254	(4,282)
Prepaid expenses	(17,346)	-	(21,143)
Accounts payable and accrued liabilities	14,720	(964)	111,816
	(193,818)	(256,783)	(995,347)
FINANCING ACTIVITIES			
Issuance of common shares for cash	294,010	18,000	758,270
Issuance of preferred shares for cash	-	110,000	410,000
	294,010	128,000	1,168,270
INVESTING ACTIVITIES			
Additions to property and equipment	-	(1,174)	(22,298)
Deposit paid to acquire medical technology license	(10,000)	-	(23,424)
Additions to intangible assets	(10,011)	(18,195)	(41,614)
	(20,011)	(19,369)	(87,336)
INCREASE (DECREASE) IN CASH	80,181	(148,152)	85,587
CASH, beginning	5,406	153,558	-
CASH, ending	$ 85,587	$ 5,406	$ 85,587
NON-CASH FINANCING ACTIVITIES			
Shares issued for share issuance costs	$ 2,874	$ -	$ 2,874
Shares issued for services	32,800	61,500	115,150
Payables settled with shares	-	18,000	18,000
Stock-based compensation	-	1,809	16,518
Total	$ 35,674	$ 81,309	$ 149,668

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

1. NATURE 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 Specialty Pharmaceutical Company focused on developing proprietary drugs to treat certain types of lung disease. PTL will retain the marketing rights to its compounds and build its own sales and marketing expertise to access Fibrosis and Lung Transplant markets.

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 may 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. In addition, the Company does not have sufficient cash on-hand to fund operations in the coming year. PTL has funded its operations to date primarily from government and corporate grants and capital contributions from private investors. The Company will not be generating any product-based revenues or realizing cash flows from operations in the near term, and will require additional financing to continue performing research and development activities. The Company is involved in active discussions with several potential investors and anticipates securing additional investors during 2010. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars.

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

(a) Cash and cash equivalents

The Company's cash and cash equivalents consist of cash on hand and highly liquid investments with an original maturity of 90 days or less, which are carried at the lower of amortized cost or fair market value.

(b) Property and equipment

Property and equipment are recorded at cost. Amortization is provided 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Future income taxes

Future income taxes represent the estimated taxes payable on the difference between the values of assets and liabilities recorded for accounting purposes and the values that would be used for the calculation of income taxes.

Future income tax assets and future income tax liabilities are computed annually for differences between the financial statement values and tax values, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Future income tax assets are evaluated periodically and if realization is not considered more likely than not, a valuation allowance is provided.

(d) Government grants

Government grants are recorded as a reduction of the related expenditure when there is reasonable assurance that the Company has complied with all conditions necessary to receive the grants, collectibility is reasonably assured, and the amounts are non-refundable.

(e) 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 generally accepted accounting criteria for deferral and amortization. No such costs have been deferred as at December 31, 2009 and 2008. 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 year, SR&ED amounts related to 2008 of $75,505 were received and offset against research and development costs.

(f) 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, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Stock-based compensation

The Company grants stock options to executive officers, and directors pursuant to its stock option plan. The Company uses the fair value method of accounting for all stock-based awards granted, modified or settled during the period. Compensation expense is recorded based on the fair value of the award at the grant date, amortized over the vesting period.

(h) Measurement uncertainty

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Significant areas requiring the use of estimates relate to the assessment of net recoverable value and amortization period of technology licenses and patents, estimation of future income tax liabilities and assets and stock-based compensation. The reported amounts and note disclosure are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of action. Actual results could differ from those estimates.

(i) Long-Lived Assets and impairment

The carrying values of long-lived assets with fixed or determinable lives are reviewed for impairment whenever events of changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value determinations are based on management's estimates of undiscounted future net cash flows to be recovered from specific assets or groups of assets through use or future disposition. Impairment charges are recorded in the period in which determination of impairment is made by management. Assets with indefinite or indeterminable lives are not amortized and are reviewed for impairment on a reporting period basis using fair value determinations based on management's estimate of recoverable value.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009 the Company adopted the new recommendations from the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, "Goodwill and Intangible Assets". Section 3064 "Goodwill and Intangible Assets", establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The adoption of this new standard did not result in any changes to the accounts.

4. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS") effective January 1, 2011. In September 2009, the Accounting Standards Board ("AcSB") approved the issuance of a set of accounting standards for private enterprises in Canada. The new standards were issued in December 2009 and are available for 2009 reporting for entities that choose to adopt them early. The private enterprise standards give Canadian businesses the ability to choose to adopt new “made in Canada” standards or International Financial Reporting Standards ("IFRS"). Private enterprises must decide which of the sets of standards to adopt for years beginning on or after January 1, 2011. The Company is currently evaluating the impact of the adoption of the new standards on its financial statements and is in the process of selecting the set of standards that will be the most suitable for the Company.

5. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of: cash and cash equivalents; accounts receivable; and accounts payable, for which carrying amounts approximate fair value due to their short-term nature. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net 2009
Computer equipment	$ 5,876	$ 4,590	$ 1,286
Furniture and fixtures	8,093	3,432	4,661
Leasehold improvements	8,330	3,665	4,665
	$ 22,299	$ 11,687	$ 10,612

	Cost	Accumulated Amortization	Net 2008
Computer equipment	$ 5,876	$ 3,538	$ 2,338
Furniture and fixtures	8,093	2,266	5,827
Leasehold improvements	8,330	2,499	5,831
	$ 22,299	$ 8,303	$ 13,996

7. DEPOSIT ON ASSIGNMENT OF TECHNOLOGY LICENSE

On June 14, 2006, the Company entered into an Option Agreement ("the Agreement") with the University of British Columbia ("UBC") to acquire the Medical Technology License for technology related to the inhibition of TGF-beta. The Option Agreement provided for the Company to obtain an assignment of the technology. The Company paid fees of $14,974 for the option, which were to be credited towards the assignment fee for the technology. As of March 5, 2008, the Company decided not to proceed with the option and the deposit was expensed accordingly.

8. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	Net book value 2009	2008
Technology License (i)	$ 21,238	$ -	$ 21,238	$ 11,238
Patents	25,418	2,722	22,696	14,380
Total	$ 46,656	$ 2,722	$ 43,934	$ 25,618

(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 $21,238 (2008: $11,238) to secure this license which is to be credited towards future royalties.

8. INTANGIBLE ASSETS (cont'd)

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 11(a).

(ii) The Company reviews its patent values periodically to evaluate the likelihood of impairment. In 2009, the Company concluded that no impairment in its patent values existed and consequently no impairment loss was recognized in the year (2008: $3,408).

(iii) The Company is currently pursuing a patent application for the compositions and methods of treating fibroproliferative disorders. Costs of this application incurred to date are $25,418 (2008: $15,407). The application is still pending as at December 31, 2009, 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.

9. INCOME TAXES

The Company accounts for income taxes using the liability method of tax allocation. Future income 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 assets and liabilities:

	2009	2008
Future tax assets:		
Operating loss carry-forwards	$ 148,891	$ 131,024
Property and equipment	(415)	(39)
Intangible assets	2,480	(523)
Tax effect of change in tax rates on future tax assets and liabilities	-	(13,470)
	150,956	116,992
Valuation allowance	(150,956)	(116,992)
Net future tax asset	$ -	$ -

(b) Loss carry-forwards

The Company has accumulated non-capital losses of approximately $1,103,000 which will expire as follows:

2015	$ 23,000
2026	130,000
2027	451,000
2028	245,000
2029	254,000
	$ 1,103,000

The Company has capital cost allowance of $51,470 [2008 - $31,459] available to be deducted against future taxable income.

10. SHAREHOLDERS' EQUITY

(a) 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 and fully paid Class A Common Shares

	Number of shares	Stated value
Balance, beginning	-	$ -
Issue of common shares for cash	6,501,000	56,000
Balance, December 31, 2005	6,501,000	56,000
Issue of common shares for cash	570,000	171,000
Issue of common shares for services	30,000	9,000
Share issue costs	-	(5,040)
Balance, December 31, 2006	7,101,000	230,960
Issue of common shares for cash	749,001	225,000
Issue of common shares for services	94,000	11,850
Share issue costs	-	(700)
Balance, December 31, 2007	7,944,001	467,110
Issue of common shares for cash	180,000	18,000
Issue of common shares for services	180,000	54,000
Balance, December 31, 2008	8,304,001	539,110
Issue of common shares for cash	1,772,000	308,000
Issue of common shares for services	140,300	33,710
Share issue costs	-	(16,864)
Balance, December 31, 2009	10,216,301	$ 863,956

Issued and fully paid Class B Series I Preferred Shares

	Number of shares	Stated value
Balance, December 31, 2006	-	$ -
Issue of preferred shares for cash	1,000,000	300,000
Balance, December 31, 2009, 2008 and 2007	1,000,000	$ 300,000

Issued and fully paid Class B Series II Preferred Shares

	Number of shares	Stated value
Balance, December 31, 2007	-	$ -
Issue of preferred shares for cash	110,000	110,000
Issue of preferred shares for services	25,500	25,500
Balance, December 31, 2009 and 2008	135,500	$ 135,500

10. SHAREHOLDERS' EQUITY, (cont'd)

(b) Private Placements

Class A Common Shares

On February 13, 2009, the Company completed a private placement of 80,000 units at $0.10 per unit, for gross proceeds of $8,000. Each unit consisted of one Class A common share and one-half common share purchase warrant. Each full warrant entitles the holder to purchase one additional Class A common share for $0.15 expiring on January 31, 2011.

On March 9, 2009, the Company completed a private placement of 820,000 units at $0.10 per unit, for gross proceeds of $82,000. Each unit consisted of one Class A common share and one-half common share purchase warrant. Each full warrant entitles the holder to purchase one additional Class A common share for $0.15 expiring on January 31, 2011.

On June 12, 2009, the Company issued 9,100 Class A common shares in lieu of finder's fees for private placements. The transaction was recorded at the fair market value of the services provided which was contractually agreed at 7% of the operating capital generated, or $13,000 in this instance. The fair market value of the services was used to record the transaction as this was considered to be the more reliable value.

On November 25, 2009, the Company issued 112,000 Class A common shares in lieu of salaries owing to a key employee of the company. The transaction was recorded at the fair market value of the salary expense which was contractually agreed at $28,000. The fair market value of the services was used to record the transaction as this was considered to be the more reliable value.

On November 25, 2009, the Company issued 19,200 Class A common shares in lieu of commission expenses relating to a search for a sub-lessee. The transaction was recorded at the fair market value of the services provided which were invoiced at $4,800. The fair market value of the services was used to record the transaction as this was considered to be the more reliable value.

On November 25, 2009, the Company completed a non-brokered private placement of 872,000 shares at $0.25 per share, for gross proceeds of $218,000.

Class B Series I Preferred Shares

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 arms length third party(s) at a valuation of $1.20 per share or higher.

In the event of a change in control of the Company 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 shall 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.

10. SHAREHOLDERS' EQUITY, (cont'd)

(b) Private Placements (cont'd)

Class B Series II Preferred Shares

Each Series II Class B preferred share entitles the holder to a 12% annual cumulative dividend payable "in kind" with Class A common shares plus a one-half (1/2) warrant to purchase a common share. The shares automatically convert 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 either of the following events:

(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.

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.

(c) Contributed Surplus

	2009	2008
		(Restated)
Balance, beginning	$ 16,518	$ 32,958
Stock-based compensation	1,964	15,456
Prior period adjustment (Note 13)	-	(31,896)
Balance, ending	$ 18,482	$ 16,518

(d) Stock Options

At December 31, 2009, the Company had 1,350,000 [2008 - 1,250,000] stock options outstanding, of which 1,072,500 [2008 - 952,500] are exercisable, at a weighted average exercise price of $0.37 [2008 - $0.37] per common share and expiring at various dates from October 14, 2010 to August 14, 2015.

Details of the stock option transactions for the year ended December 31, 2009 are summarized as follows:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance, beginning	-	$ -
Granted	300,000	0.30
Balance, December 31, 2005	300,000	0.30
Granted	100,000	0.30
Balance, December 31, 2006	400,000	0.30
Granted	450,000	0.40
Balance, December 31, 2007	850,000	0.35
Granted	400,000	0.40
Balance, December 31, 2008	1,250,000	0.37
Granted	100,000	0.40
Balance, December 31, 2008	1,350,000	$ 0.37

10. SHAREHOLDERS' EQUITY, (cont'd)

(d) Stock Options (cont'd)

During the year, under the fair value based method $Nil [2008 - $1,809] in compensation expense was recorded in the statements of loss and deficit for stock options granted to directors and consultants.

The fair value of share options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model with the following assumptions:

Risk free interest rates between	1.30% and 3.5%
Stock price volatility	0.10%
Expected life of options	3 - 6 years

The weighted average fair value of options granted during the year ended December 31, 2009 is $0.37 [2008 - $0.37] per share.

(e) Warrants

As at December 31, 2009, the following share purchase warrants were outstanding:

	Issued		Exercise Price	Expiry Date
December 31, 2007	375,000	$	0.40	January 31, 2011
Issued in 2008	90,000		0.15	January 31, 2011
December 31, 2008	465,000		0.35	
Issued in 2009	450,000		0.15	January 31, 2011
Issued in 2009	18,800		0.15	March 1, 2012
Issued in 2009	27,680		0.40	November 25, 2011
December 31, 2009	**961,480**	**$**	**0.25**	

On November 5 2009, the Company issued 18,800 share warrants to purchase Class A common shares at $0.15 in lieu of finder's fees for private placements.

On November 25 2009, the Company issued 27,680 share warrants to purchase Class A common shares at $0.40 in lieu of finder's fees for private placements.

The Company has a commitment to issue share warrants to as described in Note 11(b).

The fair value of share warrants was determined to be $1,964 and as a result, share issuance costs and contributed capital were increased by this amount. The fair value of the warrants was calculated using the Black-Scholes pricing model with the following assumptions:

Risk free interest rate	1.30%
Stock price volatility	0.10%
Expected life of warrants	2 - 2.5 years

11. COMMITMENTS

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 $5,000 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 secure $2,000,000 in capital or debt financing by December 31, 2009.

Subsequent to year-end, the Company finalized negotiations with Dalhousie to extend the financing date to December 31, 2010. The terms of the renegotiations are described in Note 14.

b) On February 25, 2008, the Company signed an agreement for certain advisory and investment banking services in connection with the Company's intention to raise an estimated $10 million of capital. As part of this agreement, the Company will pay a non-refundable retainer fee of $20,000 which will be credited against any success fees described below. In connection with the financing, the Company will also pay a success fee equal to 4% of the equity investment raised. In the event that the equity investment is made at a pre money valuation of greater than $12 million, the cash success fee will increase to 5% for the first $5 million. In the event that the equity investment is made at a pre money valuation of greater than $15 million, the cash success fee will increase to 6% for the first $5 million. The cash success fee will not be less than $300,000 for financing in excess of $3 million. The Company shall also issue share warrants to acquire shares of the company equal to 4% of the shares issued in the financing.

12. RELATED PARTY TRANSACTIONS

	2009	2008
Research and development and professional fees paid to officers and directors of the Company and/or companies controlled by them	$ 51,888	$ 44,661
Finders fees relating to equity investments in the Company paid to officers and directors of the Company	$ 2,275	$ -
Finders fees relating to equity investments in the Company paid to individuals closely related to a director of the Company	$ 7,350	$ -
Amounts owing to a director of the Company	$ 34,045	$ 18,000

These amounts are recorded at the exchange amount based on the amounts paid and/or received by the parties

13. RESTATEMENT OF PRIOR YEAR

During 2009, the Company determined that the stock-compensation expense recorded in the financial statements for the years ended December 31, 2008 and 2007 was overstated due to a calculation error in the Black-Scholes model used to price the stock options. As a result, the financial statements have been retroactively restated to show the effect of these changes. The comparative amounts include the effect of these restatements and the restated amounts are as follows:

	As previously reported	Adjustment	As restated
Balance Sheet 2008			
Contributed surplus	$ 48,414	$ (31,896)	$ 16,518
Deficit	(1,050,309)	31,896	(1,018,413)
Statements of Loss and Deficit			
Stock based compensation for 2008	$ 76,956	$ (13,647)	$ 63,309
Loss for the year 2008	(384,993)	13,647	(371,346)
Deficit, beginning 2008	(665,316)	18,249	(647,067)
Deficit, ending 2008	(1,050,309)	31,896	(1,018,413)

14. SUBSEQUENT EVENTS

Subsequent to year-end, the Company re-negotiated their license agreement with Dalhousie University ("Dalhousie"). The terms of the original agreement are disclosed in Note 11. Under the terms of the negotiation, the annual maintenance payments of $5,000 which are credited towards future royalties will be increased to $7,500. In addition, the Company will have to pay a one time $2,000 license amendment fee. The rest of the licensing terms will remain unchanged.

15. COMPARATIVE FIGURES

Certain of the 2008 amounts have been reclassified to conform with the current year's presentation.

CERTIFICATE OF PACIFIC THERAPEUTICS LIMITED

Date: June 13, 2011

This prospectus constitutes full, true and plain disclosure of all material facts relating to securities previously issued by the issuer as required by the securities legislation of British Columbia.

"Douglas H. Unwin"
Douglas H. Unwin
Chief Executive Officer

"Derick Sinclair"
Derick Sinclair
Chief Financial Officer

ON BEHALF OF THE BOARD

" Douglas Wallis"
Douglas Wallis
Director

"Greg Beniston"
M. Greg Beniston
Director

CERTIFICATE OF THE PROMOTER

Date: June 13, 2011

This prospectus constitutes full, true and plain disclosure of all material facts relating to securities previously issued by the issuer as required by the securities legislation of British Columbia.

"Douglas H. Unwin"

Douglas H. Unwin
Promoter