Biosenta Inc.

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

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

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

Biosenta Inc.
May 1, 2017

Biosenta Inc.

Condensed Interim Consolidated Statements of Financial Position
(unaudited, expressed in Canadian dollars, unless otherwise stated)

	As at December 31 2016 $	As at September 30 2016 $
Assets		
Current assets		
Cash	**1,785**	**10,420**
Amounts receivable *(note 5 and 11)*	**35,509**	**27,185**
Inventory *(note 6)*	**39,947**	**44,442**
Prepaid expenses	**31,040**	**31,040**
Total current assets	**108,281**	**113,087**
Intangible assets *(note 7)*	**1,606,500**	**1,606,500**
Equipment *(note 8)*	**757,647**	**758,813**
Total assets	**2,472,428**	**2,478,400**
Equity and Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (*notes 9 and 11*)	**456,940**	**423,227**
Payable from Restructuring Proposal (*notes 1 and 9*)	**254,092**	**254,092**
Current portion of convertible debentures *(note 12)*	**-**	**-**
Total current liabilities	**711,032**	**677,319**
Convertible debentures (*note 12*)	**20,474**	**19,307**
Secured loan *(note 10)*	**554,194**	**522,830**
Total liabilities	**1,285,700**	**1,219,456**
Shareholders' Equity (Deficiency)		
Share capital *(note 13)*	**9,342,363**	**9,322,863**
Treasury shares *(note 13)*	**(240,000)**	**(240,000)**
Warrant reserve *(note 14)*	**-**	**-**
Equity reserve *(note 15)*	**153,296**	**201,652**
Equity component of convertible debentures *(note 11)*	**30,983**	**30,983**
Deficit	**(8,099,914)**	**(8,056,554)**
Total shareholders' equity (deficiency)	**1,186,728**	**1,258,944**
Total liabilities and shareholders' equity (deficiency)	**2,472,428**	**2,478,400**

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

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

Biosenta Inc.

Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss)

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

	Three months ended December 31	
	2016	2015
	$	$
Sales	**13,405**	37,121
Cost of Sales	**7,418**	22,535
Income before administrative expenses and other	**5,987**	14,586
Administrative expense		
Salaries, management and consulting fees	**21,881**	137,903
Professional fees	**33,406**	53,204
Product development costs	**6,894**	9,138
Office and general	**14,574**	33,640
Travel	**-**	4,580
Insurance	**6,636**	2,683
Sales and marketing	**7,065**	2,534
Stock transfer fees	**2,860**	3,025
Amortization	**1,168**	614
Total administrative expense	**94,484**	247,321
Net loss before other items	**(88,497)**	(232,735)
Other expenses		
Interest and accretion expense (*note 12*)	**(3,219)**	(46,144)
Net loss and comprehensive loss for the period	**(91,716)**	(278,879)
Basic and diluted loss per share	**(0.01)**	(0.05)
Weighted average number of common shares outstanding – basic and diluted	**12,387,283**	5,544,521

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

Biosenta Inc.

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

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

	Share Capital(A)	Share Capital	Treasury Shares	Warrant Reserve	Equity Reserve	Equity Component of Debenture	Deficit	Total Equity
	#	$	$	$	$	$	$	$
Balance, September 30, 2015	**5,544,521**	**8,331,699**	**(240,000)**	**63,048**	**201,652**	**498,658**	**(11,365,457)**	**(2,510,400)**
Expired warrants	-	-	-	(63,048)	-	-	63,048	-
Net loss for the period	-	-	-	-	-	-	(278,879)	(278,879)
Balance, December 31, 2015	**5,544,521**	**8,331,699**	**(240,000)**	**-**	**201,652**	**498,658**	**(11,581,288)**	**(2,789,279)**
Common shares issued from Restructuring Proposal *(note 13 (ii))*	6,607,762	991,164	-	-	-	-	-	991,164
Extinguishment of equity component (*notes 1and 9*)	-	-	-	-	-	(498,658)	498,658	-
Equity component of debenture *(note 12)*	-	-	-	-	-	42,153	-	42,153
Tax effect of convertible debentures	-	-	-	-	-	(11,170)	-	(11,170)
Net loss for the period	-	-	-	-	-	-	3,026,076	3,026,076
Balance, September 30, 2016	**12,152,283**	**9,322,863**	**(240,000)**	**-**	**201,652**	**30,983**	**(8,056,554)**	**1,258,944**
Common shares issued for services *(note 13 (iii))*	243,714	19,500	-	-	-	-	-	19,500
Expired options	-	-	-	-	(48,356)	-	48,356	-
Net loss for the period	-	-	-	-	-	-	(91,716)	(91,716)
Balance, December 31, 2016	**12,395,997**	**9,342,363**	**(240,000)**	**-**	**153,296**	**30,983**	**(8,099,914)**	**1,186,728**

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

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

Biosenta Inc.

Condensed Interim Consolidated Statements of Cash Flows

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

	Three months ended December 31	
	2016	**2015**
	$	**$**
Cash flow from operating activities		
Net loss for the period	**(91,716)**	(278,879)
Items not involving cash		
Accretion	**1,166**	-
Amortization	**1,167**	614
	(89,383)	(278,265)
Changes in non-cash working capital		
Amounts receivable	**(8,324)**	(7,652)
Inventory	**4,495**	(11,924)
Prepaid expenses	**-**	(17,271)
Accounts payable, accrued liabilities and debentures	**53,213**	41,275
Total cash used in operating activities	**(39,999)**	(273,837)
Cash flow from financing activities		
Proceeds from secured loan	**31,364**	258,895
Total cash provided by financing activities	**31,364**	258,895
Decrease in cash	**(8,635)**	(14,942)
Cash, beginning of period	**10,420**	16,700
Cash, end of period	**1,785**	1,758

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

1. Nature of Operations and Going Concern

Biosenta Inc. (the "Company" or "Biosenta") is a public company incorporated and domiciled in Canada, whose shares are listed on the Canadian National Stock Exchange ("CNSX") under the symbol "ZRO". The Company's registered address is 18 Wynford Drive, Suite 794, Toronto, Ontario, M3C 3S2. In 2011, the Company acquired the intellectual property rights to certain technology and processes relating to anti-microbial products with potential commercial and consumer applications. The Company is currently engaged in developing sales for its Zeromold™ and *True* product lines and has commissioned a production facility for commercial applications of its technology to produce an anti-microbial Tri-Filler product.

Financial Restructuring

On November 19, 2015, the Company filed a Restructuring Proposal to creditors ("Restructuring Proposal") under the Canadian Bankruptcy and Insolvency Act ("CBIA") and had appointed a trustee. The proposal has been approved by the Board of Directors of the Company and by a majority of its creditors. The Company instituted proceedings under the CBIA to provide an opportunity for the orderly restructuring of the Company's business and financial affairs, to enable the Company to emerge with a viable business in the most favourable position to secure additional financing(s) to proceed with the development of the Company's consumer and industrial products lines.

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

A meeting of eligible creditors was held on December 7, 2015 at the trustee's office where the Restructuring Proposal was accepted by the majority of creditors.

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

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

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

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

Going Concern

During the three months ended December 31, 2016, the Company reported net loss of $91,716 (2015 –$278,879) and a working capital deficit of $602,751 (September 30, 2016 - $564,232).

The ability of the Company to continue as a going concern is dependent upon the continuing financial support of shareholders or other investors, obtaining new financing on commercial terms acceptable to the Company to enable it to monetize its intellectual property assets, and upon attaining profitable operations once such assets can be monetized, all of which outcomes are uncertain and which represents material uncertainties, cast significant doubt over the ability of the Company to continue as a going concern. These condensed interim consolidated financial statements do not include any adjustments to the carrying values of the Company’s assets, liabilities, and expenses and the related classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management, but could be material.

The Company funded its operations for the three months ended December 31, 2016 through the use of existing cash reserves and secured loans advance of $31,364. The Company may not have sufficient cash reserves to fund its product development programs, administrative costs and other obligations for the coming fiscal year. Management is actively involved in developing and bringing their products to market, as well as seeking new debt and equity financing to enable it to service the Company’s liabilities and its ongoing administrative costs. As at December 31, 2016, the Company has a working capital deficiency and accumulated losses. These matters represent material uncertainties which cast significant doubt with respect to the Company’s ability to continue as a going concern. Management believes the Company will continue as a going concern due to the Company’s history of successfully funding operations through the issuance of debt and equity instruments. There can be no assurance that the Company will be successful in these initiatives.

2. Basis of Presentation

Statement of Compliance

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company reported in Notes 2 and 3, in the Company’s audited annual financial statements for the year ending September 30, 2016. These condensed consolidated interim financial statements do not include all the information required for full annual financial statements.

The accounting policies noted above have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

The Board of Directors of the Company authorized these condensed interim consolidated financial statements for issuance on May 1, 2017.

Basis of preparation and presentation

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

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company, which is incorporated in Canada, and its wholly owned subsidiary, Biosenta U.S.A. Inc. which is incorporated in the United States. All inter-company balances and transactions are eliminated on consolidation. The condensed interim consolidated financial statements include all assets, liabilities, expenses and cash flows of the Company and its subsidiary after eliminating inter-company balances and transactions.

3. Significant Accounting Policies

Significant accounting judgments, estimates and assumptions

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the condensed interim consolidated financial statements and related notes.

Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- Assets' carrying values and impairment charges
  In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Income taxes and recoverability of potential deferred tax assets
  In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of
  future taxable income is based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and

regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- Share-based payments
  Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

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

- Commitments and contingencies
  Refer to Note 16.

- Going concern
  Refer to Note 1.

- Inventory provision
  Management makes estimates of the future customer demand for the Company's products when establishing appropriate provision for inventory. In making these estimates, management considers product life of inventory and the profitability of recent sales of inventory. In many cases, product sold by the Company turns over quickly and inventory on-hand values are lower, thus reducing the risk of material misstatement. To the extent that actual losses on inventory differ from those estimated, both inventory and net earnings will be affected.

4. Recent Accounting Pronouncements

Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after October 1, 2016 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

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

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

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

IFRS 11 - Joint Arrangements ("IFRS 11") was amended in May 2014 to require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016.

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

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") was issued by the IASB on May 28, 2014. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract based, five-step analysis of transactions to determine whether, how much, and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

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

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial

information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016.

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

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

5. Amounts receivable

	As at December 31 2016 $	As at September 30 2016 $
Accounts receivable	**35,509**	27,185
	35,509	27,185

6. Inventory

	As at December 31 2016 $	As at September 30 2016 $
Finished goods	**2,578**	7,073
Raw materials	**37,369**	37,369
	39,947	44,442

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

7. Intangible assets

The intangible assets are comprised as follows:

	Total
Balance, December 31, 2016 and September 30, 2015 and 2014	**$1,606,500**

On June 7, 2011, the Company entered into an exclusive world-wide interim license agreement with Marcus Martin, a Director of the Company, with respect to certain intellectual property rights held by Mr. Martin relating

to a process for the manufacture of anti-microbial filler product (the "MM License Agreement"). Effective October 3, 2011, the License Agreement was amended and restated to add Edward Pardiak, a former Director of the Company as a co-licensor and was again amended and restated on April 10, 2012 to add 2320696 Ontario Inc. and 2262554 Ontario Inc., as a co-licensor. Marcus Martin and Edward Pardiak, control 2320696 Ontario Inc. and 2262554 Ontario Inc. through holding companies controlled by them.

The Company exercised its right to convert the interim license granted on June 7, 2011, as amended and restated, into an assignable, transferable, perpetual, world-wide exclusive license (the "License"). In connection with the exercise of the right to acquire the License, and in accordance with the terms of the MM License Agreement as amended, the Company issued fully paid and non-assessable Class A shares of the Company to the Licensors valued at $1,606,500. The effective date for the issuance of the Class A shares and the acquisition of the License was April 10, 2012. The License was subject to royalties payable equal to 7% to 25%, based on gross margin as a percentage, actually received by the Company on the sale of the licensed.

The escrowed shares were released in fiscal 2015 according to the conditions of the escrow agreement. Under the terms of the agreement, all patents, know-how and patent applications were assigned to the Company. All provisions of the License to which the Company is obligated to make payments to any of the licensors, including royalty payments are void and the parties acknowledge that no further payments will be made in respect of the License. If the Company had failed to obtain adequate funding to build the Parry Sound production facility by December 31, 2015, the patents could revert to the licensors, however as at September 30, 2015, management believes this requirement has been met as the plant was finished such that material was produced from the plant for testing by prospective customers.

8. Equipment

Equipment consists of the following:

Cost	Furniture & Equipment	Leasehold Improvements	Computer Equipment	Total
Balance September 30, 2015	**$506,304**	**$259,476**	**$9,739**	**$775,519**
Additions	-	-	-	-
Balance, September 30, 2016	**$506,304**	**$259,476**	**$9,739**	**$775,519**
Additions	-	-	-	-
Balance, December 31, 2016	**$506,304**	**$259,476**	**$9,739**	**$775,519**

Accumulated Amortization	Furniture & Equipment	Leasehold Improvements	Computer Equipment	Total
Balance September 30, 2014	**$5,806**	**-**	**$8,444**	**$14,250**
Additions	1,161	-	1,295	2,456
Balance, September 30, 2015	**$6,967**	**-**	**$9,739**	**$16,706**
Additions	1,166	-	-	1,166
Balance, December 31, 2016	**$8,133**	**-**	**$9,739**	**$17,872**

Net book value at September 30, 2016	**$ 499,337**	**$ 259,476**	**$ -**	**$ 758,813**
Net book value at December 31, 2016	**$ 498,171**	**$ 259,476**	**$ -**	**$ 757,647**

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

Accounts payable and accruals consist of the following:

	As at December 31 2016	As at September 30 2016
Trade payables	**$221,436**	$197,337
Director loan	**15,000**	-
Payroll Taxes payable	**17,480**	17,475
Sales tax payable	**4,702**	2,702
Payable to MVB	**-**	-
Accrued liabilities and other	**198,322**	205,713
Total	**$456,940**	$423,227

The Company is party to various claims and proceedings arising in the normal course of business. During fiscal 2015, the Company obtained a preliminary settlement regarding a consulting arrangement signed in 2011 with MVB Asset Management Inc. ("MVB"). The settlement includes an amount of $160,000 to be paid over a period of three years. As a result, a liability had been set up to recognize the commitment to pay this settlement amount and the expense was recorded for the year ended September 30, 2015. As a result of the Restructuring Proposal completed in fiscal 2016, this amount has been reduced by 50% and the balance is included in the Payable from Restructuring Proposal. Refer to Note 1 – Financial Restructuring

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

<u>Payable from Restructuring Proposal</u>

The settlement of approximately $725,000 of debt was completed through the cash settlement option of the Restructuring Proposal (see Note 1). The cash option only paid a portion of the debt outstanding at the time of the settling of the debt, and in return the vendor had to forgive the 50% of the balance which is included in the Gain on Debt Settlement from Restructuring Proposal. The outstanding payable as of December 31, 2016 for these vendors is reflected on the statement of financial position – Payable from Restructuring Proposal. This debt is only payable by the Company upon meeting sufficient cash flow targets over an undefined period of time. No payments have been made on this liability since inception.

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

10. Secured Loan

To finance the Company through this Restructuring Proposal process, secured creditors had invested $655,747 under the terms of a Grid Note. The Grid Note is on a secured basis and the Company has entered into a general security agreement, which include all assets of the Company as security.

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

A portion of the Grid Note was mandatorily converted into Class A shares of the Company, based on the same conversion ratio as applied to unsecured creditors, immediately following the Company giving full effect to the Proposal to Creditors with the final court approval. As part of the Restructuring Proposal only $201,894 of the secured debt was converted to common shares. The remaining balance of the secured loan as at December 31, 2016 is $554,194. Refer to Note 1 – Financial Restructuring.

11. Related Party Transactions

The Company had the following related party transactions for the three months ended December 31, 2016 and 2015. These transactions were in the normal course of operations and were measured at the exchange amount, which are the amounts agreed to by the related parties.

(i) Included in accounts payable and accrued liabilities as at December 31, 2016 is $Nil (2015 - $653,575) owing to directors and companies controlled by directors of the Company. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

(ii) Compensation of key management personnel of the Company

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

	December 31 2016	December 31 2015
Short-term compensation (i)	**$19,500**	$155,408
Share based payments (ii)	**-**	-
Total	**$19,500**	$155,408

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

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

12. Convertible Debenture

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

During the year ended September 30, 2015, the Company used the residual value method to allocate the proceeds between the liability and equity components. Under this method, the fair value of the liability component (the "Debenture Liability") of $603,256 was computed as the present value of future principal and interest payments discounted at a rate of 25% per annum. The residual value $259,744 was attributed to the equity component. The resulting fair value of the liability component of the debentures is accreted to their face value through the recording of accretion expense until maturity using the effective interest rate of 23%.

Directors and companies controlled by directors were paid for services related to the convertible debenture financing. Refer to note 10 for additional information.

	As at December 31, 2016 **$**	As at September 30, 2016 $
Face value of debentures	**2,983,000**	2,983,000
Equity component of debentures	**(898,863)**	(898,863)
Transactions costs allocated to debentures	**(333,050)**	(333,050)
Accumulated accretion	**1,231,913**	1,231,913
Settlement from Restructuring Proposal (Note 1 Financial Restructuring)	**(2,983,000)**	(2,983,000)
Balance	**-**	-

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

New Debentures (post Creditor Proposal)

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

During the year ended September 30, 2016, the Company used the residual value method to allocate the proceeds between the liability and equity components. Under this method, the fair value of the liability component (the "Debenture Liability") of $17,847 was computed as the present value of future principal and interest payments discounted at a rate of 25% per annum. The residual value $42,153 was attributed to the equity component. The resulting fair value of the liability component of the debentures is accreted to their face value through the recording of accretion expense until maturity using the effective interest rate of 23%.

	As at December 31, 2016	As at September 30, 2016
	$	$
Face value of debentures	**60,000**	60,000
Equity component of debentures	**(42,153)**	(42,153)
Accumulated accretion	**2,627**	1,460
Balance	**20,474**	19,307

13. Equity

Authorized:

The Company can issue an unlimited number of:

Class A shares, voting and participating.

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

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

Issued and outstanding: Class A Shares

	Number of shares	**Amount**
Balance, September 30, 2016	**12,152,283**	**$ 9,322,863**
Balance, December 31, 2016	**12,395,997**	**$9,342,363**

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

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

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

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

Treasury Shares
On March 26, 2014, the Company issued 533,333 Class A shares to Bassett Financial Corp. at the market price of $0.75 per share for a total value of $400,000. The shares were issued as part of the fee for providing various financial and consulting services including completing three stages of funding. The shares were placed in escrow and were to be released upon certain conditions being met. Upon the funding of a bridge loan in May 2014, 213,333 shares were released from escrow. The remaining 320,000 shares were to be released upon completion of future financing. In October 2014, the agreement with Bassett Financial was cancelled.

14. Warrant Reserve

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

	December 31, 2016		**September 30, 2016**	
	Number Outstanding(A)	Weighted Average Exercise Price(A)	Number Outstanding(A)	Weighted Average Exercise Price(A)
Balance, beginning of the year	-	-	58,333	$3.00
Issued	-	-	-	-
Expired/Cancelled	-	-	(58,333)	$3.00
Balance, end of year	-	-	-	-

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

15. Equity Reserve and Stock-Based Compensation

The Company has a stock option plan (the "Plan"), under which the Company may grant options to directors, officers, employees, and third party service providers. Under the terms of the Plan that was approved by the shareholders on May 24, 2012, the Company is authorized to issue a maximum of 10% of the issued and outstanding shares.

The purpose of the Plan is to attract, retain and motivate directors, officers, and certain third party service providers by providing them with the opportunity to acquire a proprietary interest in the Company and benefit from its growth. The options granted under the Plan are non-assignable, have a term of 5 years and vest over periods of up to three years from the date of issue.

Share based payment activity for three months ended December 31, 2016 and the year ended September 30, 2016 are summarized as follows:

	December 31, 2016		September 30, 2016	
	Number Outstanding(A)	Weighted Average Exercise Price(A)	Number Outstanding(A)	Weighted Average Exercise Price(A)
Balance, beginning of the year	76,667	$3.00	76,667	$3.00
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(16,667)	$3.00	-	-
Balance, end of year	60,000	$3.00	76,667	$3.00

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

Options to purchase common shares outstanding at December 31, 2016 carry exercise prices and remaining terms to maturity as follows:

Expiry Date	Exercise Price(A) $	Options Outstanding(A)	Options Exercisable(A)	Grant Date Weighted Average Fair Value per option(A) $	Weighted Average Remaining Contractual Life
August 8, 2017	3.00	46,667	46,667	2.22	0.60
January 29, 2019	3.00	13,333	13,333	0.81	2.08
	3.00	60,000	60,000	1.76	0.93

During the three months ended December 31, 2016, the Company did not grant any new options (year ended September 30, 2016 – nil).

16. Commitments and Contingencies

Employment Agreements

The Company had an employment agreement with the provision of termination and change of control benefits with a former officer of the Company. The agreement for the officer provides that in the event that their employment is terminated by the Company other than for cause then the officer shall be entitled to a lump sum payment amount equal to the annual base salary and an additional one month's salary and bonus for each

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

Other Contingencies

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

Currently, the Company is seeking to void an advisory agreement signed in 2014. Compensation shares totaling 320,000 to be issued in accordance with this agreement are held in escrow as at December 31, 2016 and September 30, 2016, and will not be released until the dispute is resolved. See note 13 Treasury Shares.

17. Financial Risk Factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to other receivables and receivable from the refund of sales taxes. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to financial instruments included in other is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet current liabilities when due. As at December 31, 2016, the Company had a cash balance of $1,785 (September 30, 2016 - $10,420) to settle current liabilities of $711,032 (September 30, 2016- $677,319). The Company completed the settlement of the Company's liabilities under the CBIA process on June 13, 2016. Refer to Note 1 – Financial Restructuring. The Company does not have sufficient cash reserves to fund its product development programs, administrative costs and other obligations for the coming fiscal year. The Company's accounts payable and accrued liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk - Interest rate risk

The Company's current policy is to invest excess cash in investment-grade, short-term deposit certificates issued by its banking institutions. The convertible debentures bear fixed interest rates and therefore are not subject to interest rate risk. Currently, the Company does not hedge against interest rate risk.

18. Capital Management

Capital is defined as share capital, warrant reserve and equity reserve. The Company's objectives when managing capital are to maintain an appropriate balance between holding a sufficient amount of capital to support its operations as a going concern, and providing shareholders with a prudent amount of leverage, as and when required, to enhance returns. There have been no changes since the prior year.

The intellectual property in which the Company has acquired through a license agreement is currently in the development stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurances that the Company will be able to continue raising equity capital in this manner. The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term guaranteed deposits, all held with major Canadian financial institutions.

The Company is not subject to any regulatory or contractual capital obligations of material consequence.