Biosenta Inc.

Condensed Interim Financial Statements
For the three and six months ended March 31, 2014
(Unaudited, expressed in Canadian dollars)

Notice of No Auditor Review of Condensed Interim Financial Statements

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

Biosenta Inc.
May 30, 2014

Biosenta Inc.

Statements of Financial Position

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

	As at March 31 2014 $	As at September 30 2013 $
Assets		
Current assets		
Cash	**560,278**	2,774
Amounts receivable *(note 5)*	**49,647**	92,659
Inventory *(note 6)*	**138,693**	146,596
Prepaid expenses	**320443**	15,458
Total current assets	**1,069,061**	257,487
Intangible assets *(note 7)*	**3,060,000**	3,060,000
Equipment *(note 8)*	**613,929**	614,969
Total assets	**4,742,990**	3,932,456
Equity and Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(note 9)*	**1,778,861**	**2,395,913**
Short term loan *(note 10)*	**552,129**	**-**
Total current liabilities	**2,330,990**	2,395,913
Shareholders Equity (Deficiency)		
Share capital *(note 12)*	**9,225,950**	6,492,066
Warrant reserve *(note 13)*	**1,074,846**	898,965
Equity reserve *(note 14)*	**704,666**	654,029
Deficit	**(8,593,462)**	(6,508,517)
Total shareholders' equity	**2,412,000**	1,536,543
Total liabilities and shareholders' equity	**4,742,990**	3,932,456

Commitments and Contingencies *(note 15)*
Nature of Operations and Going Concern *(note 1)*

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

Approved by the Board of Directors
Signed " Ed Koronen" Director
Signed " David Butler" Director

Biosenta Inc.

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

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

	Three months ended March 31		Six months ended March 31	
	2014	2013	**2014**	2013
	$	$	**$**	$
Licensing Fee	**-**	300,000	**-**	300,000
Sales of Zeromold	**(362)**	(214,625)	**1,128**	33,609
Cost of Sales of Zeromold	**2,108**	(56,864)	**5,588**	27,084
Gross margin Zeromold	**(2,470)**	(157,761)	**(4,460)**	6,525
Administrative expense				
Sales Costs	**28,670**	-	**28,670**	-
Management and consulting fees (*note 10,11*)	**954,604**	189,598	**1,142,608**	369,058
Legal and accounting fees	**129,192**	110,072	**175,297**	224,896
Product development costs	**234,835**	40,062	**312,100**	87,562
Salaries and benefits	**77,762**	76,945	**148,963**	143,455
Rent and occupancy costs	**32,545**	27,188	**61,515**	60,432
Investor relations	**40,000**	15,000	**40,000**	30,380
Vehicle expense	**17,539**	16,206	**32,415**	35,392
Office and general	**17,445**	13,873	**32,337**	27,612
Travel and entertainment	**7,624**	984	**16,633**	8,226
Insurance	**14,583**	26,555	**29,899**	29,603
Advertising and promotion	**16,279**	16,746	**42,278**	37,894
Stock transfer fees	**10,885**	15,411	**14,810**	22,619
Interest and Other Expense	**1,923**	-	**1,923**	-
Amortization	**1,040**	1,040	**2,080**	2,080
Total administrative expense	**1,584,925**	549,680	**2,081,527**	1,079,209
Net loss and comprehensive loss for the period	**(1,587,395)**	(407,441)	**(2,085,987)**	(772,684)
Basic and diluted loss per share *(note 15)*	**(0.02)**	(0.01)	**(0.03)**	(0.01)
Weighted average number of common shares outstanding	**71,772,795**	58,049,548	**68,184,730**	55,859,318

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

Biosenta Inc.

Statements of Changes in Shareholders' Equity

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

	Share Capital #	Share Capital $	Warrant Reserve $	Equity Reserve $	Deficit $	Total Equity $
Balance, September 30, 2012	51,314,320	5,515,506	670,914	390,022	(4,389,342)	2,187,100
Common shares issued from private placement *(note 12)*	7,113,007	1,050,115	332,485	-	-	1,382,600
Expired warrants	-	-	(55,727)	55,727		-
Share based payments	-	-	-	46,599	-	46,559
Share issue costs	-	(14,600)	-	-	-	(14,600)
Net loss for the period	-	-	-	-	(722,684)	(722,684)
Balance, March 31, 2013	58,427,327	6,551,021	947,672	492,308	(5,162,026)	2,828,975
Common shares issued from private placement *(note 12)*		-	-	-	-	-
Expired warrants	-	-	(48,707)	-	-	(48,707)
Share based payments	-	-	-	161,721	-	161,721
Share issue costs	-	(58,954)	-	-	-	(58,954)
Net loss for the period	-	-	-	-	(1,346,491)	(1,346,491)
Balance, September 30, 2013	58,427,327	6,492,066	898,965	654,029	(6,508,517)	1,536,543
Common shares issued from private placement *(note 12)*	27,166,094	2,799,033	175,881	-	-	2,974,914
Expired warrants	-	-		-	-	-
Share based payments	-	-	-	50,367	-	50,367
Share issue costs	-	(65,150)	-	-	-	(65,150)
Net loss for the period	-	-	-	-	(2,084,945)	(2,084,945)
Balance, March 31, 2014	85,593,421	9,225,950	1,074,846	704,666	(8,593,462)	2,412,000

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

Biosenta Inc.

Statements of Cash Flows

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

	six months ended March 31	
	2014	2013
	$	$
Cash flow from operating activities		
Net loss for the period	**(2,083,907)**	(772,684)
Items not involving cash		
Share based payments	**-**	46,588
Amortization	**2,080**	2,080
	(2,083,905)	(724,046)
Changes in non-cash working capital		
Amounts receivable	**43,012**	(40,286)
Inventory	**7,903**	(213,221)
Prepaid expenses	**(304,985)**	-
Accounts payable and accrued liabilities	**(617,052)**	(294,215)
	(2,955,027)	(1,269,223)
Cash flow from financing activities		
Increase (Decrease) in loan payable	**552,129**	(5,000)
Proceeds from equity financings, net	**2,960,402**	1,368,000
	3,512,532	1,363,800
Cash flow from investing activities		
Expenditures on equipment	**-**	(71,730)
	-	-
Decrease in cash	**557,504**	22,047
Cash, beginning of period	**2,774**	19,536
Cash, end of period	**560,278**	41,583

The accompanying notes are an integral part of these 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 traded on the Canadian National Stock Exchange (CNSX) under the symbol "ZRO". The Company's registered address is 1120 Finch Avenue West, Suite 503, Toronto, Ontario, Canada, M3J 3H7. 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 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, taken together, cast significant doubt over the ability of the Company to continue as a going concern. These 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 period ended March 31, 2014 through the use of existing cash reserves and two private placements of common shares. 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, and in seeking new equity financing to enable it to service the Company’s liabilities and its ongoing administrative costs. These matters represent material uncertainties with respect to the Company’s ability to continue as a going concern. There can be no assurance that the Company will be successful in these initiatives.

2. Basis of Presentation

Statement of Compliance

These condensed 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, 2013. These condensed interim financial statements do not include all of the information required for full annual financial statements.

The Board of Directors of the Company authorized these condensed interim financial statements for issuance on May 29, 2014.

Basis of preparation and presentation

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

3. Significant Accounting Policies

Significant accounting judgments, estimates and assumptions

The preparation of condensed interim 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 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,
- Income taxes and recoverability of potential deferred tax assets , and
- Share-Based Payments

4. Future Changes in Accounting Policies

IFRS 9 - Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. 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. 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, 2015, with early adoption permitted. The Company is currently assessing the impact of IFRS 9 on its results of operations and financial position.

IFRS 10 Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 *Consolidated and Separate Financial Statements*. The Company has not yet determined the impact of IFRS 10 on its financial statements.

IFRS 11 Joint Arrangements

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

(Expressed in Canadian dollars, unless otherwise stated)

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company has not yet determined the impact of IFRS 11on its financial statements.

5. Amounts receivable

	As at March 31 2014	As at September 30 2013
	$	$
Accounts receivable	**1,224**	3,335
Sales tax receivable	**48,423**	89,324
	49,647	92,659

6. Inventory

	As at March 31 2014	As at September 30 2013
	$	$
Finished goods	**92,885**	134,750
Raw materials	**45,808**	11,846
	138,693	146,596

7. Intangible assets

The intangible assets are comprised as follows:

	Total
Balance, September 30, 2012	**$ 3,060,000**
Payment accrued under interim licenses	150,000
Impairment of interim license	(150,000)
Balance, September 30, 2013	**3,060,000**
Balance, March 31, 2014	**$ 3,060,000**

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 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 consideration payable for the acquisition of the MM License Agreement was $150,000 payable in installments of $50,000 ($50,000 paid). The consideration payable was superseded by the Amended and Restated License Agreement dated May 1, 2012 to an aggregate payment of $300,000, $50,000 having been paid in 2011, $100,000 payable on or before the date that is 30 days after the Company receives payment for its first shipment having an aggregate purchase price in excess of $200,000, with the balance of $150,000 payable on the date that is 90 days after the Company receives payment for such first shipment. The Company has paid the full amount of the consideration as of December 31, 2013.

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, the Company issued 20,000,000 fully paid and non-assessable Class A shares of the Company to the Licensors valued at $3,060,000 based on the value of the most recently completed private placement share price of $0.153. The effective date for the issuance of the Class A shares and the acquisition of the License was April 10, 2012. The License is subject to royalties payable equal to 7% to 25% of the amount the gross margin actually received by the Company on the sale of the licensed products based on gross margin as a percentage.

The 20,000,000 Class A shares are held in escrow subject to an escrow agreement, dated April 10, 2012. The Class A shares shall not be released from escrow prior to the third anniversary of the date of the agreement and following the third anniversary of the date, they shall be released as to 1/8 of the original number of escrowed Class A shares on the first day of the commencement of each financial quarter of the Company. As a result of the exercise of the License, the interim license was impaired as it was replaced by the License and therefore, the Company charged the balance of $150,000 in fiscal 2013 (2012 - $125,000) to the statement of operations during 2013.

In January 2013 the Company announced that it had entered into a non-binding contract with New South Biolabs (“Biolabs”) pursuant to which Biolabs would become the Company's strategic logistics management partner responsible for enterprise resource planning, production and customer relationship management as pertaining to all "Zeromold" products destined for the southern United States, Mexico, South America and the Caribbean. Biolabs will also purchase Biosenta's first scale unit ringed product system and allocate resources to establish a facility for the Company's patented ringed product in the United States. Completion of the transaction is subject to a number of conditions, including completion of satisfactory due diligence reviews by both parties, negotiation and entering into definitive documents respecting the transactions acceptable to all parties, and obtaining all required approvals upon execution of definitive document respecting the transaction. Biolabs will pay Biosenta royalties on all products sold and a $600,000 non-refundable fee, of which $350,000 has been received to date. Of this amount, $300,000 was reflected as revenue in fiscal 2013 and the remaining $50,000 is an advance of the remaining fee, which will be earned upon obtaining approval to sell the product in the United States.

(Expressed in Canadian dollars, unless otherwise stated)

8. Equipment

Equipment and fixtures consists of the following:

Cost	**Furniture & Equipment**	**Leasehold Improvements**	**Computer Equipment**	**Total**
Balance, September 30, 2012	**$238,367**	**$187,955**	**$8,978**	**$435,300**
Additions	**118,044**	**71,521**	**-**	**189,565**
Disposals	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**
Balance, September 30, 2013	**$356,411**	**$259,476**	**$8,978**	**$624,865**
Additions	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**
Balance, March 31, 2014	**$356,411**	**$259,476**	**$8,978**	**$624,865**

Accumulated Amortization	**Furniture & equipment**	**Leasehold improvements**	**Computer Equipment**	**Total**
Balance, September 31, 2012	**$2,617**	**-**	**$3,119**	**$5,736**
Additions	**1,200**	**-**	**2,960**	**4,160**
Disposals	**-**	**-**	**-**	**-**
Other	-	**-**	-	-
Balance September 30, 2013	**$3,817**	**-**	**$6,079**	**$9,896**
Additions	**600**	**-**	**1480**	**2,080**
Disposals	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**
Balance, March 31, 2014	**$4,417**	**-**	**$7,560**	**$11,976**

Net book value at September 30, 2012	**$ 235,750**	**$ 187,955**	**$ 5,859**	**$ 429,564**
Net book value at September 30, 2013	**$ 352,594**	**$ 259,476**	**$2,899**	**$ 614,969**
Net book value at March 31, 2014	**$ 352,294**	**$ 259,476**	**$2,1591**	**$ 613,929**

9. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	As at March 31 2014	As at September 30 2013
Trade payables	**$ 1,396,180**	$ 1,947,013
Payroll government remittances	**6,715**	60,546
Accrued liabilities and other	**92,581**	130,104
Share subscription receipts received (i)	**282,500**	258,250
Total	**$ 1,778,861**	$ 2,395,913

(Expressed in Canadian dollars, unless otherwise stated)

10. Short Term Loan

	As at March 31 2014	As at September 30 2013
Short Term Loan Payable	$ 550,000	Nil
Accrued Interest	2,129	
Total Loan Payable	$ 552,129	

(i) On March 27, 2014 the Company was granted a loan from Bassett Financial Corporation in the amount of $550,000 to be repaid on or before September 30, 2014 and bearing an interest rate of 3% per month simple interest payable quarterly. The Loan is secured by receivables, inventory and intellectual property. At the same time, The Company issued 8,000,000 shares to Bassett Financial Corp. at the then market price of $0.06 per share on March 27, 2014, as a fee for providing various services including completing three stages of funding through the balance of 2014. These services also include advisory services to assist in stabilizing the company and its current balance sheet risks to provide a more stable platform to support sales and other development activities. The shares were escrowed and will be released 1/3 upon the funding of a bridge loan (this has been completed), 1/3 upon completion of a financing of $1 million or more of equity or acceptable equivalent by July 31, 2014 and 1/3 upon completion of a financing of $2 million or more of equity or acceptable equivalent by October 31, 2014, provided the company achieves certain agreed upon milestones.

11. Related Party Transactions

In fiscal 2012, the Company announced that it exercised its right to convert the interim license granted under an intellectual property license agreement 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 license agreement, the Company issued 20,000,000 fully paid and non-assessable Class A shares of the Company to the Licensors. The Company and the Licensors entered into an escrow agreement in respect of the 20,000,000 Class A shares issued in consideration of the License as well as a securities pledge agreement in respect of the Licensors' obligations under the MM License Agreement. Two of the licensors are also directors of the Company. The remaining obligation of $250,000 for the interim license fee was accrued as of December 31, 2013 and settled by the issuance of Class A shares.

(i) Included in accounts payable and accrued liabilities as at March 31, 2014 is $694,365 (September 2013 - $908,628) 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

(Expressed in Canadian dollars, unless otherwise stated)

The remuneration of directors and other key management personnel during the three month period ending March 31 is as follows:

		2014		2013
Short-term compensation (i)	$	**729,739**	$	339,050
Stock-based compensation (ii)	$	**18,817**	$	18,260

(i) Short-term compensation includes salaries, bonuses and allowances, employment benefits and directors' fees. Also included in this is repayment of expenses related to funding transactions on behalf of the Company.
(ii) Stock-based compensation represents the amount expensed by the Company for options issued.

12. Share Capital

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, 2012	**51,314,320**	**$ 5,515,506**
Balance, September 30, 2013	**58,427,327**	**$ 6,492,066**
Balance, March 31, 2014	**85,593,421**	**$ 9,225,950**

(ii) On November 28, 2012, the Company issued 6,313,003 units at $0.20 per unit for aggregate consideration of $1,262,600, each unit consisting of one Class A share and one Class A share purchase warrant. Each warrant entitles the holder to purchase one additional Class A share in the capital of the Corporation at an exercise price of $0.30 per warrant to the extent such warrant is exercised on or before the date that is 18 months from the closing of the Offering.

(iii) On February 4, 2013, the Company issued 800,004 units at a price of $0.15 per unit for gross proceeds of $120,000. Each unit consists of one Class A Share and one half of one Class A Share purchase warrant. Each whole warrant entitles the holder to purchase one additional Class A Share in the capital of the Corporation at an exercise price of $0.20 per Warrant Share to the extent such Warrant is exercised on or before the date that is 18 months from the closing of the Offering.

(iv) The Company closed a private placement for 6,522,892 units at a price of $0.15 cents per unit on October 10, 2013. The company issued 6,522,892 units, each unit consisting of one Class A share and one-half of one Class A share purchase warrant. Each whole warrant entitles the holder to purchase one additional Class A share in the capital of the company at an exercise price of $0.20 cents per warrant share to the extent such warrant is exercised on or before the date that is 18 months from October 10, 2013.

(v) The Company closed a private placement for 6,522,892 units at a price of $0.15 cents per unit on October 10, 2013. The company issued 6,522,892 units, each unit consisting of one Class A share and one-half of one Class A share purchase warrant. Each whole warrant entitles the holder to purchase one additional Class A share in the capital of the company at an exercise price of $0.20 cents per warrant share to the extent such warrant is exercised on or before the date that is 18 months from October 10, 2013.

(vi) The Company closed a private placement for units at a price of $0.15 cents per unit on Jan 28, 2014. The company issued 7,461,536 units, each unit consisting of one Class A share and one-half of one Class A share purchase warrant. Each whole warrant entitles the holder to purchase one additional Class A share in the capital of the company at an exercise price of $0.20 cents per warrant share to the extent such warrant is exercised on or before the date that is 18 months from Jan 28, 2014.

(vii) The Company issued 8,000,000 shares to Bassett Financial Corp. at the then market price of $0.06 per share on March 27, 2014, as a fee for providing various services including completing three stages of funding through the balance of 2013. These services also include advisory services to assist in stabilizing the company and its current balance sheet risks to provide a more stable platform to support sales and other development activities. The shares were escrowed and will be released 1/3 upon the funding of a bridge loan (this has been completed), 1/3 upon completion of a financing of $1 million or more of equity or acceptable equivalent by July 31, 2014 and 1/3 upon completion of a financing of $2 million or more of equity or acceptable equivalent by October 31, 2014, provided the company achieves certain agreed upon milestones.

(viii) The Company closed a private placement for 3,600,000 shares at a price of $0.15 cents per unit on March 27, 2014 to satisfy a debt by the company to a Director who had sold shares on behalf of the Company and reinvested the proceeds into the company. The private placement covers shares sold and the tax effect of replacing them.

(Expressed in Canadian dollars, unless otherwise stated)

13. Warrant Reserve

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants are as follows:

	March 31, 2014		September 30, 2013	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of the period	17,136,671	$0.29	13,217,500	$0.30
Issued	7,116,381	0.20	6,771,671	0.29
Exercised	-	-	-	-
Expired or Cancelled	(3,178,333)	0.26	(2,852,500)	0.32
Balance, end of period	21,074,719	$0.27	17,136,671	$0.29

The exercise price, expiry date, and the outstanding warrants issued and outstanding as at March 31, 2014 are as follows:

Expiry Date	**Weighted Average Exercise Price $**	**Grant Date Fair Value $**	**Warrants Outstanding**	**Contractual Life (year)**
July 22, 2014	0.30	376,233	7,900,000	0.31
July 22, 2014	0.20	58,528	620,000	0.31
May 30, 2014	0.30	355,800	6,313,003	0.16
August 7, 2014	0.20	20,640	458,668	0.35
April 10, 2015	0.20	101,560	3,385,613	1.02
July 28, 2015	0.20	74,320	2,397,435	1.33
	0.27	987,081	21,074,719	0.50

The fair value of the warrants issued during the year ended September 30, 2013 and for the six month period ended March 31, 2014 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	March 2014	**September 2013**
Risk free interest rate	0.97%	1.06%
Expected dividend yield	Nil	Nil
Expected volatility	166%	125%
Expected life	1.5 years	1.5 years

(Expressed in Canadian dollars, unless otherwise stated)

Option pricing models require the input of subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the estimate of fair value, and therefore, use of Black-Scholes option pricing model, may not provide a realistic measure of the fair value of the Company's warrants at the date of issue.

14. 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 the three months ended December 31, 2013 and year ended September 30, 2013 are summarized as follows:

	March 31, 2014		September 30, 2013	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of the period	4,930,000	$0.21	4,150,000	$0.21
Granted	950,000	$0.20	1,080,000	0.20
Expired	-	-	(300,000)	0.20
Balance, end of period	5,880,000	$0.21	4,930,000	$0.21

Options to purchase common shares outstanding at December 31, 2013 carry exercise prices and remaining terms to maturity as follows:

Expiry Date	Exercise Price $	Options Outstanding	Options Exercisable	Fair Value per option $	Remaining Contractual Life (year)
April 13, 2016	0.25	1,000,000	1,000,000	0.139	2.04
August 16, 2016	0.20	1,750,000	1,312,500	0.128	2.38
November 8, 2016	0.20	100,000	33,333	0.110	2.61
August 8, 2017	0.20	700,000	466,667	0.150	3.36
August 23, 2017	0.20	300,000	100,000	0.150	3.40
February 4, 2018	0.20	580,000	580,000	0.160	3.85
March 22, 2018	0.20	500,000	-	0.130	3.98
January 28, 2019	0.20	950,000	316,667	.054	
	0.21	5,880,000	3,492,500		2.85

During the six month period ended March 31, 2014, the Company granted 950,000 new options (2013 – 1,080,000). The fair value of the options issued during the six month period ended March 31, 2014and year ended September 30, 2013 were estimated using the Black-Scholes option pricing model with the following assumptions:

(Expressed in Canadian dollars, unless otherwise stated)

	2014	2013
Risk free interest rate	1.25%	1.77%
Expected dividend yield	Nil	Nil
Expected volatility	170%	140%
Expected life	5 years	5 years

Option pricing models require the input of subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the estimate of fair value, and therefore, use of Black-Scholes option pricing model, may not provide a realistic measure of the fair value of the Company's options at the date of issue.

15. Commitments and Contingencies

Operating Lease Commitments

Minimum payments due under operating leases in respect of office space and office equipment are set out below.

2014		**42,830**
2015		**53,307**
2016		**48,865**
	$	**145,002**

The Company currently has an employment agreement with the provision of termination and change of control benefits with an officer of the Company. The agreement for the officer provides that in the event that their employment is terminated by the Company other than for cause then the officer shall be entitled to a lump sum payment amount equal to the greater of (i) the annual base salary plus the annual bonus received by the Officer during the year multiplied by the number of remaining three months of the then current term of the employment agreement and (ii) three times the annual compensation of the Officer plus continuation of employment benefits for the remainder of the term of the employment agreement in effect immediately prior to termination. The additional commitments total approximately $912,500. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements.

The Company is party to various claims and proceedings arising in the normal course of business. Currently, the Company is seeking damages from and wants to void a consulting arrangement signed in 2011. The Defendants have counterclaimed against the Company for breach of contract and misrepresentation. Management's position is that the counter claim is without merit that and the Company has a meritorious claim against the Defendants and meritorious defense to the counterclaim.

16. 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. No balances are considered past due or impaired.

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 March 31, 2014, the Company had a cash balance of $560,278 (September 30, 2013- $2,774) to settle current liabilities of $2,330,990 (September 30, 2013 - $2,395,913). 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, and in seeking new equity financing to enable it to service the Company's liabilities and its ongoing administrative costs. There can be no assurance that the Company will be successful in these initiatives. All of the Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

(a) Interest rate risk

The Company has incurred short term debt of $550,000 based on the terms described in Note 10. The rate of interest is fixed and is not subject to change based on any external chance in interest rates.

The Company's current policy is to invest excess cash in investment-grade, short-term deposit certificates issued by its banking institutions.

17. 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.

18. Subsequent event

On May 16, 2014 the Company closed a private placement to issue 4,307,732 shares at a price of 15 cents per share. Of this amount, $262,500 represented new funds and $183,660 was used to setoff existing debts. In connection with this financing 875,000 warrants were issued at a strike price of 20 cents which expire November 30, 2015.