

Hamilton Thorne Ltd.
Interim Financial Statements
September 30, 2010

Notice of no auditor review of interim financial statements

The following interim financial statements of the Company, as at September 30, 2010 and for the periods ended September 30, 2010 and 2009, 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 financial statements in accordance with the standards established for a review of interim financial statements by the entity's auditor.

Hamilton Thorne Ltd.
Consolidated Balance Sheets

As at September 30, 2010 and December 31, 2009
(Expressed in U.S. Dollars - unaudited)

	2010	2009
Assets		
Current		
Cash and cash equivalents	979,669	1,356,371
Accounts receivable	1,047,921	499,875
Inventories (note 4)	562,059	512,300
Prepaid expenses and other current assets	42,560	72,689
Note receivable, officer (note 17)	-	23,813
	2,632,209	2,465,048
Capital assets (note 5)	97,297	90,481
Other assets	123,757	72,454
	2,853,263	2,627,983
Liabilities		
Current		
Accounts payable and accrued liabilities	1,269,107	1,171,562
Notes payable (note 6)	41,536	83,037
Capital lease obligations, current (note 7)	5,753	5,753
Deferred revenue, current	75,406	35,881
	1,391,802	1,296,233
Capital lease obligations, non-current (note 7)	2,758	7,904
Deferred revenue, long-term	83,355	-
Long-term debt (note 8)	6,122,051	5,050,000
	7,599,966	6,354,137
Shareholders' Equity (Deficiency)		
Common shares (notes 9, 10 & 11)	24,408,306	24,341,938
Warrants (notes 9 & 12)	349,019	344,949
Contributed surplus (note 13)	322,417	199,767
Accumulated deficit	(29,826,445)	(28,612,808)
	(4,746,703)	(3,726,154)
	2,853,263	2,627,983

Commitments (note 15)

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

Hamilton Thorne Ltd.
Consolidated Statements of Operations and Comprehensive Loss and Deficit
For the periods ended September 30, 2010 and 2009
(Expressed in U.S. Dollars - unaudited)

	<i>Nine Months</i>		<i>Three Months</i>	
	2010	2009	2010	2009
Sales	4,502,571	3,597,533	1,713,364	1,463,109
Cost of sales	1,740,501	1,316,211	670,816	493,138
	2,762,070	2,281,322	1,042,548	969,971
Expenses				
Research and development	718,500	590,293	239,246	192,596
Sales and marketing	1,650,274	1,434,464	569,480	524,460
General and administrative	1,381,822	1,067,305	441,567	325,652
	3,750,596	3,092,062	1,250,293	1,042,708
Loss from operations	(988,526)	(810,740)	(207,745)	(72,737)
Other income (expense)				
Interest expense, net, including accretion (notes 6, 7 & 8)	(225,111)	(286,318)	(92,997)	(113,261)
Net loss and comprehensive loss	(1,213,637)	(1,097,058)	(300,742)	(185,998)
Accumulated deficit at beginning of period:	(28,612,808)	(27,225,220)	(29,525,703)	(28,136,280)
Accumulated deficit at end of period:	(29,826,445)	(28,322,278)	(29,826,445)	(28,322,278)
Loss per share				
Basic and diluted	\$ (0.05)	\$ (0.07)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding (notes 2 & 16)				
Basic and diluted	24,415,157	16,035,067	24,415,157	16,035,067

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

Hamilton Thorne Ltd.
Consolidated Statements of Cash Flows

*For the periods ended September 30, 2010 and 2009
(Expressed in U.S. Dollars - unaudited)*

	<i>Nine Months</i>		<i>Three Months</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Cash flows from operating activities				
Net loss for the year	(1,213,637)	(1,097,058)	(300,742)	(185,998)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	48,750	84,678	17,559	27,276
Non-cash interest expense/accretion	8,833	113,692	8,833	38,314
Share-based compensation expense	122,650	27,780	43,150	8,330
Changes in non-cash operating assets and liabilities:				
Accounts receivable	(548,046)	108,158	37,026	(367,418)
Inventories	(49,759)	128,411	7,823	122,638
Prepays and other current assets	53,942	3,673	10,467	11,835
Other assets	(57,000)	(402,127)	-	(392,725)
Accounts payable and accrued liabilities	97,545	567,046	(226,910)	542,685
Deferred revenue	122,880	7,645	(8,008)	11,000
	(1,413,842)	(458,102)	(410,802)	(184,063)
Cash flows from investing activities				
Purchase of capital assets	(49,869)	(58,017)	(1,672)	-
Cash flows from financing activities				
Proceeds from debt	2,754,340	682,714	1,999,886	235,036
Private placement costs refunded	3,814	-	-	-
Payments on debt	(1,671,145)	(125,154)	(614,446)	(7,423)
	1,087,009	557,560	1,385,440	227,613
Net Increase (decrease) in cash and cash equivalents	(376,702)	41,441	972,966	43,550
Cash and cash equivalents, beginning of period	1,356,371	5,029	6,703	2,920
Cash and cash equivalents, end of period	979,669	46,470	979,669	46,470

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

Hamilton Thorne Ltd.
Notes to the Consolidated Interim Financial Statements
For the periods ended September 30, 2010 and 2009
(Expressed in U.S. Dollars - unaudited)

1. Basis of Presentation

The interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and are presented in U.S. dollars. They are consistent with the policies used in the preparation of our annual audited consolidated statements. These interim unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2009 which are available on SEDAR.

Hamilton Thorne Ltd. (the "Company" or "HTL") was created on October 28, 2009 by the reverse takeover ("RTO") by Hamilton Thorne, Inc. ("HTI") of Calotto Capital Inc. ("Calotto")(the "Transaction"). Calotto was incorporated under the Business Corporations Act (Ontario) on February 19, 2007 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange"). Accordingly, Calotto had no assets other than cash and no commercial operations.

These interim unaudited consolidated financial statements have been prepared on the "going concern" basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

These interim unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Hamilton Thorne, Inc. All significant inter-company balances and transactions have been eliminated on consolidation. The Company has no interest in variable interest entities.

2. Reverse Takeover Accounting

Pursuant to the terms of the Merger Agreement, dated October 12, 2009, HTI became a wholly owned subsidiary ("legal subsidiary") of the Company and 303.89 common shares of HTL were issued in exchange for each common share of HTI outstanding. In addition, all warrants and options of HTI outstanding were similarly converted into warrants and options to purchase common shares of HTL at the same 303.89 conversion rate, on economically equivalent terms and conditions.

Prior to the effective date of the transaction, Calotto undertook a consolidation of its common shares in a ratio of 1 for 7.712255, thereby reducing the common shares outstanding from 22,211,925 shares to 2,880,085 shares. Similarly, options to purchase common shares outstanding were reduced from 2,220,001 to 287,854. In addition, immediately preceding the RTO, HTI raised gross proceeds of \$2,065,107 (Cdn\$2,200,000), including conversion of debt of \$475,000 (Cdn\$503,500) in a brokered private placement, issuing units consisting of one share of common stock and a warrant to purchase one share of common stock priced at Cdn\$121.556 (\$114.675) per unit (see note 9). The costs, including agent's commission and expenses, of the private placement amounted to \$415,297.

The transaction was effective October 28, 2009 and has been accounted for as an RTO transaction in accordance with guidance provided in Emerging Issues Committee Abstract No. 10 - Reverse Takeover Accounting (EIC 10). As Calotto did not qualify as a business for accounting purposes, according to the definition in Emerging Issues Committee Abstract No. 124 - Definition of a Business (EIC-124) the transaction has been accounted for as an issuance of shares by HTI for the net monetary assets of Calotto followed by a recapitalization of HTI.

The net assets of the Company received were as follows:

Cash	794,832
Less current liabilities	<u>9,655</u>
Net assets acquired	<u>785,177</u>

Hamilton Thorne Ltd.
Notes to the Consolidated Interim Financial Statements

*For the periods ended September 30, 2010 and 2009
(Expressed in U.S. Dollars - unaudited)*

2. Reverse Takeover Accounting *(continued from previous page)*

Pursuant to the RTO transaction, the financial statements for the year ended December 31, 2009 reflect the assets, liabilities and results of operations of HTI prior to the RTO. The consolidated assets, liabilities and results of operations of Calotto and HTI are included subsequent to the RTO. The consolidated financial statements are issued under the the legal parent (the Company), but are deemed to be a continuation of the legal subsidiary. Net loss per share has also been adjusted for all periods presented in accordance with the guidance provided in EIC Abstract No. 10. Accordingly, the shares issued in respect of the private placement and the settlement of the debt in the current year have not been included in the calculation of basic and fully diluted earnings per share in the prior year.

The costs of the RTO amounted to \$497,830. Under the provisions of EIC-10 these costs are to be charged to retained earnings to the extent of cash in the non-operating public company (Calotto), with the excess, if any, to be charged as an expense. At the time of the closing of the transaction Calotto had \$794,832 in cash; therefore the entire amount of the transaction costs have been charged to accumulated deficit.

The Company changed its fiscal year end from January 31 to December 31 as a result of the RTO.

3. New Accounting Pronouncements

Business Combinations

Section 1582, Business Combinations, replaces Section 1581, Business Combinations. The section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The new standard is not expected to have a material effect on the Company's consolidated financial statements.

Consolidated Financial Statements

Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), Consolidated and Separate Financial Statements. The sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The new standards are not expected to have a material effect on the Company's financial statements.

International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be fully converged into IFRS, as issued by the International Accounting Standards Board (IASB). The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Therefore, the Company will be required to report under International Financial Reporting Standards ("IFRS") no later than in the first quarter of 2011, with restatement of comparative information. The conversion to IFRS will impact the Company's accounting policies, systems, disclosures and controls.

Hamilton Thorne Ltd.
Notes to the Consolidated Interim Financial Statements
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3. New Accounting Pronouncements *(continuing from previous page)*

The Company has completed the preliminary impact assessment including a detailed analysis of the impact of adopting IFRS on the Company's financial statements and has reached the following preliminary conclusions.

a. IFRS Statement 1 - Exemptions for Business Combinations

The Reverse Takeover Transaction with Calotto Capital Inc., as described in footnote 2, was in substance an issuance of shares and other equity instruments for the cash of Calotto. As an equity transaction, the expenses of the stock and equity instruments' issuance were charged to equity. This accounting treatment is consistent with IFRS accounting for equity transactions per IAS -32 Financial Instruments: Disclosure and Presentation. IAS -32 states that transaction expenses incurred as a necessary part of completing an equity transaction are accounted for as part of that transaction and are deducted from equity.

b. Certain Balance Sheet accounts, as indicated below, were analyzed for the impact of converting to IFRS and our preliminary conclusions are that these accounts would not require an adjustment to convert to IFRS.

IAS -18: Revenue - Reserve for Sales Returns and Allowances

IAS -18: Revenue - Allowance for Doubtful Accounts

IAS -36: Impairment of Assets - Prepaid Expenses and Other Assets

IAS -2: Inventory

IAS -16: Property, Plant and Equipment - Accounting Policy Model

IAS -16: Property, Plant and Equipment - Accumulated Depreciation Reserve

IAS -17: Leases

IFRS -7: Financial Instruments: Disclosures - Accounts Payable and Accrued Expenses

IFRS -7: Financial Instruments: Disclosures - Bank Note Payable

c. Various accounts relating to stock compensation expense were assessed and analyzed for the impact of converting to IFRS which resulted in the preliminary conclusion that these accounts would require a material adjustment to convert to IFRS -2: Share-based payments

The Company's options vest generally over a three year period, except for certain options that vest monthly, and other options that vested at the date of issuance. IFRS -2 requires that each period of the vesting period is calculated separately, which is graded vesting, and the sum of the periods results in the total stock-based compensation expense for the option awards.

IFRS -2: Share-based payments also requires that an estimate of forfeitures be factored into the calculation of the stock-based compensation expense.

IAS -12: Income Taxes

IAS -12: Income Taxes is similar to Canadian GAAP as the Company has to recognize deferred taxes on temporary differences between the book carrying value of assets and liabilities, and their tax value, offset by a valuation reserve to the extent that the future tax deductions are unlikely to be deductible due to continuing operating losses.

Deferred tax assets and the offsetting valuation reserve will be recalculated to reflect the changes due to the adoption of the IFRS 2 method of calculating stock-based compensation expense.

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4. Inventories

Inventories are stated at the lower of cost and net realizable value using the average cost method. Inventories are reviewed periodically for slow-moving or obsolete status based on sales activity, both projected and historical, and allowances are established for inventory that is determined to be excess or obsolete. During the three and nine months ended September 30, 2010 the Company increased its allowance by \$6,000 and \$18,000, respectively (\$6,000 and \$18,000, respectively in 2009). No write down of inventories was recorded during the periods in either 2010 or 2009. Included in cost of sales for the three and nine months ended September 30, 2010 are inventory costs of \$516,817 and \$1,315,650, respectively (\$365,535 and \$934,305, respectively for 2009).

	<i>September 30, 2010</i>	<i>December 31, 2009</i>
Raw materials and purchased parts	539,640	497,514
Work-in-progress	19,002	-
Finished goods	3,417	14,786
	562,059	512,300

5. Capital Assets

Capital assets consist of the following at September 30, 2010

	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Net Book Value</i>
Machinery and equipment	1,085,717	991,782	93,935
Furniture and fixtures	95,624	93,630	1,994
Leasehold improvements	35,129	33,761	1,368
	1,216,470	1,119,173	97,297

Capital assets consist of the following at December 31, 2009

	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Net Book Value</i>
Machinery and equipment	1,043,209	956,910	86,299
Furniture and fixtures	94,508	93,071	1,437
Leasehold improvements	35,129	32,384	2,745
	1,172,846	1,082,365	90,481

6. Notes Payable

	<i>September 30, 2010</i>	<i>December 31, 2009</i>
Notes payable, officers	7,233	56,006
Note payable, shareholder	25,000	25,000
Note payable, other	9,303	2,031
Total notes payable	41,536	83,037

Notes payable, officers

See Note 17 Related Party Transactions for information on Notes payable, officers

Note payable, shareholder

In October 2006 a shareholder advanced the Company \$50,000 in return for a promissory note payable upon demand with interest at the prime rate (3.25% at September 30, 2010), plus 1%. In November 2006, \$25,000 of principal was repaid leaving \$25,000 outstanding at September 30, 2010 and December 31, 2009.

Hamilton Thorne Ltd.
Notes to the Consolidated Interim Financial Statements
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(Expressed in U.S. Dollars - unaudited)

6. Notes Payable (continuing from previous page)

Note payable, other

During 2010 and 2009, the Company financed \$24,367 and \$17,714, respectively of its insurance premiums through installment notes with an insurance financing company. The balances due as of September 30, 2010 and December 31, 2009 were \$9,303 and \$2,031, respectively.

7. Capital Lease Obligations

In January 2008, the Company entered into a financing lease to fund the purchase of software. The lease is payable over 48 months with a monthly payment of \$713. The following is a schedule by year of future minimum lease payments together with the present value of the lease payments as of September 30, 2010:

2010	2,138
2011	7,126
Total minimum capital lease payments	9,264
Less amount representing interest	753
Present value of minimum capital lease payments	8,511
Less current portion	5,753
Non-current portion	2,758

For the three and nine months ended September 30, 2010, interest expense relating to the capital lease totaled \$359 and \$1,268, respectively (\$603 and \$2,476, respectively in 2009).

8. Long-term Debt

	September 30, 2010	<i>December 31, 2009</i>
Notes payable under bank line of credit	5,000,000	5,000,000
Convertible debentures	1,072,051	-
Subordinated convertible note payable, shareholder	50,000	50,000
Total long-term debt	6,122,051	5,050,000

Notes payable under bank line of credit

In October 2007, the Company consolidated two separate line of credit agreements with different banks into a line of credit with one financial institution. The agreement provides for a maximum borrowing of \$5,000,000. Borrowings under the agreement were payable on demand until September 30, 2009 when the agreement was amended to establish a loan termination date of October 1, 2011.

The notes bear interest at the LIBOR 30 Day Index Rate plus 2% or lender's base rate less one-half percent based on the date of the borrowing at the borrower's election, but in no case will the rate be less than four percent per annum. Borrowings under the agreement are collateralized by substantially all the Company's assets and by letters of credit provided by two stockholders. The Company is in compliance with the one financial covenant in the agreement. As of September 30, 2010 borrowings totaled \$5,000,000 (\$5,000,000 at December 31, 2009) with interest at 4% and were classified as long-term debt on the balance sheet.

Convertible debentures

In August 2010, the Company sold an aggregate of \$1,250,000 of debentures to two existing shareholders. The debentures were issued in Canadian dollars at the applicable Bank of Canada noon exchange rate on the day before issuance (Cdn\$1,304,250). The ten percent (10%) per annum simple interest payable on the debentures is to be accrued and paid only upon the earlier of maturity or conversion of the debentures. The debentures mature 24 months after the date of issue.

Hamilton Thorne Ltd.
Notes to the Consolidated Interim Financial Statements
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(Expressed in U.S. Dollars - unaudited)

8. Long-term Debt *(Continuing from previous page)*

At maturity, the debentures will convert at a 20% discount to its then volume weighted average market price, with a minimum conversion price of Cdn\$0.20 per share and a maximum conversion price of Cdn\$0.60 per share. The debentures stipulate that, subject to the foregoing, in the event the Company completes an equity offering for gross proceeds of at least \$1,500,000 (an "Equity Offering"), the debentures will automatically convert, with a 10% discount to the Equity Offering price if the Equity Offering is completed in the first year of the debenture and a 20% discount to the Equity Offering price if the Equity Offering is completed in the second year.

The net cash proceeds were approximately \$1,113,000, after expenses, including a cash fee of \$52,500 to the Company's financial advisor along with 105,000 warrants to acquire one common share at an exercise price of Cdn\$0.50 for a period of two years.

The relative fair value of the advisor's options were valued using the Black-Scholes option pricing model using the following fair value assumptions: dividend yield 0%, volatility 65%, expected life 2 years and risk free interest of 0.54%. The fair value of each option was \$0.04 and the fair value of the options was allocated to warrants in the amount of \$4,070

Subordinated convertible note payable, shareholder

A shareholder provided financing in the amount of \$400,000 to the Company in increments of \$100,000 in each of March, May, June and August of 2009 in the form of subordinated convertible notes, payable two years from the date of the note. The notes were convertible, at the option of the holder, in the next round of equity financing that raised a minimum of \$1.5 million (exclusive of the noteholders participation in the equity financing) at the same terms and conditions as other investors participating in the equity financing. In August and September 2009 a then director of the Company lent the Company \$75,000 and \$50,000, respectively, on subordinated convertible notes under the same terms and conditions as the four \$100,000 notes above. All these notes were subordinated to the Company's bank line of credit. In October 2009 immediately preceding the RTO, \$475,000 of these notes were converted to equity as part of the private placement (see note 9 below) leaving a \$50,000 note outstanding at September 30, 2010 and December 31, 2009.

9. Private Placement

In October 2009, immediately preceding the RTO, HTI completed a brokered private placement whereby HTI issued 13,956.531 (4,241,254 on a post-RTO basis) units (the "Units"). In addition, at the same time \$475,000 of debt was converted into 4,142.124 (1,258,751 on a post-RTO basis) Units. Each Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of Cdn\$0.60 (\$0.566) for a period of eighteen months from the date of issuance.

The relative fair value of the warrants included in the private placement units were valued using the Black-Scholes option pricing model using the following fair value assumptions: dividend yield 0%, volatility 65%, expected life 1.5 years and risk free interest of 1%. The fair value of each warrant was \$0.05 and the fair value of the warrants was allocated to warrants in the amount of \$271,035.

The agent for the private placement received an 8% selling commission and options to acquire that number of Units equal to 8% of the number of Units sold pursuant to the offering and of the Units issued in the debt conversion for a total of 440,001 Units (post RTO).

The relative fair value of the agent options were valued using the Black-Scholes option pricing model using the following fair value assumptions: dividend yield 0%, volatility 65%, expected life 1.5 years and risk free interest of 1%. The fair value of each option was \$0.17 and the fair value of the options was allocated to warrants in the amount of \$73,914.

Hamilton Thorne Ltd.
Notes to the Consolidated Interim Financial Statements
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(Expressed in U.S. Dollars - unaudited)

10. Share Capital

There are an unlimited number of common shares authorized. The issued and outstanding common shares are 24,415,157 at both September 30, 2010 and December 31, 2009.

At the annual meeting in June 2010 the shareholders authorized the creation of an unlimited number of shares designated as Preferred Shares, issuable in series. They further approved certain rights, privileges, restrictions and conditions that can attach to the preferred shares as determined by the directors of the Company. As of September 30, 2010 no preferred share series has been created.

See Note 8 - Long-term Debt regarding the convertible debentures issued in August 2010. Depending upon the then market price, a minimum of 2,173,750 and a maximum of 6,521,250 shares will be issuable upon conversion.

11. Escrowed Shares

Under the requirements of the Ontario Securities Commission and the TSX Venture Exchange, 15,511,613 common shares issued under the November 5, 2009 Qualifying Transaction ("Exchange Notice") and 310,272 options to purchase common shares are subject to Surplus Security Escrow Agreements. 570,523 shares are under a CPC Escrow Agreement and will be released as to 10% on the issuance of the Final Exchange Notice ("Initial Release") and as to 15% on each of the 6, 12, 18, 24, 30 and 36 months following the Initial Release. The remaining 14,941,090 shares and the 310,272 options are under a QT Escrow Agreement and will be released as to 5% on the Initial Release, 5% 6 months following, another 10% on each of the 12 and 18 months following, another 15% on each of the 24 and 30 months following and the final 40% 36 months following the Initial Release.

As at September 30, 2010, 13,874,878 common shares and 279,246 options were held in escrow under these agreements.

12. Warrants

See Note 9 – Private Placement for warrants issued in the private placement and in conjunction with the debt conversion. All the 5,500,005 warrants and 440,001 agent options expire on April 28, 2011 and are outstanding at September 30, 2010.

See Note 8 - Long-term Debt for warrants issued to agent in conjunction with the convertible debenture offering in August 2010. All the 105,000 warrants are outstanding at September 30, 2010.

13. Stock Option Plans

2007 Stock Option Plan of Calotto

Calotto adopted the 2007 Stock Option Plan (the "2007 Plan") on July 20, 2007. Under the 2007 Plan, the board of directors of Calotto may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers and technical consultants to Calotto, non-transferable Calotto Options to purchase Common Shares, exercisable for a period of up to five years from the date of grant. The number of Common Shares reserved for issuance under the 2007 Plan is equal to 287,854 Common Shares on a post-RTO basis.

The number of common shares reserved for issuance to any individual director or officer under the 2007 Plan may not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants under the 2007 Plan may not exceed 2% of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with Calotto, 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. If an optionee shall cease to be a director of Calotto upon Calotto successfully completing its Qualifying Transaction, then all unexercised options granted to such optionee shall expire one year from the date of the Final Exchange Bulletin issued by the Exchange in connection with such Qualifying Transaction which was November 5, 2009.

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13. Stock Option Plans *(Continuing from previous page)*

At September 30, 2010, there are 287,854 Calotto options outstanding, exercisable into 287,854 common shares under the 2007 Plan at an exercise price of Cdn\$0.7712255 per share that were all granted in 2007. There were no options granted, forfeited or terminated during 2008 or 2009. Options for 99,260 shares expire on July 20, 2012 and options for 188,594 shares will expire on November 5, 2010 due to termination of participants because of the completion of Calotto's Qualifying Transaction. No further options may be granted under the 2007 Plan.

2009 Stock Option Plan

On August 4, 2009 the Company adopted the 2009 Stock Option Plan (the "2009 Plan"). Under the 2009 Plan, the board of directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, employees, consultants and consultant companies options to purchase common shares, exercisable for a period of up to ten years from the date of grant. The 2009 Plan was approved by the shareholders of the Company in August 2009 and 3,431,830 shares were reserved for issuance under the 2009 Plan. In June 2010 the shareholders voted to increase the number of shares reserved for issuance under the Plan to a total of 4,800,000. As of September 30, 2010 there are 871,390 options available for future grants.

The number of common shares reserved for issuance to any individual director or officer under the 2009 Plan may not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all consultants under the 2009 Plan may not exceed 2% of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if the cessation of a participant was by reason of death or disability, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option. Options granted may be "incentive stock options" for US participants. The exercise price per share shall be based on the closing sale price traded on an exchange on the first business day preceding the date of grant.

Information regarding stock option activity under the 2007 and 2009 Plans follows:

	2007 Plan		2009 Plan	
	Number of Options	Weighted Average Exercise Price in Cdn \$	Number of Options	Weighted Average Exercise Price in Cdn \$
Outstanding at December 31, 2008	287,854	0.7712	698,036	0.2176
Granted	-	-	2,302,714	0.4000
Exercised or forfeited	-	-	-	-
Outstanding at December 31, 2009	287,854	0.7712	3,000,750	0.3576
Granted	-	-	927,860	0.2567
Exercised or forfeited	-	-	-	-
Outstanding at September 30, 2010	287,854	0.7712	3,928,610	0.3337
Options exercisable at December 31, 2009	287,854	0.7712	1,000,215	0.3170
Options exercisable at September 30, 2010	287,854	0.7712	1,604,198	0.3323

The weighted average grant date fair value of options granted in 2010 was \$0.15 (\$0.19 in 2009)

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13. Stock Option Plans (Continuing from previous page)

The fair value of options granted in 2010 was determined using the Black-Scholes option pricing model with a weighted average volatility of 65%, risk-free interest rates of approximately 2 to 3%, dividend yield of nil and an expected life of 6.25 years. Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history. The expected life represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the US Treasury notes rates with a term similar to the expected life of the options.

The Company recorded stock-based compensation expense of \$43,150 and \$122,650 during the three and nine months ended September 30, 2010, respectively (\$8,330 and \$27,780, respectively in 2009). Amounts during the 2010 periods were included in General and administrative expenses. During the three and nine month period ended September 30, 2009 \$3,430 and \$11,680, respectively were included in General and administrative expenses and \$4,900 and \$16,100, respectively were included in Research and development expenses.

At September 30, 2010, the following stock options were outstanding under the 2007 and 2009 Plans:

Expiration date	Exercise Price in Cdn \$	Number of Options Outstanding	Number of Options Exercisable	Weighted Average Life Remaining In Years
November, 2010	0.7712255	188,594	188,594	0.1
July, 2012	0.7712255	99,260	99,260	1.8
November, 2017	0.2176	387,764	258,914	7.2
January, 2018	0.2176	310,272	290,872	7.3
November, 2019	0.40	2,302,714	1,011,459	9.1
March, 2020	0.40	244,152	-	9.5
May, 2020	0.24	10,000	834	9.6
August, 2020	0.205	673,708	42,119	9.9
		4,216,464	1,892,052	8.4

14. Segmented Information and Major Customers

The Company's operations are comprised of a single reporting segment engaged within the United States. As such, the amounts reported and disclosed in the financial statements for sales, net loss, depreciation and total assets also represent segmented amounts.

The Company had sales to two customers that exceeded 10% of revenues in each of the periods reported. Aggregate sales to the two customers for the three and nine months ended September 30, 2010 were approximately \$391,000 (22.8%) and \$1,159,000 (25.7%), respectively (\$411,000 - 28.1% and \$911,000 - 25.3%, respectively for 2009).

15. Commitments

The Company and its subsidiary are committed under operating leases for rental of offices and equipment. Future minimum annual rentals are as follows:

Three months ending December 31, 2010	105,028
2011	387,591
2012	373,290
2013	35,417
2014	2,589
	<u>903,915</u>

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16. Loss Per Share

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of common shares outstanding during the period. The diluted loss per share is calculated using the treasury stock method. 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 all periods reported, the effect of exercising options and warrants and conversion of the convertible debt would be anti-dilutive and therefore diluted loss per share is the same as basic loss per share.

17. Related Party Transactions

At September 30, 2010, the Company was indebted to certain officers under various unsecured notes payable bearing interest at 7%. In December 2008 an officer of the Company lent \$50,000 on a promissory note payable, subordinated to the bank line of credit, with interest at the prime rate (3.25% at September 30, 2010), plus 1%. In April 2010 a total of \$45,340 of indebtedness by the officer to the Company (described below) was offset against the \$50,000 note. Total indebtedness to officers at September 30, 2010 amounted to \$7,233 (\$56,006 at December 31, 2009).

In January 2007, the Company lent \$20,000 to an officer on an unsecured promissory note payable at maturity on December 31, 2009, bearing interest at the prime lending rate. In April 2010 the Company offset the principal and all accrued interest (totaling \$24,023) against the \$50,000 note payable to the officer. At December 31, 2009 the indebtedness to the Company totaled \$23,813.

At December 31, 2009 an officer owed the Company approximately \$24,000 for certain advances made and for an advance against future pay. In April 2010 these amounts were offset against the \$50,000 note payable to the officer.

See Notes 6 & 8 - Notes Payable and Long-term Debt for information on notes to shareholders and sale of convertible debentures to shareholders.

18. Cash Flow Supplementary Information

	<i>Nine Months</i>		<i>Three Months</i>	
	2010	<i>2009</i>	2010	<i>2009</i>
Interest paid in cash	163,025	129,983	55,559	57,501
Non-cash items during the periods				
Interest income on note receivable	210	422	-	-