

Hamilton Thorne Ltd.
Financial Statements
December 31, 2010 and 2009

Management's Statement of Responsibility for Financial Reporting

To the Shareholders of Hamilton Thorne Ltd.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the Management Discussion and Analysis ("MD&A") is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the MD&A. The Committee fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Committee is also responsible for recommending the appointment of the Company's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

"Meg Spencer"

Chief Executive Officer

"Michael W. Bruns"

Chief Financial Officer

April 21, 2011



MEYERS NORRIS PENNY LLP

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hamilton Thorne Ltd.:

We have audited the accompanying consolidated financial statements of Hamilton Thorne Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hamilton Thorne Ltd. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the continuation of the Company's operations is dependent on the ability to achieve future profitable operations and to obtain additional financing. For the year ended December 31, 2010, the Company has incurred losses amounting to \$1,843,263. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Meyers Norris Penny LLP

Toronto, Ontario
April 21, 2011

Chartered Accountants
Licensed Public Accountants

Hamilton Thorne Ltd.
Consolidated Balance Sheets
As at December 31, 2010 and 2009
(Expressed in U.S. Dollars)

	2010	2009
Assets		
Current		
Cash and cash equivalents	714,498	1,356,371
Accounts receivable	971,406	499,875
Inventories (note 5)	544,170	512,300
Prepaid expenses and other current assets	58,241	72,689
Note receivable, officer (note 21)	-	23,813
	2,288,315	2,465,048
Property and equipment (note 6)	134,662	90,481
Deposits	111,968	72,454
	2,534,945	2,627,983
Liabilities		
Current		
Accounts payable and accrued liabilities	1,412,831	1,171,562
Notes payable (note 7)	104,460	83,037
Capital lease obligations, current (note 8)	20,250	5,753
Deferred revenue	91,086	35,881
	1,628,627	1,296,233
Total current liabilities	1,628,627	1,296,233
Capital lease obligations, non-current (note 8)	37,295	7,904
Deferred revenue, long-term	79,486	-
Long-term debt (note 9)	6,121,015	5,050,000
	7,866,423	6,354,137
Total liabilities	7,866,423	6,354,137
Shareholders' Equity (Deficiency)		
Common shares (notes 11, 12 & 13)	24,345,752	24,341,938
Warrants (notes 11 & 14)	349,019	344,949
Contributed surplus (note 15)	429,822	199,767
Accumulated deficit	(30,456,071)	(28,612,808)
	(5,331,478)	(3,726,154)
Total Shareholders' equity (deficiency)	(5,331,478)	(3,726,154)
Total Liabilities and shareholders' equity (deficiency)	2,534,945	2,627,983

Nature of operations and going concern (note 1)

Commitments (note 18)

Subsequent event (note 22)

Approved by the Board of Directors

"Bruno Maruzzo"

Bruno Maruzzo

Chairman of the Audit Committee

"Dean Gendron"

Dean Gendron

Director

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

Hamilton Thorne Ltd.
Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

	2010	2009
Sales	6,200,430	4,794,693
Cost of sales	2,349,707	1,769,658
Gross profit	3,850,723	3,025,035
Expenses		
Research and development	985,438	843,948
Sales and marketing	2,372,326	1,938,541
General and administrative	1,995,010	1,551,157
Total expenses	5,352,774	4,333,646
Loss from operations	(1,502,051)	(1,308,611)
Other income (expense)		
Interest expense including accretion (notes 7, 8, 9, & 10)	(341,422)	(367,191)
Interest income	210	867
Net loss and comprehensive loss for the year	(1,843,263)	(1,674,935)
Loss per share:		
Basic	\$ (0.08)	\$ (0.10)
Diluted	\$ (0.08)	\$ (0.10)
Weighted average number of common shares outstanding:		
Basic	24,415,157	17,504,453
Diluted	24,415,157	17,504,453

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

Hamilton Thorne Ltd
Consolidated Statements of Shareholders' Equity (Deficiency)

For the Years Ended December 31, 2010 and 2009

(Expressed in U.S. Dollars)

	Common Shares		Preferred Shares			Contributed	Accumulated	
	Shares	Dollars	Shares	Dollars	Warrants	Surplus	Deficit	Total
December 31, 2008	8,500	2,000,813	28,610	19,065,033	456,615	38,956	(27,225,220)	(5,663,803)
Stock based compensation (note 15)	-	-	-	-	-	33,980	-	33,980
Issuance of shares in private placement, net of expenses (note 11)	13,957	903,775	-	-	271,035	-	-	1,174,810
Issuance of shares to settle debt (notes 9 & 11)	4,142	475,000	-	-	-	-	-	475,000
Issuance of agent warrants and options (note 11)	-	(73,914)	-	-	73,914	-	-	-
Conversion of preferred shares (note 11)	35,355	20,579,562	(28,610)	(19,065,033)	-	-	-	1,514,529
Exercise of warrants (note 14)	8,911	456,702	-	-	(456,615)	-	-	87
Balances - pre-merger and prior to recording loss for the year	70,865	24,341,938	-	-	344,949	72,936	(27,225,220)	(2,465,397)
Calotto Capital equity balances pre-merger (note 2)	22,211,925	1,569,214	-	-	-	157,412	(941,449)	785,177
Calotto Capital shares consolidated on the basis of one share for every 7.712255 share outstanding (note 2)	(19,331,840)	-	-	-	-	-	-	-
Reverse takeover adjustment (note 2)	-	(1,569,214)	-	-	-	(157,412)	1,726,626	-
Issued to shareholders of HTI pursuant to merger agreement (note 2)	21,464,207	-	-	-	-	-	-	-
Reverse takeover costs incurred (note 2)	-	-	-	-	-	-	(497,830)	(497,830)
Stock based compensation (note 15)	-	-	-	-	-	126,831	-	126,831
Net loss	-	-	-	-	-	-	(1,674,935)	(1,674,935)
December 31, 2009	24,415,157	24,341,938	-	-	344,949	199,767	(28,612,808)	(3,726,154)
Stock based compensation (note 15)	-	-	-	-	-	167,500	-	167,500
Issuance of convertible debentures - equity value (note 9)	-	-	-	-	-	62,555	-	62,555
Issuance of agent warrants (note 9)	-	-	-	-	4,070	-	-	4,070
Adjustment to takeover costs incurred (note 2)	-	3,814	-	-	-	-	-	3,814
Net loss	-	-	-	-	-	-	(1,843,263)	(1,843,263)
December 31, 2010	24,415,157	24,345,752	-	-	349,019	429,822	(30,456,071)	(5,331,478)

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

Hamilton Thorne Ltd.
Consolidated Statements of Cash Flows
For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

	2010	2009
Cash flows from operating activities:		
Net loss for the year	(1,843,263)	(1,674,935)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	61,702	113,136
Non-cash interest expense/accretion	107,686	124,936
Share-based compensation expense	167,500	160,811
Changes in non-cash operating assets and liabilities:		
Accounts receivable	(471,531)	458,364
Inventories	(31,870)	120,912
Prepaid expenses and other current assets	38,261	(28,378)
Deposits	(39,514)	(2,878)
Accounts payable and accrued liabilities	191,380	68,356
Deferred revenue	134,691	13,499
Net cash flows used in operating activities	(1,684,958)	(646,177)
Cash flows from investing activities:		
Purchase of capital assets	(55,004)	(59,305)
Cash flows from financing activities:		
Proceeds from debt	2,153,944	1,167,195
Payments on debt	(2,189,511)	(617,183)
Proceeds from issuance of subordinated convertible notes payable	1,129,842	-
Costs of private placement refunded	3,814	-
Deferred financing costs	-	34,913
Proceeds from exercise of warrants	-	87
Issuance of common share units - net of expenses	-	1,174,810
Net cash acquired in RTO	-	794,832
Reverse takeover costs incurred	-	(497,830)
Net cash flows provided by financing activities	1,098,089	2,056,824
Net Increase (decrease) in cash and cash equivalents	(641,873)	1,351,342
Cash and cash equivalents, beginning of year	1,356,371	5,029
Cash and cash equivalents, end of year	714,498	1,356,371
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	213,804	192,714
Supplemental disclosure of non-cash financing activities:		
Equipment acquired under capital lease	50,879	0
Conversion of debt to equity	0	475,000

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

1. Nature of Operations and Going Concern

Nature of Operations

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.

Calotto’s fiscal year-end previously ended on January 31. Just prior to the RTO, Calotto changed its fiscal year-end to December 31 to coincide with HTI’s year-end and changed its name to Hamilton Thorne Ltd.

The Company’s principal business is the development, manufacture and sale of advanced laser systems and instruments for living cell applications in the regenerative medical research and fertility markets.

Going Concern

These 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.

Certain principal conditions and events are prevalent which indicate that there is doubt about the Company’s ability to continue as a going concern for a reasonable period of time in future. The Company has incurred substantial recurring losses to date and it reports a shareholders’ deficiency at December 31, 2010.

In the future, it may be necessary for the Company to raise additional funds to fund expanding sales and continued development and introduction of new products to its family of products. To date the Company has raised financing through successive sales of equity, bridge financings and expanding bank loans.

The consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Company be unable to continue in business. If the “going concern” assumption were not appropriate for these consolidated financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used.

Hamilton Thorne Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

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 transaction, 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 13). 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>

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.

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.

Hamilton Thorne Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

3. Significant Accounting Policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

The significant accounting policies followed by the Company are as follows:

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to estimates and assumptions include, but are not limited to, the estimated useful life of assets, inventory obsolescence, the measurement and determination of stock-based compensation and warrants, legal liabilities, bad debt expense, and allowance for doubtful accounts. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits held with banks with original maturities of less than 90 days. Cash equivalents are carried at fair value and accounts are subject to any withdrawal restrictions or penalties.

Inventories

Inventories are measured at the lower of cost and net realizable value. Costs of inventory are calculated on an average cost basis. In determining net realizable value, the Company considers factors such as current selling price, product lifecycle including cost to sell, and future sales volumes. Allowances for slow-moving or obsolete inventory are recorded when considered appropriate.

Property and Equipment

Property and equipment are recorded at cost and are amortized over their estimated useful lives using the following methods and rates:

Machinery and equipment	2-5 years straight line
Leasehold improvements	Term of the lease, straight line
Furniture and fixtures	5-10 years straight line

Hamilton Thorne Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

3. Significant Accounting Policies *(Continuing from previous page)*

Capital Leases

The Company's policy is to record leases, which transfer substantially all benefits and risks incidental to ownership of property, as acquisition of property and equipment and to record the corresponding obligations as liabilities. Obligations under capital leases are reduced by rental payments, net of imputed interest.

Impairment of Long-lived Assets

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Management reviews the carrying value of the assets and considers whether an impairment charge should be recorded. The review is based on the assessment of technological changes; the Company's intended use and on the projected estimated undiscounted cash flows expected to be generated from the underlying assets. Any impairment results in an impairment of the assets and a charge to income during the year to the extent that the asset's carrying value exceeds its fair value, generally determined on a discounted cash flow basis.

Revenue Recognition

The Company recognizes revenue from product sales upon shipment (provided there is persuasive evidence of an arrangement), when there are no uncertainties surrounding acceptance, when collection is reasonably assured, when the sales price is fixed or determinable and only perfunctory Company obligations included in the arrangement, if any, remain to be completed.

The Company also sells service contracts for service and maintenance of the underlying product beyond the warranty period. The Company defers revenue upon entering into the agreement and recognizes revenue ratably over the contract period. Unrecognized revenue at year end is shown on the balance sheet as deferred revenue.

Research and Development

Research costs are expensed as incurred. Development costs are charged to operations as incurred unless such costs meet all criteria under GAAP for deferral and amortization. No development costs have been deferred to date.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the basis for assets and liabilities on the balance sheet and their corresponding tax values as well as loss carry-forwards, using the substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to be reversed. A valuation allowance is recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will not be realized.

3. Significant Accounting Policies *(Continuing from previous page)*

Financial Instruments - Recognition and Measurement

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are all recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3840, Related Party Transactions.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income/loss. Cash and cash equivalents are classified as held-for-trading. Financial assets classified as available-for-sale are measured at fair value, using quoted market prices when available, with unrealized gains and losses being recognized as other comprehensive income until realized.

Financial assets classified as loans and receivables are measured at amortized cost, using the effective interest rate method of amortization. The carrying amount of accounts receivables, officer notes, and other receivables is a reasonable approximation of fair value due to the short-term nature of these financial instruments.

Other financial liabilities are measured at amortized cost, using effective interests rate method of amortization. The carrying amount of the accounts payable and accrued liabilities is a reasonable approximation of fair value due to the short-term nature of this financial instrument. The carrying value of the long-term debt, notes payable, capital lease obligations approximates their fair value, and the carrying value of the convertible debentures is being accreted to its face value over the term of the debentures such that they will be recorded at their full value when they become due and payable in less than a year.

The Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments.

The fair value of these financial instruments is described in note 20.

Comprehensive Income

Comprehensive income measures net earnings for the period plus other comprehensive income. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the year. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income. To date there has not been any other comprehensive income or loss.

Stock-Based Compensation

The Company has a stock-based compensation plan, which is described in note 15. The Company uses the fair value method to account for stock options granted to employees, directors and consultants, determined utilizing the Black-Scholes option pricing model for employee grants as well as for non-employees if the fair value of the services are not determinable. Options issued to employees, directors and consultants are recognized as an expense over the vesting period and the offset is credited to contributed surplus. Any consideration paid on exercise of stock options would be credited to share capital and the related contributed surplus transferred to share capital.

3. Significant Accounting Policies *(Continuing from previous page)*

Loss Per Share

Basic loss per share is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. 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.

4. New Accounting Pronouncements

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, as well as the opening balance sheet as of January 1, 2010. The conversion to IFRS will impact the Company's accounting policies, systems, disclosures and controls.

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 note 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

Hamilton Thorne Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

4. New Accounting Pronouncements *(Continuing from previous page)*

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.

d. 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.

5. 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 year, the Company increased its allowance by \$9,000 (\$32,000 in 2009). No write down of inventories was recorded during 2010 or 2009. Included in cost of sales are inventory costs of \$1,694,000 (\$1,226,000 in 2009).

	2010	2009
Raw materials and purchased parts	608,228	561,514
Finished goods	8,942	14,786
Allowance for obsolete or slow-moving items	(73,000)	(64,000)
Total	544,170	512,300

Hamilton Thorne Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

6. Property and Equipment

Property and equipment consist of the following at December 31:

	<i>Cost</i>	<i>2010 Accumulated Depreciation</i>	<i>Net Book Value</i>
Machinery and equipment	1,141,732	1,009,797	131,935
Furniture and fixtures	95,624	93,812	1,812
Leasehold improvements	35,129	34,214	915
Total	1,272,485	1,137,823	134,662

	<i>Cost</i>	<i>2009 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
Total	1,172,846	1,082,365	90,481

Included are assets under capital lease in the amount of \$76,574 (2009 - \$25,695) for cost and \$18,543(2009- \$8,565) for accumulated depreciation.

Hamilton Thorne Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

7. Notes Payable

Notes payable due within one year consist of the following at December 31:

	2010	2009
Notes payable, officers	7,279	56,006
Note payable, shareholder	25,000	25,000
Subordinated convertible note payable, shareholder	50,000	-
Note payable, other	22,181	2,031
Total notes payable	104,460	83,037

Notes payable, officers

See Note 21 - 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 plus 1%. In November 2006, \$25,000 of principal was repaid, leaving \$25,000 outstanding at December 31, 2010 and 2009.

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 each 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 11 below) leaving a \$50,000 note, due October 18, 2011 as outstanding at December 31, 2010 and December 31, 2009. The note is classified as short-term as of December 31, 2010.

Note payable, other

During 2010 and 2009, the Company financed certain of its insurance premiums through installment notes with an insurance financing company. The Company financed \$53,767 and \$17,714 during 2010 and 2009, respectively. The balances due as of December 31, 2010 and 2009 were \$22,181 and \$2,031, respectively.

Hamilton Thorne Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

8. 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. In November 2010 company entered into a financing lease to fund the purchase of microscopes and stages to be used as demo equipment. The lease is payable over 36 months with a monthly payment of \$2,105.

The following is a schedule by year of future minimum lease payments together with the present value of the lease payments as of December 31:

	2010	2009
Total minimum capital lease payments	84,000	15,679
Less amount representing interest	26,455	2,022
<hr/>		
Present value of minimum capital lease payments	57,545	13,657
Less current portion	20,250	5,753
<hr/>		
Non-current portion	37,295	7,904
<hr/>		

For the years ended December 31, 2010 and 2009, interest expense relating to the capital lease totaled \$1,561 and \$3,021, respectively.

9. Long-term Debt

Long-term debt consists of the following at December 31:

	2010	2009
Notes payable under bank line of credit	5,000,000	5,000,000
Convertible debentures	1,121,015	-
Subordinated convertible note payable, shareholder	-	50,000
<hr/>		
Total long-term debt	6,121,015	5,050,000
<hr/>		

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. On December 30, 2010, the agreement was further amended to extend the termination date to October 1, 2012.

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. As of December 31, 2010 and 2009, borrowings totaled \$5,000,000 with interest at 4% and were classified as long-term debt on the balance sheet. Borrowings under the agreement are collateralized by substantially all the Company's assets and by letters of credit provided by two shareholders. The Company is in compliance with the one financial covenant in the agreement.

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

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.

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 convertible debentures were recorded at their fair value, and are being accreted to their face value over the term of the debentures, using the effective interest method, so that they will be recorded at their full value when they become due and payable. The Company also recorded \$62,555 in equity value attributable to beneficial conversion features. The fair value of the advisor's warrants 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 warrant was \$0.04 and the fair value of the warrants was allocated to warrants in the amount of \$4,070.

Subordinated convertible note payable, shareholder

See Note 7 - Notes Payable for information on these notes, which are due within one year.

10. Preferred Shares

Immediately preceding the RTO in 2009 (see Note 2), all the preferred shares of Hamilton Thorne, Inc. ("HTI") were converted into common shares of HTI and were exchanged for a total of 10,744,034 common shares of the Company. The information as to numbers of shares and prices presented in this note refer to the terms of the preferred shares of HTI.

HTI was authorized to issue 200,000 shares of common and preferred stock with a par value of \$.01 of which 166,378 shares were common stock and 33,622 shares were preferred stock (the "Preferred Stock"). The authorized Preferred Stock was comprised of 6,243 shares designated as Series A Preferred Stock (the "Series A Preferred"), 8,676 shares designated as Series B Preferred Stock (the "Series B Preferred"), 12,894 shares designated as Series C-1 Preferred Stock (the "Series C-1 Preferred") and 5,809 shares designated as Series C-2 Preferred Stock (the "Series C-2 Preferred").

10. Preferred Shares *(Continuing from previous page)*

The Series A Preferred and Series B Preferred were convertible at any time at the option of the holder into shares of common stock, on a one for one basis, subject to adjustment, as defined in the agreement. Dividends were payable at the same rate (on an equal per share basis) as dividends are paid with respect to the common stock.

Series C Preferred

In December 2006 HTI entered into a Preferred Stock Purchase Agreement and amended its articles of incorporation authorizing 24,000 shares of Series C Redeemable Convertible Preferred Stock, \$.01 par value (the "Series C Preferred") (the "Series C Preferred Stock Agreement"). The Series C Preferred Stock Agreement was for the sale of 5,809 shares of the Company's Series C-2 Preferred at a price of \$430.40 per share for total proceeds of approximately \$2,500,000. In addition, HTI issued 11,789 shares of Series C-1 Preferred in exchange for approximately \$5,420,000 of debt and related accrued interest. In May 2008 HTI further amended its articles of incorporation reducing to 18,703 the number of authorized shares of Series C Preferred.

Conversion

Each share of Series A, Series B and Series C Preferred was convertible at the option of the holder thereof at any time into one share of common stock. The conversion feature for the Series C Preferred was subject to adjustment including, but not limited to, adjustment for dilutive issuances. Prior to the issuance of certain warrants in 2007 (See Note 16), the Series C-1 and Series C-2 Preferred were convertible into 11,789 and 5,809 shares of common stock, respectively, and after the issuance of the warrants, the Series C-1 and Series C-2 Preferred were convertible into 13,689 and 6,745 shares, respectively.

11. 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 warrants 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 warrants 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 \$0.17 and the fair value of the warrants was allocated to warrants in the amount of \$73,914.

Hamilton Thorne Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

12. Share Capital

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

See Note 9 - 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.

13. 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 December 31, 2010, 12,295,186 common shares and 248,218 options were held in escrow under these agreements. As at December 31, 2009, 14,707,511 common shares and 294,759 options were held in escrow.

14. Warrants

Information regarding warrant activity is as follows:

	<i>Number</i>	<i>Weighted Average Exercise Price in Cdn \$</i>
Outstanding at December 31, 2008	0	
Issued (1)	5,500,005	0.6000
Issued (1)	440,001	0.4000
Exercised or expired	0	-
Outstanding at December 31, 2009	5,940,006	0.5900
Issued (2)	105,000	0.5000
Exercised or expired	0	
Outstanding at December 31, 2010	6,045,006	0.5800

(1) In 2009, warrants were issued in the private placement and in conjunction with the debt conversion. See Note 11. All the 5,500,005 warrants and 440,001 agent warrants expire on April 28, 2011 and are outstanding at December 31, 2010 and 2009.

(2) In August 2010 warrants were issued to the Company's financial advisor in conjunction with the issuance of convertible debentures. The warrants expire two years from the date of issue.

15. Stock Option Plans

2007 Stock Option Plan (originally 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.

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.

At December 31, 2010, there are 99,260 Calotto options outstanding and exercisable into common shares under the 2007 Plan at an exercise price of Cdn\$0.7712 per share that were all granted in 2007. There were no options granted, forfeited or terminated during 2009 or 2010. Options for 188,594 shares expired on November 5, 2010 due to termination of participants because of the completion of the Calotto's Qualifying Transaction. Options for 99,260 shares expire on July 20, 2012, and 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"), including the roll-over and inclusion of the 2007 HTI Plan. Under the 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 Plan was approved by the shareholders of the Company in August 2009 and 3,431,830 shares were reserved for issuance under the 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 December 31, 2010 there are 627,238 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. The vesting requirements are determined by the Compensation committee of the Board. In general, the options granted to directors vest monthly over three years and officers vest over four years.

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.

Hamilton Thorne Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

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

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	0		2,302,714	0.4000
Exercised or forfeited	0	-	-	
Outstanding at December 31, 2009	287,854	0.7712	3,000,750	0.3576
Granted	0		1,172,012	0.2553
Forfeited	(188,594)	0.7712	-	
Outstanding at December 31, 2010	99,260	0.7712	4,172,762	0.3288
Exercisable at December 31, 2009	287,854	0.7712	1,000,215	0.3170
Exercisable at December 31, 2010	99,260	0.7712	1,941,203	0.3267

In November 2009, following the adoption of the Plan and the successful RTO capitalization, the Board granted options to officers and directors totaling 2,302,714 at standard vesting terms. Using the Black-Scholes model, with assumptions noted below, the fair value weighted average of the each option was \$0.19.

In 2010, the Board granted options to existing employees, vesting over 36 to 48 months, as well as new officers and a director, totaling 1,172,012. Using the Black-Scholes model, with assumptions noted below, the fair value weighted average of the each option was \$0.15.

The fair value of options granted in 2009 and 2010 was determined using the Black-Scholes 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 \$167,500 and \$160,811 during the years ended December 31, 2010 and 2009, respectively, and included in General and administrative expenses.

At December 31, 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
July, 2012	0.7712	99,260	99,260	1.8
November, 2017	0.2176	387,764	387,764	6.9
January, 2018	0.2176	310,272	300,572	7.1
November, 2019	0.4000	2,302,714	1,166,961	8.8
March, 2020	0.4000	244,152	-	9.2
May, 2020	0.2400	10,000	1,668	9.4
August, 2020	0.2050	673,708	84,238	9.7
December, 2020	0.2500	244,152	-	9.9
Total		4,272,022	2,040,463	8.6

Hamilton Thorne Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

16. Geographic Information and Major Customers

The Company sells in diverse geographic regions world-wide, with approximately 40% of total sales in North America. The capital assets of the Company are all located in the United States.

The Company had sales to two major distributors which exceeded 10% of revenues in each of the years ended December 31, 2010 and 2009. Aggregate sales to the two distributors were approximately 29% and 26% for the years ended December 31, 2010 and 2009, respectively.

17. Income Taxes

A reconciliation of the differences between the statutory U.S. federal income tax expense (benefit) and the Company's effective tax expense at December 31 is as follows:

	2010		2009	
	Tax Amount	Effective Rate	Tax Amount	Effective Rate
Federal at statutory rates	(626,709)	34.00%	(569,478)	34.00%
State income taxes, net of federal benefit	15,358	(0.83%)	116,728	(7.07%)
Permanent items:				
Interest on redeemable preferred shares	-	(0%)	42,477	(2.57%)
Other permanent differences	44,951	(2.44%)	27,273	(1.13%)
Change in valuation allowance	566,400	(30.73%)	383,000	(23.23%)
Income tax expense (recovery)	-	-	-	-

The significant components of the Company's future income tax assets are as follows at December 31:

	2010	2009
Future income tax assets		
Benefits of loss carryforwards	9,372,000	8,910,000
Stock-based compensation	140,400	58,000
Capital assets	70,000	70,000
Other assets	69,000	47,000
Future tax assets	9,651,400	9,085,000
Less: Valuation allowance	(9,651,400)	(9,085,000)
Net future taxes	-	-

As a result of losses from operations, the Company has provided for a full valuation allowance due to the degree of uncertainty relating to the ultimate realization of the future tax assets.

At December 31, 2010, the Company had available net operating loss (NOL) carryforwards, to reduce future taxable income for US federal income tax purposes of approximately \$26,110,000 expiring through 2030 and approximately \$8,249,000 for state purposes. The future benefit of these federal NOL carryforwards may be limited by on an annual basis and in total under Section 382 of the United States Internal Revenue Code as a result of prior ownership changes and depending on the extent of future ownership changes. As a result of its valuation allowance, the Company has not currently recognized any benefit for these losses in its consolidated financial statements.

Hamilton Thorne Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

17. Income taxes (Continuing from previous page)

Net Operating Loss Carryovers (20 year carryover)

	Loss	Expire in	Amount
Expiring	1998	2019	28,000
	1999	2020	304,000
	2000	2021	2,013,000
	2001	2022	3,013,000
	2002	2023	3,950,000
	2003	2024	3,129,000
	2004	2025	2,844,000
	2005	2026	2,644,000
	2006	2027	1,428,000
	2007	2028	2,264,000
	2008	2029	1,265,000
	2009	2030	1,725,000
	2010	2031	1,503,000
	Total		<u>26,110,000</u>

U.S. Income Tax Status

U.S. federal tax legislation was enacted in 2004 to address perceived U.S. tax concerns in “corporate inversion” transactions. A “corporate inversion” generally occurs when a non-U.S. corporation acquires “substantially all” of the equity interests in, or the assets of, a U.S. corporation or partnership, if, after the acquisition, former equity holders of the U.S. corporation or partnership own a specified level of stock in the non-U.S. corporation. The tax consequences of these rules depend upon the percentage identity of stock ownership that results. Generally, in the “80-percent identity” transactions, i.e. former equity holders of the U.S. corporation owns 80% or more of the equity of the non-U.S. acquiring entity (excluding certain equity interests), the tax benefits of the inversion are limited by treating the non-U.S. acquiring entity as a domestic entity for U.S. tax purposes. In the “60-80 percent identity” transactions, the benefits of the inversion are limited by barring certain corporate-level “toll charges” from being offset by certain tax attributes of the U.S. corporation (e.g. loss carryforwards), and imposing excise taxes on certain stock based compensation held by “insiders” of the U.S. corporation.

Management is of the view that a corporate inversion has resulted from the RTO transaction completed in 2009, as disclosed in Note 2. However, management has not yet determined whether the Company is subject to the “80 percent” or the “60-80 percent” identity with respect to the transactions undertaken in the 2009 year since the interpretation of which categories of stock ownership are to be considered under the inversion rules is not yet settled.

Hamilton Thorne Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)

18. Commitments

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

2011	409,178
2012	394,877
2013	394,650
2014	392,289
2015	386,340
Thereafter	804,875
	<hr/>
	2,782,209
	<hr/>

19. Capital Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the continued development and commercialization of its technologies and to provide financial flexibility. In the management of capital, the Company includes the components of shareholders' equity (deficiency) as well as its debt. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, raise new debt or enter into new capital leases.

There are no externally imposed capital requirements other than our standard bank covenant applicable to the line of credit.

20. Financial Instruments

Fair Value

The Company's carrying value of cash and cash equivalents, accounts receivable, notes receivable officer, and accounts payable and accrued liabilities approximate their fair values due to the immediate or short term maturity of these instruments.

The carrying value of the notes payable, capital leases, and long-term debt approximate their fair value as the interest rates are consistent with the current market rates for debt with similar terms.

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding at December 31, 2010:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Notes receivable, officer	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Notes payable	Other financial liabilities
Obligations under capital leases	Other financial liabilities
Long-term debt	Other financial liabilities

Hamilton Thorne Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2008
(Expressed in U.S. Dollars)

20. Financial Instruments (Continuing from previous page)

Carrying value and fair value of financial assets and liabilities are summarized as follows:

	<i>December 31, 2010</i>		<i>December 31, 2009</i>	
	<i>Carrying value</i>	<i>Fair value</i>	<i>Carrying value</i>	<i>Fair value</i>
Held-for-trading	714,498	714,498	1,356,371	1,356,371
Loans and receivables	971,406	971,406	523,688	523,688
Other financial liabilities	7,695,851	7,695,851	6,318,256	6,318,256

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash and cash equivalents are classified as a Level 1 financial instrument. During the year, there have been no transfers of amounts between Level 1 and Level 2. There are no items classified in Level 3.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. All of the Company's notes payable and long-term debt bear interest at variable rates. The carrying value of the notes payable and long-term debt approximates their fair value as the interest rates are consistent with the current prime rate offered in the credit market. Increases in interest rates could have a material impact on the Company's net income and comprehensive income.

For the year ended December 31, 2010, a change in interest rate relating to the notes payable under the bank line of credit of 1% would have increased interest expense by approximately \$50,000 (approximately \$50,000 for 2009).

Foreign Exchange Rate Risk

Foreign exchange rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the change in market foreign exchange rates. Financial assets and financial liabilities that bear foreign exchange at fixed rates are subject to foreign exchange rate risk. The Company's convertible debentures bear fixed Canadian rate requirements.. Increases in foreign exchange rates could have a material impact on the Company's net income and comprehensive income.

Hamilton Thorne Ltd.
Notes to the Consolidated Financial Statements

*For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)*

20. Financial Instruments *(Continuing from previous page)*

For the year ended December 31, 2010, a change in foreign exchange rate relating to the convertible debentures of \$.01 would have increased exchange rate expense by approximately \$12,500 (approximately \$0 for 2009).

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. Frequently the Company will request either a letter of credit or advance payment terms for new customers. An allowance for doubtful accounts is established based upon specific factors surrounding the credit risk of specific accounts, historical trends and other information. Over the past years, the Company has experienced few bad debt write offs and accordingly its allowance at December 31, 2010 and 2009 is \$25,000 and \$20,500, respectively. It is management's opinion that the Company is not exposed to any significant price or currency risk arising from these financial instruments.

As at December 31, 2010, the Company had a concentrated credit risk with two customers totaling 23% and 13% of its accounts receivable respectively (2009 - three customers accounted for 17%, 13% and 13% respectively). As of December 31, 2010 the Company's aging of receivables was approximately 84% under 30 days, 4% over 30 days, and 12% over 60 days (2009 - 59% under 30 days, 30% over 30 days, and 11% over 60 days).

Liquidity risk

Liquidity risk is the risk that the Company would not be able to meet its financial obligations as they come to maturity or can only do so at excessive costs. Based on the Company's ability to generate cash flows through its ongoing operations, management believes that cash flows are sufficient to cover its known operating and capital requirements, as well as its debt servicing costs. The Company however, could not, without restructuring its bank line of credit, meet its longer term commitments. Therefore, management evaluates that the Company's liquidity risk is moderate to high, at this time. The Company is now examining its options, which may include replacing or extending the current bank line, raising additional equity and other financing alternatives.

The maturity dates of the Company's financial liabilities as at December 31, 2010 are as follows:

	<i>Carrying amount</i>	<i>Contractual cash flows</i>	<i>Maturing in the next 12 months</i>	<i>Maturing in 13 to 36 months</i>
Accounts payable and accrued liabilities	1,412,831	1,412,831	1,412,831	-
Bank line of credit	5,000,000	5,000,000	-	5,000,000
Obligations under capital leases	57,545	57,545	20,250	37,295
Convertible debentures	1,121,015	1,121,015	-	1,121,015
Notes payable	104,460	104,460	104,460	-
Total	7,695,851	7,695,851	1,537,541	6,158,310

21. Related Party Transactions

At December 31, 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 December 31, 2010), plus 1%. Total indebtedness to officers at December 31, 2010 and 2009 amounted to \$7,279 and \$56,006, respectively.

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 (3.25% at December 31, 2008), plus 1%. At December 31, 2010 and 2009, total indebtedness to the Company totaled \$0 and \$23,813, respectively.

In April, 2010 amounts owed to the Company by an officer for certain advances were fully offset against notes payable. At December 31, 2010 and 2009, advances owed to the Company by an officer totaled \$0 and \$24,000, respectively.

In August and September 2009 a then director of the Company lent the Company \$75,000 and \$50,000, respectively, on subordinated convertible notes. All these notes were subordinated to the Company's bank line of credit. In October 2009 immediately preceding the RTO, \$75,000 of these notes were converted to equity as part of the private placement, leaving a \$50,000 convertible note, due October 18, 2011 as outstanding at December 31, 2010 and December 31, 2009. The note is classified as short-term as of December 31, 2010.

In August 2010, a Company insider purchased \$500,000 of convertible debentures (see note 9).

See notes 7 - Notes Payable and 9 -Long-term Debt for information on notes to shareholders.

22. Subsequent Event

In March 2011 the Company sold an aggregate of \$650,000 of convertible unsecured subordinated debentures in a private placement. The proceeds will be used for potential product line acquisitions, research and development, and general working capital. The debentures were issued in Canadian dollars at the applicable Bank of Canada noon exchange rate on the day before issuance (Cdn\$638,825). 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 on August 12, 2012 and will rank pari passu with the debentures issued by the Company in August 2010.

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\$0.24 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 \$575,000, after expenses, including a cash fees of \$45,500 to the Company's financial advisors along with 89,435 warrants to acquire one common share at an exercise price of Cdn\$0.50 for a period of two years.