Hamilton Thorne Ltd.

Condensed Consolidated Interim Financial Statements

September 30, 2011

Notice of no auditor review of interim financial statements

The following interim financial statements of the Company, as at September 30, 2011 and for the periods ended September 30, 2011 and 2010, 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 Statements of Financial Position
As at September 30, 2011 and December 31, 2010
(Expressed in U.S. Dollars - unaudited)

	September 30, 2011	*December 31, 2010*
Assets		
Current		
Cash and cash equivalents	618,359	714,498
Accounts receivable	1,176,576	971,406
Inventories (note 4)	756,241	544,170
Prepaid expenses and other current assets	85,303	58,241
	2,636,479	2,288,315
Property and equipment (note 5)	186,816	134,662
Other assets	112,126	111,968
Total assets	**2,935,421**	2,534,945
Liabilities		
Current		
Accounts payable and accrued liabilities	1,390,981	1,412,831
Notes payable (note 6)	46,590	104,460
Capital lease obligations, current (note 7)	30,621	20,250
Deferred revenue	46,136	91,086
Total current liabilities	**1,514,328**	1,628,627
Capital lease obligations, non-current (note7)	48,949	37,295
Deferred revenue, long-term	79,486	79,486
Long-term debt (note 8)	3,771,506	6,121,015
Total liabilities	**5,414,269**	7,866,423
Shareholders' Equity (Deficiency)		
Common shares (notes 9, 10 & 11)	28,621,499	24,345,752
Warrants (notes 9 & 12)	354,127	349,019
Contributed surplus (note 13)	741,927	607,535
Accumulated deficit	(32,196,401)	(30,633,784)
Total Shareholders' equity (deficiency)	**(2,478,848)**	(5,331,478)
Total Liabilities and shareholders' equity (deficiency)	**2,935,421**	2,534,945

Nature of operations and going concern (note 1)

Commitments (note 15)

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

Hamilton Thorne Ltd.
Consolidated Statements of Operations and Comprehensive Loss
For the three and nine months ended September 30, 2011 and 2010
(Expressed in U.S. Dollars - unaudited)

	Three Months ended September 30		*Nine Months ended September 30*	
	2011	*2010*	***2011***	*2010*
Sales	**1,858,333**	1,713,364	**5,136,989**	4,502,571
Cost of sales	**701,167**	670,816	**1,926,450**	1,740,501
	1,157,166	1,042,548	**3,210,539**	2,762,070
Expenses				
Research and development	**267,842**	239,246	**887,570**	718,500
Sales and marketing	**676,734**	569,480	**1,985,974**	1,650,274
General and administrative	**426,076**	463,062	**1,457,584**	1,446,307
Total expenses	**1,370,652**	1,271,788	**4,331,128**	3,815,081
Loss from operations	**(213,486)**	(229,240)	**(1,120,589)**	(1,053,011)
Other income (expense)				
Interest expense, net, including accretion (notes 6, 7 & 8)	**(159,518)**	(92,997)	**(442,028)**	(225,111)
Net loss and comprehensive loss	**(373,004)**	(322,237)	**(1,562,617)**	(1,278,122)
Loss per share (note 16)				
Basic	($0.01)	($0.01)	($0.06)	($0.05)
Diluted	($0.01)	($0.01)	($0.06)	($0.05)
Weighted average number of common shares outstanding (notes 2 & 16)				
Basic	28,616,836	24,415,157	25,831,108	24,415,157
Diluted	28,616,836	24,415,157	25,831,108	24,415,157

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

Hamilton Thorne Ltd

Consolidated Statements of Shareholders' Equity (Deficiency)

For the nine months ended September 30, 2011 and 2010

(Expressed in U.S. Dollars - unaudited)

-	Common Shares			Contributed	Accumulated	
	Shares	Dollars	Warrants	Surplus	Deficit	Total
December 31, 2010 (restated for IFRS - note 19)	**24,415,157**	**24,345,752**	**349,019**	**607,535**	**(30,633,784)**	**(5,331,478)**
Share-based payments expense (note 13)	-	-	-	110,871	-	110,871
Issuance of convertible debentures - equity value (note 9)		-	-	23,521	-	23,521
Issuance of agent warrants (note 9)	-	-	4,476	-	-	4,476
Issuance of common stock, net of expenses - private placement (note 10)	13,331,330	2,649,022				2,649,022
Issuance of common stock to convert debentures and notes - private placement (notes 8 and 9)	8,868,878	1,627,357				1,627,357
Issuance of agent warrants (note 10)	-	(632)	632	-	-	-
Net loss				-	(1,562,617)	(1,562,617)
September 30, 2011 (restated for IFRS - note 19)	**46,615,365**	**28,621,499**	**354,127**	**741,927**	**(32,196,401)**	**(2,478,848)**

	Shares	Dollars	Warrants	Surplus	Deficit	Total
December 31, 2009	**24,415,157**	**24,341,938**	**344,949**	**199,767**	**(28,612,808)**	**(3,726,154)**
Adjustment to IFRS, effective January 1, 2010 (note 19)				**91,733**	**(91,733)**	
January 1, 2010 - restated (note 19)	**24,415,157**	**24,341,938**	**344,949**	**291,500**	**(28,704,541)**	**(3,726,154)**
Share-based payments expense (note 13)	-	-	-	187,135	-	187,135
Issuance of convertible debentures - equity value (note 9)				62,554		62,554
Issuance of agent warrants (note 9)			4,070			4,070
Adjustment to takeover costs incurred (note 3)		3,814				3,814
Net loss				-	(1,278,122)	(1,278,122)
September 30, 2010 (restated for IFRS - note 19)	**24,415,157**	**24,345,752**	**349,019**	**541,189**	**(29,982,663)**	**(4,746,703)**

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

Hamilton Thorne Ltd
Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2011 and 2010

(Expressed in U.S. Dollars - unaudited)

	Three Months ended September 30		*Nine Months ended September 30*	
	2011	*2010*	***2011***	*2010*
Cash flows from operating activities				
Net loss for the year	**(373,004)**	(322,237)	**(1,562,617)**	(1,278,122)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	**24,460**	17,559	**53,380**	48,750
Non-cash interest expense/accretion	**(65,393)**	8,833	**147,878**	8,833
Share-based payments expense	**36,560**	64,645	**110,870**	187,135
Changes in non-cash operating assets and liabilities:		-		-
Accounts receivable	**(189,943)**	37,026	**(205,170)**	(548,046)
Inventories	**(54,955)**	7,823	**(212,071)**	(49,759)
Prepaid expenses and other current assets	**14,345**	10,467	**(27,062)**	53,942
Other assets	**870**	-	**(158)**	(57,000)
Accounts payable and accrued liabilities	**(67,887)**	(226,910)	**48,818**	97,545
Deferred revenue	**(8,849)**	(8,008)	**(44,950)**	122,880
Net cash flows used in operating activities	**(683,796)**	(410,802)	**(1,691,082)**	(1,413,842)
Cash flows from investing activities				
Purchase of capital assets	**(15,670)**	(1,672)	**(58,924)**	(49,868)
Cash flows from financing activities				
Proceeds from debt	**12,457**	1,999,886	**600,475**	2,754,340
Payments on debt	**(1,573,360)**	(614,446)	**(1,595,630)**	(1,671,145)
Proceeds from issuance of common stock, net of expenses	**2,649,022**		**2,649,022**	
Costs of private placement refunded			**-**	3,814
Net cash flows provided by financing activities	**1,088,119**	1,385,440	**1,653,867**	1,087,009
Net Increase (decrease) in cash and cash equivalents	**388,653**	972,966	**(96,139)**	(376,701)
Cash and cash equivalents, beginning of period	**229,706**	6,703	**714,498**	1,356,371
Cash and cash equivalents, end of period	**618,359**	979,669	**618,359**	979,670
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	69,860	55,559	202,137	163,025
Supplemental disclosure of non-cash financing activities:				
Equipment acquired under capital lease	-	0	46,610	0
Conversion of debentures to equity	1,573,212		1,573,212	
Conversion of subordinated note to equity	54,145		54,145	

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

1. Reporting entity

a) Nature of Operations

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.

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. HTL's shares are traded on the Exchange as a Tier 2 Corporation, under the stock symbol "HTL".

The Company operates from its primary offices in Beverly, Massachusetts, USA. Its registered office is located at 333 Bay Street, Toronto, Ontario, Canada.

The condensed consolidated interim financial statements of the Company for the period ended September 30, 2011 were authorized for issuance by the Board of Directors and the Audit Committee, on November 28, 2011.

b) Going Concern

These condensed consolidated interim 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, using the historical cost basis.

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 September 30, 2011 and 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, issuances of debt and convertible subordinated debt, and expanding bank loans.

2. Basis of Preparation

a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting and International Financial Reporting Standards ("IFRS") 1 – First-time Adoption of IFRS, as they represent a portion of the period to be covered by the Company's first IFRS annual financial statements for the year ending December 31, 2011. The reconciliations to IFRS from the previously published statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") are summarized in Note 19.

Certain information, in particular the accompanying notes normally included in the annual financial statements in accordance with IFRS, has been omitted or condensed. As a result, these interim financial statements do not include all annual disclosures required under IFRS. These interim financial statements should be read in conjunction with the Company's 2010 annual audited financial statements prepared in accordance with prior Canadian GAAP, and in consideration of the significant accounting policies included in this note and the IFRS transition disclosures included in Note 19.

The policies applied in these condensed consolidated financial statements are based on IFRS issued as at September 30, 2011, and expected to be adopted in the annual consolidated financial statements for the year ending December 31, 2011. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these condensed consolidated financial statements, including the transitional adjustments recognized on change over to IFRS.

b) Basis of Measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis, with the exception of cash equivalents and financial instruments measured at fair value. The principal accounting policies are set out in the remainder of this note.

c) Functional and Presentation Currency

These condensed consolidated financial statements are presented in US dollars, which is the Company's functional currency.

d) Significant Accounting Policies

The accounting policies outlined below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening statement of financial position at January 1, 2010 for the purposes of transitioning to IFRS, unless otherwise noted.

The Company's world-wide business is somewhat seasonal. Commercial and academic research establishments tend to begin the year slowly, as they finalize budgets. Historically sales in our first quarter of the year are typically down from prior quarter, with sales momentum accelerating throughout the year and peaking in the third or fourth quarter.

Principles of Consolidation
These condensed 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 and Critical Judgments
The preparation of financial statements in conformity with IFRS requires management to make critical judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the condensed 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 share-based payments expense and warrants, legal liabilities, sales returns and allowances, 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

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.

Significant Accounting Policies *(Continuing from previous page)*

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 IFRS 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. Tax benefits are recognized only to the extent that, based on available evidence, it is more likely than not that they will be realized.

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 IFRS.

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 is described in note 8.

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.

Significant Accounting Policies *(Continuing from previous page)*

Share-based payments
The Company has a Share-based payments plan, which is described in note 15. The Company uses the fair value method estimated at grant date 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 on a straight line basis over the vesting period (graded vesting), and the offset is credited to contributed surplus. The historical forfeiture rate is also factored in to the calculations. Any consideration paid upon exercise of stock options would be credited to share capital and the related contributed surplus transferred to share capital.

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. 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.

New Accounting Pronouncements
In May 2011, the IASB issued the following standards which have not yet been adopted by the Company. Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt. any of the new requirements. These pronouncements were publicized on May 12, 2011:
IFRS 9 - Financial Instruments (issued November 2009, beginning on or after January 1, 2013.)
IFRS 10 - Consolidation
IFRS 11 - Joint Arrangements
IFRS 12 - Disclosure of Interests in Other Entities
IFRS 13 - Fair Value Measurement

3. 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 HT 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 IFRS 3 - Business Combinations. As Calotto did not qualify as a business for accounting purposes, according to the definition in IFRS 3, 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	9,655
Net assets acquired	785,177

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 condensed consolidated financial statements are issued under the the legal parent (the Company), but are deemed to be a continuation of the legal subsidiary.

3. Reverse Takeover Accounting (continued from the previous page)

Net loss per share has also been adjusted for all periods presented in accordance with the guidance provided in IFRS 3. 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 IFRS 3, 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.

4. Inventories

Allowances are established for inventory that is determined to be excess or obsolete. During the three and nine months ended September 30, 2011 the Company increased its allowance by $6,000 and $18,000, respectively ($6,000 and $18,000, respectively in 2010). No write down of inventories was recorded during the periods in either 2011 or 2010. Included in cost of sales for the three and nine months ended September 30, 2011 are inventory costs of $482,000 and $1,317,000, respectively ($501,000 and $1,268,000, respectively for 2010).

	September 30, 2011	*December 31, 2010*
Raw materials and purchased parts	**841,716**	608,228
Finished goods	**5,525**	8,942
Allowance for obsolete or slow-moving items	**(91,000)**	(73,000)
	756,241	544,170

5. Property and Equipment

	Cost	***Accumulated Depreciation***	***Net Book Value***
Property and equipment consist of the following at September 30, 2011:			
Machinery and equipment	**1,241,190**	**1,062,125**	**179,065**
Furniture and fixtures	**95,624**	**94,180**	**1,444**
Leasehold improvements	**41,204**	**34,898**	**6,306**
	1,378,018	**1,191,203**	**186,815**
Property and equipment consist of the following at December 31, 2010			
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
	1,272,485	1,137,823	134,662

6. Notes Payable

	September 30, 2011	*December 31, 2010*
Notes payable, officers	**7,324**	7,279
Note payable, shareholder	**25,000**	25,000
Subordinated convertible note payable, shareholder	**-**	50,000
Note payable, other	**14,266**	22,181
Total notes payable	**46,590**	104,460

Notes payable, officers

See note 18 Related Party Transactions for information on Notes payable, officers.

6. Notes payable (continued from the previous page)

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, 2011), plus 1%. In November 2006, $25,000 of principal was repaid leaving $25,000 outstanding at September 30, 2011 and December 31, 2010.

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 9 below) leaving a $50,000 note, due October 18, 2011 outstanding at December 31, 2010. In September, 2011, the remaining $50,000 note was converted to equity in the 2011 private placement, with no gain or loss recognized.

Note payable, other

During 2011 year to date, and 2010, the Company financed $ 29,359 and $24,367, respectively of its insurance premiums through installment notes with an insurance financing company. The balances due as of September 30, 2011 and December 31, 2010 were $14,266 and $22,181, respectively.

7. Capital Lease Obligations

The following is a schedule by year of future minimum lease payments together with the present value of of the lease payments as of September 30:

	September 30, 2011	*December 31, 2010*
Total minimum capital lease payments	113,428	84,000
Less amount representing interest	33,858	26,455
Present value of minimum capital lease payments	79,570	57,545
Less current portion	30,621	20,250
Non-current portion	48,949	37,295

For the three and nine months ended September 30, 2011, interest expense relating to the capital lease totaled $10,255 and $23,028, respectively ($430 and $1339, respectively in 2010).

8. Long-term Debt

	September 30, 2011	*December 31, 2010*
Notes payable under bank line of credit	**3,500,000**	5,000,000
Convertible debentures	**271,506**	1,121,015
Total long-term debt	**3,771,506**	6,121,015

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.

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

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 September 30, 2011 borrowings totaled $3,500,000, and at December 31, 2010 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.

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 were to be accrued and paid only upon the earlier of maturity or conversion of the debentures. The debentures originally matured 24 months after the date of issue. The original 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 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 was allocated to Warrants in the amount of $4,070.

In September, 2011 the debentures, including accrued interest, were voluntarily converted to common stock in conjunction with the Company's private placement offering of common shares. All debentures, including accrued interest of $143,00, were converted at the original agreement conversion price of $Cdn $0.20 per share, resulting in the issuance of 7,260,920 shares. The carrying amount of the liability was recognized in equity, with no gain or loss recognized on conversion, in accordance with IAS -32 Financial Instruments: Disclosure and Presentation.

In March 2011, the Company sold an aggregate of $650,460 of debentures in a private placement to outside investors. The debentures were issued in Canadian dollars at the applicable Bank of Canada noon exchange rate on the day before issuance (Cdn $638,824,). The ten percent (10%) per annum simple interest payable is to be accrued and paid only upon the earlier of maturity or conversion. They mature on August 13, 2012 and ranked pari passu with the debentures issued in August 2010. The original net cash proceeds were approximately $575,000, after expenses, including a cash fee of $45,522 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. The relative 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 0.72%. The fair value of each warrant was $0.045 and was allocated to Warrants in the amount of $4,476.

In September, 2011 a portion of the 2011 debenture issuance was voluntarily converted to common stock in conjunction with the Company's private placement offering of common shares. A total of $305,464 principal amount debentures were converted at the original agreement conversion price of Cdn $0.24 per share, plus related accrued interest of $15,000 at Cdn $0.20, resulting in the issuance of an additional 1,328,087 shares. The carrying amount of the liability was recognized in equity, with no gain or loss recognized on conversion, in accordance with IAS -32 Financial Instruments: Disclosure and Presentation.

At maturity, the remaining 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.

9. Private Placement - 2009

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 to April 28, 2011. The warrants were extended for an additional eighteen months to October 28, 2012, effective April 27, 2011.

9. Private Placement *(Continuing from previous page)*

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.

10. Share Capital

There are an unlimited number of common shares authorized. The issued and outstanding common shares are 46,615,365 at September 30, 2011 and 24,415,157 at December 31, 2010.

In August and September 2011 the Company completed a private placement of common stock in two tranches, issuing 12,469,500 shares on August 30, 2011, and 861,830 shares on September 30, 2011, totaling 13,331,330 shares at a price of Cdn $0.20. The net cash proceeds were approximately $2.65 million after expenses, recorded in equity, including a cash fee of $6,783 to the Company's financial advisors, along with 35,000 warrants to acquire one common share at an exercise price of Cdn$0.20 for a period of two years. A total of $1.5 million of the proceeds were utilized to reduce the Company's bank line of credit. Included in the private placement were 12,083,880 of the new shares issued to certain insiders of the Company.

The relative 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 0.72%. The fair value of each option was $0.02 and was allocated to warrants in the amount of $632.

See Note 8 - Long-term Debt regarding the remaining convertible debentures issued in March 2011. Depending upon the then market price, a minimum of 575,000 and a maximum of 1,437,500 shares will be issuable upon conversion of the debentures in 2012.

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 Agreements 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 be released as to 5% on the Initial Release, 5% 6 months following, another 10% on each of the 12 and 18 months following, and another 15% on each of the 24 and 30 months following and the final 40% 36 months following the Initial Release.

As of September 30, 2011 10,715,498 common shares and 217,190 options were held in escrow under these agreements. As of December 31, 2010, 12,295,186 common shares and 248,218 options were held.

12. Warrants

	Number	*Weighted Average Exercise Price in Cdn $*
Outstanding at December 31, 2009 (1)	**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**
Issued (3)	**124,435**	**0.5000**
Exercised or expired	**(440,001)**	**0.4000**
Outstanding at September 30, 2011	**5,729,440**	**0.5900**

12. Warrants *(Continuing from previous page)*

(1) In 2009, warrants were issued in the private placement and in conjunction with the debt conversion. See Notes 3 and 9. All 5,500,005 warrants were originally set to expire on April 28, 2011. The expiration was extended for eighteen months to October 28, 2012, effective April 27, 2011, and were all outstanding as of September 30, 2011 and December 31, 2010. The 440,001 agent options were outstanding on December 31, 2010 and expired on April 28, 2011.
(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 on August 13, 2012. See Note 8.
(3) In March 2011 89,435 warrants were issued to the Company's financial advisors in conjunction with the issuance of convertible debentures. The warrants expire two years from the date of issue on March 24, 2013. See Note 8.
(3) In August 2011 35,000 warrants were issued to the Company's financial advisors in conjunction with the issuance of common stock. The warrants expire two years from the date of issue on August 31, 2013. See Note 10.

13. 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 September 30, 2011, 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 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 were 627,238 options available for future grants, and 244,152 options available as of September 30, 2011.

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 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.

13. 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, 2009	287,854	0.7712	3,000,750	0.3576
Granted	0		1,172,012	**0.2553**
Exercised or forfeited	(188,594)	0.7712	0	
Outstanding at December 31, 2010	99,260	0.7712	4,172,762	0.3288
Granted	0		**1,131,606**	**0.1855**
Exercised or forfeited	0		**(748,913)**	**0.3717**
Outstanding at September 30, 2011	**99,260**	**0.7712**	**4,555,455**	**0.2799**
Exercisable at December 31, 2010	99,260	0.7712	1,941,203	0.3297
Exercisable at September 30, 2011	**99,260**	**0.7712**	**2,469,880**	0.2799

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.

In 2011, the Board granted options to a new director vesting over 36 months, totaling 160,000. Using the Black-Scholes model, with assumptions noted below, the fair value weighted average of the each option was $0.14. In the second quarter, 360,542 options lapsed due the resignations of one director and one employee. In the third quarter, the Board granted options to an officer, vesting over four years, totaling 583,235. In addition, 388,371 non-qualified options were exchanged for 388,371 incentive stock options. The fair value weighted average, using the assumptions noted below of each option was $0.11.

The fair value of options granted in 2010 and 2011 was determined using the Black-Scholes pricing model with a weighted average volatility of 65%, risk-free interest rates of approximately 1 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 $35,560 and $119,870 during the three and nine months ended September 30, 2011, respectively ($64,645 and $187,135, respectively in 2010), which is included in General and Administrative expenses.

At September 30, 2011, 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	0.9
November, 2017	0.2176	387,764	387,764	6.1
January, 2018	0.2176	193,882	193,882	6.2
November, 2019	0.4000	1,914,343	1,633,467	7.9
March, 2020	0.4000	-	-	8.3
May, 2020	0.2400	10,000	4,170	8.5
August, 2020	0.2050	673,708	210,597	8.8
December, 2020	0.2500	244,152	-	9.1
January, 2011	0.2188	160,000	40,000	9.3
September, 2011	0.1800	971,606	-	9.9
Total		4,654,715	2,569,140	8.2

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, 2011 were approximately $465,000 (25.0%) and $1,350,000 (26.2%) respectively ($391,000 - 21.0% and $1,159,000 - 25.7%, respectively for 2010).

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, 2011	102,295
2012	394,877
2013	394,650
2014	392,289
2015	386,340
Thereafter	804,875
Total	2,475,326

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. Expenses

A schedule of the Company's expenses for cost of goods sold and all operating expenses for the nine months ended September 30, 2011 is as follows:

	Three Months ended September 30		*nine Months ended September 30*	
	2011	*2010*	***2011***	*2010*
Employee wages and benefits	**847,017**	669,913	**2,421,475**	1,872,814
Share-based payments expense	**36,560**	64,645	**110,870**	187,135
Leases	**102,441**	97,662	**307,119**	289,105
Depreciation and amortization	**24,460**	17,559	**53,380**	48,750
Impairment of assets	**0**	0	**0**	0
Other	**1,061,341**	1,092,825	**3,364,734**	3,157,778
Total	**2,071,819**	1,942,604	**6,257,578**	5,555,582

18. Related Party Transactions

At September 30, 2011, 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, 2011), 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, 2011 amounted to $7,324 ($7,278 at December 31, 2010).

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 September 30, 2011 and December 31, 2010 the indebtedness to the Company totaled $0.

18. Related Party Transactions *(Continuing from previous page)*

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.

19. Explanation of transition to IFRSs

As stated in note 1, Basis of Preparation, the condensed consolidated financial statements of the Company have been prepared in accordance with IFRSs issued by the International Accounting Standards Board ("IASB"). The following Transition to IFRS Financial Statements indicate the impact of adopting IFRS on our financial statements.

IFRS accounting policies have been applied in preparing the Transition Consolidated Statement of Financial Position at January 1, 2010 and the accompanying Restated Financial Statements for the year ended December 31, 2010.

In preparing its Transition Consolidated Statement of Financial Position at January 1, 2010, the Company has adjusted amounts reported previously that were prepared in accordance with prior Canadian GAAP.

An explanation of how the transition from the prior Canadian GAAP to IFRSs has affected the Company's financial position, financial performance, and cash flows statements are set out in the following financial statements, and the notes that accompany these restated financial statements.

Hamilton Thorne Ltd
Restated Consolidated Statements of Operations and Comprehensive Loss
For the three months ended ended September 30, 2010
(Expressed in U.S. Dollars)

	Canadian	*IFRSs*	*IFRSs*
Sales	1,713,364		1,713,364
Cost of sales	670,816		670,816
	1,042,548		1,042,548
Expenses			
Research and development	239,246		239,246
Sales and marketing	569,480		569,480
General and administrative	441,567	21,495	463,062
	1,250,293	21,495	1,271,788
Loss from operations	(207,745)	(21,495)	(229,240)
Other income (expense)			
Interest expense including accretion			
Interest income	(92,997)		(92,997)
Net loss and comprehensive loss for the year	(300,742)	(21,495)	(322,237)
Loss per share			
Basic	($0.01)	$0.00	($0.01)
Diluted	($0.01)	$0.00	($0.01)
Weighted average number of common shares outstanding			
Basic	24,415,157		24,415,157
Diluted	24,415,157		24,415,157

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

19. Explanation of transition to IFRSs *(continued)*

Hamilton Thorne Ltd
Restated Consolidated Statements of Operations and Comprehensive Loss
For the nine months ended ended September 30, 2010
(Expressed in U.S. Dollars)

	Prior Canadian GAAP	*Effect of transition to IFRSs*	*IFRSs*
Sales	4,502,571		**4,502,571**
Cost of sales	1,740,501		**1,740,501**
	2,762,070		**2,762,070**
Expenses			
Research and development	718,500		**718,500**
Sales and marketing	1,650,274		**1,650,274**
General and administrative	1,381,822	**64,485**	**1,446,307**
	3,750,596	**64,485**	**3,815,081**
Loss from operations	(988,526)	**(64,485)**	**(1,053,011)**
Other income (expense)			
Interest expense, net, including accretion	(225,111)		**(225,111)**
Net loss and comprehensive loss for the year	(1,213,637)	(64,485)	(1,278,122)
Loss per share			
Basic	($0.05)	$0.00	($0.05)
Diluted	($0.05)	$0.00	($0.05)
Weighted average number of common shares outstanding			
Basic	24,415,157		24,415,157
Diluted	24,415,157		24,415,157

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

19. Explanation of transition to IFRSs (continued on next page)

19. Explanation of transition to IFRSs *(continued)*

Hamilton Thorne Ltd
Restated Consolidated Statement of Financial Position
As at September 30, 2010
(Expressed in U.S. Dollars)

	Prior Canadian GAAP	*Effect of transition to IFRSs*	*IFRSs*
	September 30, 2010		
Assets			
Current			
Cash and cash equivalents	**979,669**		**979,669**
Accounts receivable	**1,047,921**		**1,047,921**
Inventories	**562,059**		**562,059**
Prepaid expenses and other current assets	**42,560**		**42,560**
Note receivable, officer	**-**		**-**
	2,632,209		**2,632,209**
Capital assets	**97,297**		**97,297**
Other assets	**123,757**		**123,757**
	2,853,263		**2,853,263**
Liabilities			
Current			
Accounts payable and accrued liabilities	**1,269,107**		**1,269,107**
Notes payable	**41,536**		**41,536**
Capital lease obligations, current	**5,753**		**5,753**
Deferred revenue	**75,406**		**75,406**
	1,391,802		**1,391,802**
Capital lease obligations, non-current	**2,758**		**2,758**
Deferred revenue, long term	**83,355**		**83,355**
Long-term debt	**6,122,051**		**6,122,051**
	7,599,966		**7,599,966**
Shareholders' Equity (Deficiency)			
Common shares	**24,345,752**		**24,345,752**
Warrants	**349,019**		**349,019**
Contributed surplus	**384,971**	**156,218**	**541,189**
Accumulated deficit	**(29,826,445)**	**(156,218)**	**(29,982,663)**
	(4,746,703)		**(4,746,703)**
	2,853,263		**2,853,263**

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

19. Explanation of transition to IFRSs (continued on next page)

19. Explanation of transition to IFRSs *(continued)*

a) *IFRS Statement 1 - Exemptions for business combinations*

The Reverse Takeover Transaction with Calotto Capital Inc., as described in note 3, 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) *IFRS Adjustments*

Certain Balance Sheet accounts, as indicated below, were analyzed for the impact of converting to IFRS and our conclusion was 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 - Cost Basis 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 - Long Term Debt

c) *IFRS 2 Adjustments - Share-based payments*

Various accounts relating to share-based payments expense were assessed and analyzed for the impact of converting to IFRS which resulted in the 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 or four 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 Share-based payments expense for the option awards. Graded vesting results in front loading Share-based payments expense into the earlier years, and reduces the expense in the later years, the total sum of the Share-based payments expense is the same under both methods. IFRS -2 also requires that an estimate of forfeitures be factored into the calculation of the Share-based payments expense.

IFRS -2 differs from the Company's prior Canadian GAAP calculation of share-based payments expense which did not include a factor for forfeitures, and considered the option award as a single calculation expensed on a straight line basis over the vesting period.

19. Explanation of transition to IFRSs (continued on next page)

19. Explanation of transition to IFRSs *(continued)*

As a result, the Company has recalculated its share-based payments expense, which is restated as follows compared to the historical Share-based payments expense.

	Share-based payments expense		
	IFRS -2	Prior GAAP	Adjustment to
Share-based payments expense	Calculation	Calculation	Retained earnings
Share-based payments expense through 12/31/2008	77,367	38,956	38,411
Share-based payments expense year ended 12/31/2009	214,133	160,811	53,322
Net adjustment to Stockholders' Equity at January 1, 2010	291,500	199,767	91,733
Share-based payments expense - 3 months end 3/31/10	61,245	39,750	21,495
Net adjustment to Stockholders' Equity at March 31, 2010	352,745	239,517	113,228
Share-based payments expense - 3 months end 6/30/10	61,245	39,750	21,495
Net Share-based payments expense - 6/30/2010	122,490	79,500	42,990
Share-based payments expense - 3 months end 9/30/10	61,245	39,750	21,495
Net Share-based payments expense - 9/30/2010	183,735	119,250	64,485
Net adjustment to Stockholders' Equity at September 30, 2010	475,235	319,017	156,218

d) *Adjustments to the statement of cash flows*

The transition from Canadian GAAP to IFRS had no significant impact on the cash flows generated by the Company. There is no net impact on cash flow from operating activities, and no impact on cash and cash equivalents.