

# **Hamilton Thorne Ltd.**

## **Management Discussion and Analysis**

**September 30, 2011**

The following discussion and analysis of the operations, results, and financial position of Hamilton Thorne Ltd. (the "Company") for the quarter and nine-month period ended September 30, 2011 should be read in conjunction with the Company's September 30, 2011 unaudited condensed consolidated financial statements and the related notes thereto. Such financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB"). The effective date of this report is November 28, 2011. All financial figures are in United States (US) dollars unless otherwise indicated.

### **Forward-Looking Statements**

Certain statements in this management discussion and analysis ("MD&A") may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as significant changes in market conditions, the inability of the Company to close sales and the inability of the Company to attract sufficient financing and including the risk factors summarized below under the heading "Risk Factors." New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the effective date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the effective date hereof or to reflect the occurrence of unanticipated events, except as required by securities legislation.

### **Description of Operations and Outlook**

Hamilton Thorne Ltd. is an Ontario corporation currently trading on the TSX Venture Exchange, as a Tier 2 Corporation, under the stock symbol "HTL." The Company was formed via a reverse takeover of Calotto Capital Inc. on October 28, 2009 ("RTO") and commenced trading on November 5, 2009.

The Company's principal business is the development, manufacture and sale of advanced laser systems and instruments for living cell applications in the regenerative medicine research and fertility markets. The Company's operations are conducted by its wholly owned subsidiary, Hamilton Thorne, Inc., a Delaware corporation.

The Company sells its products through its direct sales force and through distributors to pharmaceutical companies, biotechnology companies, fertility clinics, hospitals, educational institutions and other commercial and academic research establishments worldwide.

Hamilton Thorne's innovative laser systems attach to standard inverted microscopes and operate as robotic micro-surgeons, reducing time and increasing efficiency in key stem cell, embryo, developmental biology and other advanced cell biology procedures, including cancer research. Currently the Company has four lasers that have been introduced, with additional products in development. Each member of the laser family is built on the same architecture, but serves different market applications. The miniature size, high performance and reasonable price permit laboratories to mount several of the Company's lasers onto one microscope and thus have different applications at the researcher's fingertips.

Hamilton Thorne's CASA (Computer Assisted Sperm Analysis) systems are designed to bring quality, efficiency and reliability to studies of reproductive cells in the animal and human infertility and reproductive toxicology fields. These systems assist researchers and clinicians in analyzing sperm motility and other characteristics in human fertility, toxicology and animal applications. These "legacy" products generate meaningful cash flow with relatively little investment in a stable market and are sold through similar distribution channels as the laser products.

During the third quarter, Hamilton Thorne sales increased 8.5% over the prior year, (14.1 % for comparable nine-month periods) in each case driven by increased sales of its laser systems particularly sales of its recently introduced LYKOS™ laser. The Company expects to see continued growth for its existing laser products as the demand for its laser systems continues to grow, and as its continued investments in sales and marketing personnel and programs bear fruit.

The Company expects to generate additional growth from its existing and new products, such as the LYKOS™ laser, which was introduced in the second quarter of 2011, that are directed to the human fertility market. The Company also has the opportunity to expand by providing both its existing and new products, including the Stiletto™ laser, which was introduced in the fourth quarter 2010, into other advanced cell biology fields, such as cancer research. These fields are large, growing and well funded. While early adopters have begun to publish articles highlighting the use of Hamilton Thorne's lasers for applications in these fields and the Company has made initial sales, it is expected to take some time for Hamilton Thorne to penetrate these new markets significantly.

While the regenerative medicine/stem cell field is rapidly growing, it is also continually evolving and demand for the Company's products has periodically been impacted as certain procedures and research paths increase and decline in laboratory usage. In addition, as the field evolves, the Company's spending priorities may change or be accelerated to address new opportunities in the market.

The Company continues to see growth in all of its global markets and will continue to invest in sales and marketing resources and enhancing distribution channels worldwide.

## Key Financial Data and Comparative Results

### Three and Nine Month Periods Ending September 30

Income Statements	Three Months		Nine Months	
	2011	2010	2011	2010
Sales	1,858,333	\$1,713,364	\$5,136,989	\$4,502,571
Gross profit	1,157,166	1,042,548	3,210,539	2,762,070
Operating expenses	1,370,652	1,271,788	4,331,128	3,815,081
Net income (loss)	(373,004)	(322,237)	(1,562,617)	(1,278,122)
Basic and diluted (loss) per share	(\$0.01)	(\$0.01)	(\$0.06)	(\$0.05)

### Balance Sheets as at:

	Sep. 30 11	Dec. 31 10
Cash	\$618,359	\$714,498
Working capital (deficiency)	1,122,151	659,687
Total assets	2,935,421	2,534,945
Non-current liabilities	3,899,941	6,237,796
Shareholders' (deficiency)	(2,478,848)	(5,331,478)

Quarterly Data	Sep. 30 11	Jun. 30 11	Mar. 31 11	Dec. 31 10	Sep. 30 10	Jun. 30 10	Mar. 31 10	Dec. 31 09
Sales	\$1,858,333	\$1,833,242	\$1,445,413	\$1,697,859	\$1,713,364	\$1,608,520	\$1,180,687	\$1,197,160
Gross profit	1,157,166	1,172,842	880,530	1,088,653	1,042,548	1,009,321	710,202	743,713
Operating expenses	1,370,652	1,460,591	1,499,885	1,623,673	1,271,788	1,332,421	1,210,872	1,241,584
Net income (loss)	(373,004)	(443,238)	(746,376)	(651,121)	(322,237)	(385,266)	(570,620)	(577,877)
Diluted (loss) per share	(\$0.01)	(\$0.02)	(\$0.03)	(\$0.03)	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.04)

The above financial information has been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB"), and is stated in US dollars. (See "New Accounting Pronouncements - International Financial Reporting Standards.")

### Results of Operations for the three months and nine months ended September 30, 2011

The Company total sales increased 8.5% to \$1,858,333 for the quarter ended September 30, 2011, an increase of \$144,969 from \$1,713,364 during the previous year. Nine months sales for 2011 of \$5,136,989 were up 14.1%, from sales of \$4,502,571 in 2010. This increase was attributable to increased demand for our existing products, additional sales derived from our new LYKOS laser introduced in the second quarter of 2011 and improved budget availability for capital equipment purchases, particularly in the human clinical market. The Company's customers in the regenerative medicine field primarily use the Company's products in research applications. Sales of products for research applications are often funded by government grants and may be subject to extended purchasing cycles.

Gross profit for the quarter increased 11% to \$1,157,166 in the quarter ended September 30, 2011, compared to \$1,042,547 in the previous year and increased to \$3,210,539 versus \$2,762,070 for the comparable nine-month periods. Gross profit as a percentage of sales were somewhat higher at 62.3% for the quarter and 62.5% for the nine-months ended September 30, 2011, versus 60.8% and 61.3% for the comparable periods in 2010, due primarily to product mix and increased sales spread over a relatively constant overhead base.

Operating expenses were \$1,370,652 and \$4,331,128 for the quarter and nine-months ended September 30, 2011, up from \$1,271,788 and \$3,815,081 for comparable periods during the previous year. This increase in operating expenses represents continued strategic investment in the growth of the Company. Research and development expenses increased from \$239,246 to \$267,842 for the quarter ended September 30, 2011 and from \$718,500 to \$887,570 for the nine-month period due to continued development of new products. Sales and marketing expenses increased from \$569,480 to \$676,734 for the quarter ended September 30, 2011 and from \$1,650,274 to \$1,985,974 for the nine-month period due to the expansion of our sales and marketing staff, commission expense on higher sales volume, and increased variable costs of selling. General and administrative (G&A) expenses decreased from \$463,062 to \$426,076. for the quarter ended September 30, 2011 versus the prior quarter and increased from \$1,446,307 to \$1,457,584 for the nine-month period due primarily to increases in staffing and one-time severance expenses offset by positive foreign currency valuation adjustments related to the convertible debentures issued in August 2010 and March 2011 issued in Canadian dollars.

Net interest expense increased from \$92,997 to \$159,518 for the quarter ended September 30, 2011 and from \$225,111 to \$442,028 for the nine-month period. The increase was due primarily to the non-cash interest expense, both coupon and accreted, on the Company's convertible debentures. Interest expense is expected to decrease by approximately \$50,000 per quarter as a result of a conversion of approximately \$1.6 million of debt to equity and the reduction of the Company's bank loan by \$1.5 million, both of which were completed in the quarter ended September 30, 2011.

The net loss for the quarter ended September 30, 2011 increased from \$322,237 to \$373,004, and from \$1,278,122 to \$1,562,617 for the nine-month period. The increased loss was primarily due to the additional investments by the Company in research, product development, sales and marketing, additional general and administrative expenses and interest expense, partially offset by increased gross profit resulting from increased sales.

### **Liquidity**

The Company's cash balance at September 30, 2011 was \$618,359 as compared to \$714,498 at December 31, 2010, a decrease of \$96,139. Working capital increased to \$1,122,151 from \$659,687 at December 31, 2010. The increase in working capital was due to the proceeds from the sale of convertible debentures in March 2011 and common stock in the quarter ended September 30, 2011 offset by net losses incurred for the nine-month period.

Cash used by operations was \$1,691,082 for the nine-months ended September 30, 2011, compared to \$1,413,843 used in the prior year, due primarily to the net loss for the nine-month period and increases in inventory and accounts receivable, partially offset by increases in non-cash interest expense and accrued liabilities.

Cash used in investing activities for the nine months was \$58,924, primarily for the purchase of equipment.

In the quarter ended September 30, 2011, the Company took steps to significantly improve its cash position and balance sheet by selling approximately \$2,700,000 of common stock. \$1,500,000 of the proceeds was utilized to reduce the Company's bank debt, resulting in net proceeds of approximately \$1.2 million. In addition the Company offered the holders of its convertible debentures maturing in August 2012 the right to voluntarily

convert such debentures prior to maturity. The holders of approximately \$1.55 million of such debentures, along with the holder of a separate \$50,000 promissory note issued by the Company in September 2009 to a then director, all converted their debt, together with accrued interest, into common stock, resulting in the issuance of a total of approximately 22.2 million additional shares of common stock.

Although the Company currently has positive working capital, it should be noted that the Company has incurred recurring losses over its history and has been able to meet its obligations through equity and debt financings. The Company is expected to continue to use cash in funding its operations during 2011. The Company believes that, assuming its current positive sales trends continue, its current cash position, reduced by cash used in operations, should be sufficient to support operations through the middle of 2012. The Company is continually exploring additional sources of funding to augment its cash position as well as options to pay or refinance the Company's bank line of credit of \$3.5 million which is due to mature in October of 2012 including possibility of refinancing or extending the note, raising additional equity, and other financing alternatives.

### **Capital Resources**

As the Company's manufacturing operations consist primarily of final assembly and quality control, it does not have significant capital expenditures as part of its financial plans and outlook. It is expected that its capital expenditures in the coming year will be primarily for new computers, software, and equipment used in research, development and demonstrations, and will total approximately \$130,000. Many of these expenditures will be purchased with current funds, and the majority may be financed through equipment leasing arrangements.

The purpose of the reverse takeover and private placement in 2009 was to provide financing to undertake the continued development of existing laser products, expansion of the laser product family and to get these products to market in 2010 and the ensuing years. The purpose of the 2010 and the subsequent 2011 Debentures financings and the common stock private placement in the quarter ended September 30, 2011 was to accelerate the development of its products, support the working capital needs of the Company, and , in the case of the common stock offering, to reduce debt.

### **Share Capital**

As of September 30, 2011, there were 46,616,365 common shares issued and outstanding.

As of September 30, 2011, there were 5,729,440 warrants outstanding to purchase common shares: 5,500,005, at a price of Cdn \$0.60 which originally were set to expire in April 2011 but were extended by eighteen months to October 2012; 194,435 warrants to acquire one common share at an exercise price of Cdn\$0.50, expiring in August 2012 and March 2013, issued to its financial advisors in connection with the August 2010 and March 2011 sales of the convertible debentures; and 35,000 warrants to acquire one common share at an exercise price of Cdn\$0.20, expiring in September 2013, issued to its financial advisor in connection with the common stock private placement.

Stock options issued to employees and directors outstanding at September 30, 2011 totaled 4,654,405 at exercise prices ranging from Cdn \$0.18 to Cdn \$0.7712. Options for 2,569,140 shares are exercisable as of September 30, 2011. Options expire at varying times from July 2012 through September 2021.

Four hundred forty thousand one (440,001) agent compensation options issued in connection with the private placement in 2009 expired in April 2011.

A subordinated convertible note for \$50,000 issued in September 2009 to a then director was converted into equity at in September 2011.

In August 2010, the Company sold an aggregate of \$1,250,000 of debentures to two investors. 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) and were voluntarily converted to equity in September 2011.

In March 2011, the Company sold an aggregate of \$650,000 of convertible unsecured subordinated debentures in a private placement. At maturity, the debentures will convert at a 20% discount to the Company's 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. In September 2011, the holders of approximately \$305,000 of principal amount of such debentures elected to voluntarily convert these debentures, and all accrued interest to equity. 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 approximately \$345,000 of principal amount of debentures which remain outstanding.

### **Related Parties**

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 plus 1%. In April 2010 the Board of Directors, with the permission of the bank providing the Company's line of credit, allowed the offset of a \$20,000 note to the officer, along with accrued interest of \$4,023, and \$24,042 of advances to the same officer against the \$50,000 note due to that officer and the accrued interest due on the note. Total indebtedness to officers at September 30, 2011 amounted to \$7,324.

In October 2006 a shareholder advanced the Company \$50,000 in return for a promissory note payable upon demand with interest at the prime 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.

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, which was converted to common stock in September 2011.

In August 2010, a Company insider purchased \$500,000 of convertible debentures.

In August and September 2011, Company insiders purchased approximately \$2.47 million of common stock at CDN\$ 0.20 per share.

### **New Accounting Pronouncements**

The 2011 third quarter and year to date interim unaudited financial statements represent a portion of the period to be covered by the Company's first annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company has applied IFRS 1, First-time Adoption of International Financial Reporting Standards, using January 1, 2010 as the date of transition to IFRSs. An

explanation of how the transition to IFRS has affected the reported financial position, financial performance, and cash flows of the Company is summarized below and provided in the notes to the Company's September 30, 2011 unaudited condensed consolidated financial statements.

In summary, while most accounts required no adjustment, IFRS -2 differs in timing from the Company's prior Canadian GAAP calculation of share-based payment expense for stock option plans. Prior Canadian GAAP considered the option award as a single calculation expensed on a straight line basis, whereas IFRS-2 requires graded vesting which results in accelerated expense in the earlier years and reduced expense in the later years, with the total sum of the years expenses the same under both methods. As a result, the Company has recalculated its non-cash, share-based payment expense, which is restated and increased by \$86,000 for the full year 2010.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 11, Joint Arrangements (IFRS 11), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). 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.

## **Risk Factors**

An investment in the Company must be considered highly speculative due to the relatively early stage of the development of its current operations. There are trends and factors that may be beyond the Company's control which affect its operations and business. Such trends and factors include adverse changes in the conditions in the specific markets for the Company's products and services, the conditions in the broader market of laboratory instruments, consumables and accessories and conditions in the domestic or global economy generally. It is not possible for management to predict economic fluctuations and the impact of such fluctuations on its performance.

1. General Economic Conditions – The demand for capital asset purchases declines in the face of difficult economic conditions such as those experienced in the United States and much of the rest of the world during 2009, 2010 and continuing into 2011. The Company's customers include pharmaceutical and chemical companies, laboratories, universities, IVF labs, hospitals, government agencies and public and private research institutions. Many factors, including public policy spending priorities, available resources and product and economic cycles, have a significant effect on the capital spending policies of these entities. These policies in turn can have a significant effect on the demand for its products.

2. History of Losses – The Company has a history of losses and cannot predict the extent of future losses. The Company may not achieve profitability in the foreseeable future, if at all. Its ability to generate profits in the future will depend on a number of factors, including: (i) its ability to grow sales based on the continued market demand for its existing products and expected demand for additional products; (ii) costs relating to the commercialization, sale and marketing of its products; (iii) general and administrative costs relating to its operations; (iv) research and development costs; and (v) charges related to purchases of technology or other assets.

3. Limited Operating History in Certain Markets - The Company is a small company focused on commercializing, marketing and selling products in the in vitro fertilization, transgenic and regenerative medical research markets. Its operating history in some of these markets is extremely limited. Its laser products for the regenerative medical market are in the early stages of commercialization. Other products are only in the early stages of development. An investor should evaluate the likelihood of financial and operational success in light of the uncertainties and complexities present in an early-stage company, many of which are beyond the Company's control, including: (i)

the Company's potential inability to distribute, sell and market its products; and (ii) the significant investment to achieve its commercialization, marketing and sales objectives. The regenerative medicine market is relatively new and its long-term growth prospects are uncertain. Should the regenerative medicine market fail to expand, it could have a materially adverse effect on the Company's business and financial condition.

4. Product Development - The development of additional products is subject to the risks of failure inherent in the development of new, state of the art products, laboratory devices and products based on new technologies. These risks include: (i) delays in product development or manufacturing; (ii) unplanned expenditures for product development or manufacturing; (iii) failure of new products to have the desired effect or an acceptable accuracy profile; (iv) emergence of superior or equivalent products; (v) failure by any potential collaborative partners to successfully develop products; and (vi) the dependence on third parties for the manufacture, development and sale of the Reporting Issuer's products. Because of these risks, the Company's research and development efforts or those of potential collaborative partners may not result in any commercially viable products. If a significant portion of these development efforts is not successfully completed, or any products are not commercially successful, the Company is less likely to generate revenue growth or become profitable. The failure to perform such activities could have a material adverse effect on the Company's business, financial condition and results of its operations.

5. Technological Advancement - The areas in which the Company is commercializing, distributing, and/or selling products involve rapidly developing technology. There can be no assurance that the Company will be able to establish itself in such fields, or, if established, that it will be able to maintain its position. There can be no assurance that the development by others of new or improved products will not make the Company's present and future products, if any, superfluous or obsolete.

6. Intellectual Property Rights - Although four patents have now been issued in the United States, all applications are still pending in all overseas jurisdictions as well as continuations in part and new applications still pending in the United States. The Company's success and ability to compete are substantially dependent on these patents. Although management of Hamilton Thorne believes that the patents and associated trademarks and licenses are valid, there can be no assurance that they will not be challenged and subsequently invalidated and/or canceled. The invalidation or cancellation of any one or all of the patents or trademarks would significantly damage the Company's commercial prospects. Further, the Company may find it necessary to legally challenge parties infringing its patents or trademarks or licensed trademarks to enforce its rights thereto. There can be no assurance that any of the patents would ultimately be held valid or that efforts to defend any of the patents, trade secrets, know-how or other intellectual property rights would be successful.

The Company's future success will depend, in part, on its ability to obtain patents for newly developed products, maintain trade secrets protection, and operate without infringing on the proprietary rights of third parties or having third parties circumvent its rights. The patent position of regenerative medicine firms is uncertain and involves complex legal and financial questions for which, in some cases, certain important legal principles remain unresolved. There can be no assurance that the patent applications made in respect of the owned products will result in the issuance of patents, that the term of a patent will be extendable after it expires in due course, that any patent issued to the Company will provide it with any competitive advantages, that the patents of others will not impede the Company's ability to do business or that third parties will not be able to circumvent or successfully challenge the patents obtained in respect of the products. The cost of obtaining and maintaining patents is high. Furthermore, there can be no assurance that others will not independently develop similar products which duplicate any of the products, or, if patents are issued, design around the patent for the product. There can be no assurance that the Company's processes or products do not or will not infringe upon the patents of third parties,

or that the scope of the Company's patents will successfully prevent third parties from developing similar and competitive products.

Much of the Company's know-how and technology may not be patentable, though they may constitute trade secrets. There can be no assurance, however, that the Company will be able to meaningfully protect its trade secrets. To help protect its intellectual property rights and proprietary technology, the Company requires employees, consultants, advisors and collaborators to enter into confidentiality agreements. There can be no assurance that these agreements will provide meaningful protection for the Company's trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure.

The Company's commercial success will also depend, in part, on not infringing on the patents or proprietary rights of others. There can be no assurance that the technologies and products used or developed by the Company will not infringe such rights. If such infringement occurs and the Company is not able to obtain a license from the relevant third party, it will not be able to continue the development, manufacture, use, or sale of any such infringing technology or product. There can be no assurance that necessary licenses to third-party technology will be available at all or on commercially reasonable terms. In some cases, litigation or other proceedings may be necessary to defend against or assert claims of infringement or to determine the scope and validity of the proprietary rights of third parties. Any potential litigation could result in substantial costs to, and diversion of, its resources and could have a material and adverse impact on the Company. An adverse outcome in any such litigation or proceeding could subject the Company to significant liabilities, require it to cease using the subject technology or require it to license the subject technology from the third party, all of which could have a material adverse effect on the Company's business.

The Company's future success and competitive position depends in part upon its ability to maintain its intellectual property portfolio. There can be no assurance that any patents will be issued on any existing or future patent applications. Even if such patents are issued, there can be no assurance that any patents issued or licensed to the Company will not be challenged. The Company's ability to establish and maintain a competitive position may be achieved in part by prosecuting claims against others who it believes to be infringing its rights. In addition, enforcement of the Company's patents in foreign jurisdictions will depend on the legal procedures in those jurisdictions. Even if such claims are found to be invalid, the Company's involvement in intellectual property litigation could have a material adverse effect on its ability to distribute any products that are the subject of such litigation. In addition, the Company's involvement in intellectual property litigation could result in significant expense, which could materially adversely affect the use or distribution of related intellectual property and divert the efforts of the Company's technical and management personnel from their principal responsibilities, whether or not such litigation is resolved in the Company's favor.

7. Competition - The Company is engaged in a rapidly evolving field. Competition for its laser products from numerous companies is expected to increase. Competition from other unknown entities and competition from research and academic institutions is also expected to increase. The market for solutions to the many regenerative medical research problems is growing rapidly and is likely to attract new entrants. Numerous biotechnology companies have focused on developing new media or devices and most, if not all, of these companies have greater financial and other resources and development capabilities than the Company. The Company's future success depends in part on its ability to maintain a competitive position, including its ability to further progress and develop its products for sale and commercialization. Other companies may succeed in commercializing products earlier than the Company or they may succeed in developing products that are more effective than the Company's products.

While the Company will seek to expand its technological capabilities in order to remain competitive, there can be no assurance that developments by others will not render its products non-competitive or that the Company will be able to keep pace with technological developments. The success of the Company's competitors and their products relative to the Company's products could have a material adverse effect on the future operations of the Company.

In addition to competing with universities and other research institutions in the development of products, technologies and processes, the Company may compete with other companies in acquiring rights to products or technologies from universities. There can be no assurance that the Company's products, existing or to be developed, will be more effective or achieve greater market acceptance than competitive products, or that its competitors will not succeed in developing products and technologies that are more effective than those being developed by or that would render its products and technologies less competitive or obsolete.

8. Product Liability - The sale of the Company's products may expose it to potential liability resulting from the sale and use of such products. Liability might result from claims made directly by consumers or by laboratory companies. Hamilton Thorne currently maintains US\$3 million of product liability insurance. There can be no assurance that the Company will be able to renew its current insurance, renew it at a rate comparable to what it now pays, or that the coverage will be adequate to protect it against liability. If it were held liable for a claim or claims exceeding the limits of its current or future insurance coverage, or if coverage was discontinued for any reason, it could have a materially adverse effect on the Company's business and financial condition.

9. Government Regulation - The growth of the regenerative medicine market in the United States and certain other countries has been hampered by government regulations regarding the use of embryonic stem cells. The current political administration in the United States is more supportive of stem cell research than the prior administration, however, there is no assurance that this support will continue and the support could conceivably be reversed if a new administration is elected in 2012 or thereafter. Should these regulations be readopted, stiffened, or extended to other jurisdictions, the market for the Company's products could be adversely affected which could have a materially adverse effect on the Company's business and financial condition.

The Company's business may also be affected in varying degrees by changes to government regulation of intellectual property or export controls. Such changes are beyond the control of the Company and the effect of any such changes cannot be predicted.

The Company conducts its business internationally and is subject to laws and regulations of several countries which may affect its ability to access regulatory agencies and may affect the enforceability and value of its intellectual property rights. There can be no assurance that any sovereign government, including Canada's or the United States', will not establish laws or regulations that will be deleterious to the Company's interests. There is no assurance that the Company, as a Canadian corporation, will continue to have access to the regulatory agencies in any jurisdiction where it might want to obtain final regulatory approval, and there can be no assurance that the Company will be able to enforce its intellectual property rights in foreign jurisdictions. Governments have, from time to time, established foreign exchange controls which could have a material adverse effect on the Company's business and financial condition, since such controls may limit its ability to flow funds or products into a particular country to meet its obligations under distribution agreements and to flow funds which the Company is entitled to, in the form of sales proceeds, out of a particular country.

10. Dependence upon Management - The Company is substantially dependent upon the services of a few key personnel. The loss of the services of any of these personnel could have a material adverse effect on the business of the Company. The Company maintains key man insurance on certain management personnel. The Company

may not be able to attract and retain personnel on acceptable terms given the intense competition for such personnel among high technology enterprises, including biotechnology, and healthcare companies, universities and non-profit research institutions. If it loses any of these persons, or is unable to attract and retain qualified personnel, its business, financial condition and results of operations may be materially and adversely affected.

11. Financing – The Company is expected to continue to use cash in funding its operations during 2011. The Company believes that, assuming its current positive sales trends continue, its current cash position, reduced by cash used in operations, should be sufficient to support operations through the middle of 2012.

At or before that time, the Company may need to raise additional capital through public or private equity or debt financings to fund operations and refinance its debt. There can be no assurance that funding will be available on terms acceptable to the Company, or at all. To the extent that the Company issues additional common shares as part of any financing, or as full or partial consideration in connection with future acquisitions, existing shareholders will be diluted and the trading price of its shares may also decrease.

12. Bank Financing - The Company currently maintains a \$3,500,000 secured line of credit with a US bank which was extended in December 2010 to mature on October 1, 2012. This line of credit is secured by two letters of credit, issued by shareholders, which expire on or prior to November 1, 2012. If the Company is unable to extend such letters of credit or refinance or pay off the debt to the Bank, or if there were otherwise an event of default, the Company's business, financial condition and results of operations may be materially and adversely affected. The Company issued \$1,250,000 in debentures in August 2010 and \$650,000 in March 2011, the majority of which were converted to common stock in September 2011. The remaining \$345,000 of principal amount of these debentures which are presently outstanding, if not converted at an earlier time are expected to convert to common stock at maturity in August 2012. If there is an event of default under the debentures or they otherwise do not convert, the Company will need to raise additional cash to retire these debentures.

13. Dividends - The Company intends to retain any future earnings to finance the growth and development of its business and does not plan to pay cash dividends in the foreseeable future, if ever.

14. Principal Stockholder Influence - The Company's three principal stockholders own or control approximately 76% of the shares outstanding and therefore have significant ability to control the outcome of stockholder votes, including votes concerning the election of directors, the adoption or amendment to provisions in the Company's articles or by-laws, the approval of mergers and/or acquisitions, decisions affecting capital structure and other significant corporate transactions.