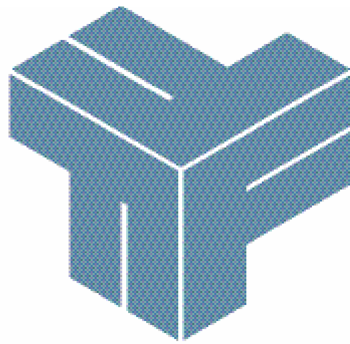

FUNCTIONAL
TECHNOLOGIES

Management's Discussion and Analysis

For the three months ended November 30, 2012

Management of Functional Technologies Corp. (“Functional Technologies” or the “Company”) is pleased to present Management’s Discussion and Analysis (“MD&A”) of the Company’s activities for the three months ended November 30, 2012 and pertinent events up to the date of this report.

The Company’s core strategic focus is on developing proprietary yeast technologies. The Company's common shares continue to be listed on the TSX Venture Exchange with the trading symbol “FEB”, and on the OTCQX with the trading symbol “FEBTF”.

This MD&A focuses on significant factors that affected the Company and its subsidiaries during the three months ended November 30, 2012 and to the date of this report. The MD&A supplements, but does not form a part of, the Consolidated Financial Statements of the Company and the Notes thereto for the three months ended November 30, 2012. Consequently, the following discussion of performance and financial condition should be read in conjunction with these statements. All amounts presented in this MD&A are in Canadian dollars unless otherwise indicated and are derived from the financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”).

Additional information related to Functional Technologies Corp. is available on SEDAR at www.sedar.com.

This MD&A contains information up to and including January 28, 2013.

FORWARD-LOOKING INFORMATION

The MD&A contains forward-looking statements concerning anticipated developments for the Company in future periods. Forward-looking statements often, but not always, contain words such as “believes”, “intends”, “anticipates”, “estimates”, “intends”, “potential” and similar words or statements that certain conditions or results “may”, “should” or “could” happen or occur. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or other future events, including forecast production, earnings and cash flows, to be materially different from any future results, performances or achievements or other events expressly or implicitly predicted by such forward-looking statements. The Company’s forward-looking statements are based on the expectations and opinions of management on the date that the statements are made and the Company does not assume any obligation to update forward-looking statements if circumstances change. For the above reasons, investors should not place undue reliance on forward-looking statements.

EXECUTIVE SUMMARY

Core Business and Strategy

Functional Technologies is a technology company focused on developing and commercializing proprietary yeast-based products for the global food and beverage markets. Its critical core competency is in the functional enhancement of yeast to improve the quality and safety of commonly consumed foods and beverages. The Company is based in Vancouver, BC.

The Company is currently commercializing its platform yeast technologies and yeast products, including a unique yeast technology that enables the rapid enhancement of any yeast strain's natural and innate functions to prevent the formation of common contaminants, specifically, hydrogen sulphide gas ("H_2S"), in wines, other beverages and foods. The Company has developed market-ready strains of these yeasts for winemaking and is now selling to, and trialing with, commercial wineries in North America, South America and Europe.

The Company has also developed, applied for patents, and is in the pre-commercialization phase for a new technology that enhances yeast's natural ability to prevent acrylamide, a known carcinogen that is formed when starchy foods are baked, fried or toasted at temperatures exceeding 121° Celsius. This patent-pending technology has the potential to alleviate an important food safety issue across a variety of widely consumed foods including bread, baked goods, French fries, potato chips, cookies, crackers and baked snacks, and coffee. The Company has ongoing collaborative trials with large global food and food ingredient producers to evaluate the Company's proprietary acrylamide-preventing ("AP") yeast technology in a variety of food products.

Key Performance Driver

As a development stage company, the Company's key performance driver is the ability of the Company to turn technologies, created during its research and development process, into commercially viable products and services for the food and beverage marketplace. The Company will continue the next stage of planned commercialization of certain of its products during the current fiscal year.

Highlights of the Quarter

During the three months ended November 30, 2012 and to the date of this report, the Company has achieved several business milestones that advance its capability to bring its technologies from development stage to commercialization:

- The Company reached a settlement with the Atlantic Canada Opportunities Agency ("ACOA" or the "Agency") resolving all of the Company's outstanding liabilities with the Agency, totaling $3,900,000. In the prior reporting period, the Company had taken a provision of $3,300,000 in anticipation of an eventual settlement with ACOA. The Company will repay ACOA as follows: $400,000 payable by June 15, 2013, followed by payments of $200,000 per quarter, until a total of $2,800,000 plus interest at 7.0% per annum has been repaid. The Company will also grant ACOA a general security agreement until such time as the amounts described have been repaid. The settlement is subject to the completion and execution of definitive agreements.
- The Company entered into an agreement to transfer certain non-core assets, which had been impaired in their entirety in a prior period, to a company controlled by former employees. The former employees have released the Company from all claims, including those for severance.
- On October 21, 2012, the Company announced the signing of an agreement with a leading global yeast producer, under which production of acrylamide-preventing yeast was to commence. Test-quantities of acrylamide-preventing yeast have been produced pursuant to this Material Transfer Agreement.

- On October 10th, 2012, the Company completed the second tranche of a private placement, issuing 9,626,000 units valued at $0.20 per unit, totaling $1,925,200 less share issuance costs of $119,816.
- On September 14, 2012, the Company announced the successful commercial launch of its new selectively bred Phyterra™-branded hydrogen sulphide (H_2S)-preventing wine yeast strains that have also been selected for low sulphur dioxide (SO_2) production.
- On September 5, 2012, the Company announced that the U.S. Food and Drug Administration ("FDA") had accepted the Company's Generally Regarded As Safe ("GRAS") Notice for its acrylamide-preventing yeast strains.

Management Changes

On September 17, 2012, the Company announced that Dr. John Husnik had been appointed as Chief Technology and Innovations Officer and that Richard Sherman, JD had been appointed as Chairman of the Board.

On December 7, 2012, the Company reported the resignations of Howard Louie and Geoff Lee from the Company. These resignations did not trigger any financial obligations to the Company.

Results and Outlook

The Company incurred a net loss of $1,445,413 for the three months ended November 30, 2012 representing an increase of $303,035 when compared to a net loss of $1,142,378 for the three months ended November 30, 2011.

During the three months ended November 30, 2012 the Company generated revenues of $18,369 from sales, representing a decrease of $1,718 when compared to sales of $20,087 for the three months ended November 30, 2011.

The Company has incurred substantial expenses in its efforts to develop products, and consequently has generated operating losses each year since commencing its current business. The Company expects to generate revenues from sales of its proprietary yeast products during the coming fiscal years, but may not be successful in building revenues to a positive cash flow. If the Company does not ultimately commercialize products and achieve or maintain profitability, the market capitalization of the Company may decline significantly.

Risks

The Company's business and financial performance are subject to many and varied types of risks, including but not limited to the following potentially significant risks:

Business risks:

- History of losses: No significant product sale revenue was generated;
- Working capital shortfall;
- Dependence on key personnel;
- Ability to continue as a going concern (see "Going Concern" page 14)

- Influences of current uncertain global economic conditions;
- Ability of the Company to meet its debt and government assistance obligations;

Product commercialization and operational risks:

- Limited assurance of commercial viability;
- Competition;
- Lack of proven sales, marketing and distribution capabilities; and
- Rate of customers' product adoption.

Based on discussions with potential customers, and enquiries within the research and development community the Company believes that its technologies will achieve market acceptance and is committing resources to commercialization. The Company believes that it has a competitive advantage in the marketplace attributed to unique and proprietary features of its research and products. The Company may enter into contracts with existing producers, third party sales, and marketing and distribution contractors for provision of services to supplement an existing distribution arrangement and in-house resources, if necessary.

BUSINESS OVERVIEW

Functional Technologies is a technology company focused on developing and commercializing proprietary yeast for the global food and beverage markets. Its critical core competency is in the functional enhancement of yeast to improve the quality and safety of commonly consumed fermented foods and beverages. Through an ongoing research and development program, the Company is working to commercialize its platform yeast technologies and yeast products. The Company is based in Vancouver, BC.

The Company is commercializing several proprietary technologies, including two unique yeast technologies that enable the rapid enhancement of any yeast strain's natural and innate functions to prevent the formation of common contaminants, specifically, H_2S in wines, other beverages and foods. H_2S is a colourless, volatile gas that produces a distinctive unpleasant noxious odor in wine, beer, and other yeast-fermented beverages. It is one of the most common occurring sensory defects in winemaking worldwide, and is a widespread and costly quality-control problem in commercial wine production.

The Company has developed market-ready strains of these yeasts for winemaking and is now selling to, and trialing with, commercial wineries in North America, South America and Europe.

The Company has also developed, applied for patents, and is in the pre-commercialization phase for a new technology that enhances yeast's natural ability to prevent acrylamide, a known carcinogen that is formed when starchy foods are baked, fried or toasted at temperatures exceeding 121° Celsius. This patent-pending technology has the potential to alleviate a well-recognized and important food safety issue across a variety of widely consumed foods including bread, baked goods, French fries, potato chips, cookies, crackers and baked snacks, and coffee. The Company has ongoing collaborative trials with large global food and food ingredient producers to evaluate the Company's proprietary AP yeast technology in a variety of food products.

Acrylamide is a World Health Organization ("WHO") Group 2A carcinogen that is formed when products, which are high in starch, are cooked at high temperatures. The common amino acid, asparagine, combines with reducing sugars during the Maillard reaction (browning) in many products, such as bread, French fries, crackers, cookies and many snack foods. Regulators are concerned since this probable carcinogen is in many regularly consumed products.

RESULTS FROM OPERATIONS

Selected Information

		For the three months ended		
		November 30, 2012		**November 30, 2011**
Financial Results				
Loss and comprehensive loss for the period	$	(1,445,413)	$	1,142,378)
Basic and diluted loss per share	$	(0.03)	$	(0.02)
As at:		**November 30, 2012**		**August 31, 2012**
Balance Sheet Data				
Cash	$	1,166,956	$	384,613
Capital assets		802,511		1,347,699
License and patents		562,993		625,131
Total assets		2,900,139		2,733,409
Long term debt and capital lease		1,734,229		1,997,375
Shareholders' equity		(3,025,512)		(3,422,944)

THREE MONTHS ENDED NOVEMBER 30, 2012 COMPARED WITH THREE MONTHS ENDED NOVEMBER 30, 2011

The Company incurred a net loss of $1,445,413 for the three months ended November 30, 2012 representing an increase of $303,035 when compared to a net loss of $1,142,378 for the three months ended November 30, 2011.

Operating Expenses

Operating expenses, excluding a share-based compensation expense of $37,642 (2011 - $44,146), for the three months ended November 30, 2012 were $817,553 (2011 – $1,209,468). These amounts consist primarily of consulting fees, professional fees, and salaries and wages.

The decrease of $391,915 in operating expenses, excluding the share-based compensation expenses, for the three months ended November 30 2012 compared to the three months ended November 30, 2011, was driven primarily by the following: office and general decreased by $98,465, research and development decreased by $89,775, and salaries and wages decreased by $265,359.

The breakdown of research and development expenses and office and general expenses for the three months ended November 30, 2012 and November 30, 2011 is as follows:

Research and development expenses

	For the three months ended		Change	
	November 30, 2012	**November 30, 2011**	**$**	**%**
Contract research	$ -	$ 15,128	$ (15,128)	100%
Directs materials and consumables	25,158	44,887	(33,284)	74%
Repairs and maintenance	262	4,642	(4,381)	94%
Royalties	-	50,538	(50,538)	100%
	$ 25,420	**$ 115,195**	**$ (103,331)**	**90%**

Office and general expenses

	For the three months ended		Change	
	November 30, 2012	**November 30, 2011**	**$**	**%**
Bank charges and interest expenses	$ 3,431	$ 6,584	$ (3,153)	48%
Insurance	14,395	17,754	(3,359)	19%
Interest on long term debt	7,778	9,564	(1,786)	19%
Office supplies	4,029	9,787	(5,758)	59%
Production costs	-	5,705	(5,705)	0%
Telephone	13,556	35,009	(21,453)	61%
Provision for accounts receivable losses	636	46,979	(46,345)	98%
Property tax	1,206	-	1,206	0%
Other	8,104	20,218	(12,114)	60%
	$ 53,135	**$ 151,600**	**$ (98,465)**	**65%**

SUMMARY OF QUARTERLY RESULTS

		For the three months ended						
		November 30, 2012		August 31, 2012		May 31, 2012		February 29, 2012
Revenues	$	18,369	$	176,026	$	5,428	$	2,214
Loss as previously reported		1,445,413		5,500,851		1,379,562		4,612,914
IFRS adjustment		-		-		-		-
Loss for the three month period	**$**	**1,445,413**	**$**	**5,500,851**	**$**	**1,379,562**	**$**	**4,612,914**
Loss per share		(0.03)		(0.17)		(0.03)		0.09

		November 30, 2011		August 31, 2011		May 31, 2011		February 28, 2011
Revenues	$	20,087	$	177,552	$	16,236	$	-
Loss as previously reported		1,142,378		1,890,986		1,112,773		1,061,447
IFRS adjustment		-		142,014		(41,325)		(11,721)
Loss for the three month period	**$**	**1,142,378**	**$**	**2,033,000**	**$**	**1,071,448**	**$**	**1,049,726**
Loss per share		0.02		0.04		0.02		0.02

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended November 30, 2012, the Company generated a cash outflow from operating activities of $759,113 (2011 - $1,134,972). As at November 30, 2012 the Company has an accumulated deficit of ($33,293,512) (August 31, 2012 - $31,848,099), and working capital shortfall of $4,263,836 (August 31, 2012 - $2,833,071) including cash and short-term investments of $1,166,956 (August 31, 2012 - $384,613).

The Company believes the funds on hand at the date of the MD&A, combined with projected cash flow from operations will not be sufficient to maintain the minimum cash requirement during the 2013 fiscal year. To support full operations in the future, the Company is pursuing other financing alternatives from a combination of sources, which could include joint ventures, collaborative arrangements, technology licensing agreements, and issue of new equity or debt instruments and generation of revenue from the commercialization of its technologies.

OUTSTANDING COMMON SHARE DATA

At November 30, 2012, the Company had 61,370,444 common shares issued and outstanding.

During the three months ended November 30, 2012 and to the date of this report:

- On October 10th, 2012 the Company completed the second tranche of its private placement of 9,626,000 units valued at $0.20 per unit, totaling $1,925,200;
- The Company granted 300,000 options with a weighted average exercise price of $0.28 and a weighted average life of 3.22 years to three consultants.

As at the date of this MD&A, the Company had 61,370,444 common shares issued and outstanding.

In addition, as at the date of this MD&A, the Company had the following warrants and options outstanding:

Warrants

Expiry Date	Warrants outstanding		Weighted average exercise price	Weighted average remaining contractual life (in years)
August 8, 2014	2,355,000		0.56	1.69
October 9, 2014	9,626,000		0.30	1.86
	11,981,000	**$**	**0.35**	**1.83**

Options

Expiry date	Options Exercisable	Exercise Price ($)	Options outstanding	Weighted average remaining contractual life (in years)
February 7, 2013	100,000	0.50	100,000	0.19
May 7, 2013	25,000	0.60	25,000	0.43
May 1, 2014	200,000	0.35	200,000	1.42
July 14, 2014	235,000	0.50	235,000	1.62
September 15, 2014	720,000	0.50	720,000	1.79
September 15, 2014	25,000	0.60	25,000	1.79
September 16, 2014	305,000	0.60	305,000	1.79
May 19, 2015	83,333	0.65	100,000	2.47
October 16, 2015	50,000	0.30	200,000	2.88
January 20, 2016	75,000	0.62	75,000	3.14
February 22, 2016	93,333	0.78	140,000	3.23
March 13, 2016	50,000	0.70	100,000	3.28
May 2, 2016	50,000	0.80	100,000	3.42
May 27, 2016	125,000	0.77	125,000	3.49
June 2, 2016	7,500	0.90	15,000	3.51
June 6, 2016	20,000	0.83	60,000	3.52
June 17, 2016	75,000	0.80	150,000	3.55
August 5, 2016	650,000	0.60	650,000	3.68
January 6, 2017	33,333	0.49	100,000	4.10
June 27, 2017	66,666	0.21	400,000	4.58
September 21, 2017	16,667	0.24	100,000	4.81
	3,005,832		**3,925,000**	**2.82**

FINANCIAL INSTRUMENTS

The Company has designated its cash, restricted cash, and short-term investment as held-for-trading; deposits and long-term deposits as held to maturity; amounts receivable and government assistance receivable as loans and receivables; and accounts payable and accrued liabilities, current portion of long-term lease, current portion of long-term debt, long-term lease, long-term debt and preferred shares liability as other liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from financial instruments.

The Company is exposed to currency risk to the extent transactions incurred by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency hedging contracts to mitigate this risk. The Company's cash and accounts payable and accrued liabilities are held in Canadian dollars, United States dollars and Euros; therefore US dollar and Euro accounts are subject to fluctuation against the Canadian dollar.

The Company is exposed to liquidity risk which is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances. The Company's expected source of cash flow in the current year will be through a combination of sources, which may include joint ventures, collaborative agreements, out licensing and issue of new debt and equity instruments and generation of revenue from the commercialization of its technologies.

GOVERNMENT FUNDING

On August 11, 2006, the Company's wholly-owned subsidiary, Phyterra Bio Inc. ("PBI"), received approval of $1,542,600 of project funding from the Atlantic Canada Opportunities Agency's ("ACOA") Atlantic Innovation Fund ("AIF"). These funds were to be expended over a 3 year period on a $2,236,750 AIF-approved project to commercially develop biological health products from PBI's micro-algae technology. The Company received a grant of $115,650 from the PEI Business Development ("PEIBD") office and on September 3, 2009, the Company became eligible to receive a grant from Industry Research Assistance Program, National Research Council ("NRC-IRAP") whereby the Company may recover up to $290,000 in respect of specific salaries and contractor fees for the continued research and development for the same program. On February 8, 2008, the Company also received approval for $1,750,000 in funding from the AIF towards a $2,600,000 project by the Company to develop improved methods for the production of its new functionally-enhanced commercial yeast products. These funds were to be expended on this yeast research and development program over a six year period. The NRC-IRAP contribution has provided $190,000 towards a $390,000 program in support of our ongoing development of the proprietary wine and sake yeasts. On September 23, 2008, the Company received a grant entitling it to $125,000 from PEIBD to assist with the costs of purchasing equipment in the amount of $317,500 for development of functionally enhanced yeast strains. The Company also received a grant entitling it to $30,000 from ACOA's Atlantic Investment Partnership – Productivity and Business Skills Initiative to assist with the cost of $40,000 of productivity and skills development. On April 1, 2011 the Company received an additional grant from NRC-IRAP which will contribute $39,060 for further bio technology research.

All funding from AIF is conditionally repayable. The repayment term for the AIF funding obtained by the Company (yeast product development) is a 5% royalty on future product sales with the first payment due on April 30, 2012. During the year ended August 31, 2012, the Company made certain strategic decisions that caused the government agencies to notify the Company of their view that the Company is not in compliance with the terms of the arrangements. A provision of $3,326,488 was taken in the prior period, and reflected in the Consolidated Financial Statements of the Company. Subsequent to the end of the period, the Company reached a settlement with ACOA resolving all of the Company's outstanding liabilities with the Agency, totaling $3,900,000. The Company will repay ACOA as follows: $400,000 payable by June 15, 2013, followed by payments of $200,000 per quarter, until a total of $2,800,000 plus interest at 7.0% per annum has been repaid. The Company will also grant ACOA a general security agreement until such time as the amounts described have been repaid. The settlement is subject to the completion and execution of definitive agreements.

Funding from the PEIBD, NRC-IRAP, and the ACOA Atlantic Investment Partnership – Productivity and Business Skills Initiative are not repayable as long as the Company meets all the objectives of the project stipulated in the funding agreements.

On November 30, 2009, the Company announced that its subsidiary, Phyterra Yeast Inc. (“PYI”), planned to install a yeast production facility on Prince Edward Island. PYI entered into a lease with an option to purchase agreement with Active Communities Development Inc., a Community Business Development Corporation in eastern PEI for a term of five years, with the right to renew for two additional terms of five years each. PYI was eligible to receive a $1,960,000 loan from PEIBD and a $1,000,000 loan from ACOA for the purposes of acquiring equipment for the production facility. In connection with this loan, PYI has issued a promissory note and general security agreement in favour of Prince Edward Island Business Development (“PEIBD”) to secure the full indebtedness. The Company has also issued a guarantee in favour of PEIBD for the full amount of PYI’s indebtedness; PBI has issued a corporate guarantee supported by a first charge mortgage on the above noted property and building in favour of PEIBD. The loan from ACOA has a ten year term and is interest-free. The Company also entered into an agreement with Innovation PEI, formerly known as PEIBD, entitling the Company to recover a labour rebate of up to $299,250 relating to $570,000 of eligible salaries in the design and development of the PYI production facility and yeast products. During the period the Company made a strategic decision to discontinue making payments under the lease, and is evaluating its options with respect to any further repayment obligations which it might have.

Program	Government Funding	Claimed from September 1, 2006 to May 31, 2012	Remaining
ACOA AIF (Algae)	1,542,600	1,542,600	-
NRC – IRAP (Companion Animal)	290,000	202,525	-
NRC – IRAP (Algae)	39,060	39,060	-
PEI Business Development (Algae)	115,650	115,650	-
ACOA AIF (Yeast)	1,750,000	1,742,974	-
NRC – IRAP (Yeast)	202,483	202,483	-
NRC – IRAP (Yeast - Acrylamide)	40,000	40,000	-
PEI Business Development (Yeast)	125,000	125,000	-
ACOA Productivity and Business Development	30,000	30,000	-
	4,134,793	**4,040,293**	**-**

The Company is no longer eligible to receive funds under any of the above-noted grants.

CONTRACTUAL OBLIGATIONS

On November 4, 2003, the Company entered into an exclusive global agreement to license a yeast technology and underlying patents, which was superseded by an amended and restated license agreement, dated February 25, 2009. Under the license agreement, the Company is committed to pay the licensor, University of British Columbia (“UBC”), a royalty based on revenue earned from use of the yeast technology and from sublicensing any products utilizing the yeast technology. The license agreement required payment of minimum annual royalties of $15,000 in fiscal year 2009, $15,000 in fiscal year 2010, and $50,000 annually thereafter. Any revenue-related royalties paid are credited against the minimum annual royalty payments. An annual maintenance fee of $1,000 is also payable to UBC. The Company is also required to reimburse UBC for the cost of obtaining patents on the technology. UBC

terminated this license, and the Company is in the process of negotiating a resolution of its outstanding obligations thereunder. The associated technology was not considered to be a core asset.

On December 3, 2008, the Company entered into an exclusive global agreement to license a yeast technology and underlying patents with The Regents of the University of California (“UC Davis”). Under the license agreement, the Company is committed to pay the licensor, UC Davis, a royalty based on revenue earned from use of the yeast technology and from sublicensing any products utilizing the yeast technology. The license agreement requires payment of a license issue fee of $15,000 and yearly license maintenance of $2,000 with minimum annual royalties of $6,000 beginning on the fifth anniversary of the start date of the contract and for the length of the agreement. The Company is also required to reimburse UC Davis for the cost of obtaining patents on the technology.

The Company entered into a loan with Ford Credit on August 30, 2008 for an amount of $33,518 which will be repaid within 60 months by making a down payment of $3,400 and $502 per month.

On December 11, 2008, the Company, through its wholly-owned subsidiary, Maritime Pulse Drying Inc. (“MPD”), assumed a bank loan of $250,000 which bears interest at prime plus 3%. The loan is due on November 30, 2017. The Company is required to make an interest payment on a monthly basis and a principal payment of $25,000 on an annual basis. During the period the Company made a strategic decision to cease payments on this loan, and is evaluating its options with respect to any further repayment obligations which it might have.

On December 11, 2008, the Company, through its wholly-owned subsidiary, MPD, assumed a loan of $301,000 which bears interest at 4%. The loan has a maximum term of five years from the date of disbursement and matured on April 12, 2012. The loan is repayable in monthly principal installments equal to $30 per hour of operation of the facility for the previous month, and interest is payable on a monthly basis. The dryer has not been in operation since November 2011.

On November 25, 2009, the Company, through its wholly-owned subsidiary, PYI, received a loan approval for an amount up to $1,960,000 which bears interest at prime + 3% to finance the acquisition of equipment. The Company was required to make monthly interest-only payments on the first day of each month until January 1, 2012, at which time the Company was required to commence making principal and interest payments on the loan. As at November 30, 2012, $260,789 remained outstanding. During the period the Company made a strategic decision to cease payments on this loan, and is evaluating its options with respect to any further repayment obligations which it might have.

On December 11, 2008, the Company, through its wholly-owned subsidiary, MPD, assumed a non-interest bearing loan of $297,875. The loan is due on June 1, 2019. The Company is required to repay the balance in twenty-six installments of $1,000 beginning August 1, 2010, followed by eighty-six installments of $3,275 beginning July 1, 2012, and one installment of $2,050 on June 1, 2019. During the period the Company made a strategic decision to cease payments on this loan, and is evaluating its options with respect to any further repayment obligations which it might have.

On March 9, 2009, the Company, through its wholly-owned subsidiary, PBI, received a loan approval from ACOA for an amount up to $215,000 towards eligible costs estimated to be $435,673, to assist with establishing a wet lab

in its existing facility. At August 31, 2012 the loan disbursed was $30,046. According to the amended repayment schedule, the Company is required to repay the entire loan amount of $215,000 in monthly installments of $1,792 beginning May 1, 2012, and the final payment is due on April 1, 2022.

On November 25, 2009, the Company, through its wholly-owned subsidiary, PYI, received approval of a loan from ACOA of $1,000,000, of which $238,162 has not yet been disbursed, towards eligible costs estimated to be $2,000,000 to assist with purchasing the eligible equipment for production. According to the amended schedule dated October 7, 2010, which was further amended on October 7, 2011, the Company is required to resume repayment of the loan beginning March 1, 2014.

On July 15, 2010, the Company, through its wholly-owned subsidiary, MPD, received approval of a loan from ACOA of $148,056, of which $96,838 has not yet been disbursed, towards eligible costs estimated to be $296,112 to assist with eligible costs of marketing activities. The loan is due on December 1, 2020. The Company is required to repay the entire loan amount of $148,056 in 107 monthly installments of $1,370 beginning January 1, 2012, followed by a final payment of $1,466 on December 1, 2020.

On December 1, 2009, the Company entered into a lease agreement to purchase land and building relating to the production facility. The initial term of the lease is 5 years; the Company has an option to renew for additional 10 years. Under the lease agreement, the Company is required to make a monthly lease payment of $4,500. Subsequent to the period end, the Company made a strategic decision to cease payments on this lease and ceased to occupy the premises. The Company is evaluating its options with respect to any further repayment obligations which it might have.

The Company has also entered into lease agreements for its offices, under operating leases.

The Company is required to make the following minimum payments for the next two fiscal years:

Fiscal Year Ending		**Royalty and Maintenance**
2013		6,083
2014		6,083
2015		6,083
2016		6,083
2017		6,083
2018 Thereafter		66,917
	$	**97,332**

TRANSACTIONS WITH RELATED PARTIES

Unless otherwise stated, related party transactions are measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

During the three months ended November 30, 2012, the Company paid financing fees of $0 (2011 - $9,369) and legal fees of $39,287 (2011 - $63,336) to a law firm in which a director is an associate counsel.

During the three months ended November 30, 2012, the Company paid consulting fees of $69,047 to a firm in which an officer of the Company has an ownership interest (2011 - $363,500 to three directors).

CRITICAL ACCOUNTING ESTIMATES

In preparing our financial statements, management is required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available.

These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Significant estimates are used for, but not limited to, the net realizable value of accounts receivable and inventory, assessment of the recoverability of long-lived assets, calculation of fair value of long-term debt and share-based compensation.

RISKS AND UNCERTAINTIES

The Company's business and financial performance are subject to many and varied types of risks, including but not limited to the following potentially significant risks.

Going concern

In the immediate term, the Company's ability to continue as a going concern is dependent upon its ability to generate positive operating cash flow and to raise additional capital to fund its ongoing business operations. Additional capital may be sought from existing shareholders and creditors and from the sale of additional common shares or other equity or debt instruments. There is no assurance such additional capital will be available to the Company on acceptable terms or at all. In the longer term, the recoverability of the carrying value of the Company's long-lived assets is dependent upon profitable commercialization of its technologies and the ability of the Company to obtain financing to support its ongoing development of these technologies. Whether the Company can achieve profitability and positive cash flow and obtain adequate financing are material uncertainties. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

History of losses

During the three months ended November 30, 2012, the Company generated revenues of $18,369 from product sales; however, the Company has incurred substantial expenses in its efforts to develop products, and consequently, has generated operating losses each year since commencing its current business. As of November 30, 2012, the Company has an accumulated deficit of $33,265,998. The Company expects to generate revenues from its proprietary yeast products during the coming fiscal years, but may not be successful in building revenues to attain positive cash flow. If the Company does not ultimately commercialize products and achieve or maintain profitability, the market capitalization of the Company may decline significantly.

Working capital shortfall

The Company will require substantial funds in order to maintain its research and development program and to continue to build inventories of proprietary yeast strains. The Company intends to seek these funds through a combination of sources, which may include joint ventures, collaborative arrangements, technology licensing agreements, and government funding and from other sources of equity financing. The Company continually reviews and evaluates its operations to in its effort to capture budget efficiencies. The Company will also require additional funds to acquire additional technology or products that complement its efforts. There can be no assurance that additional financing will be available on acceptable terms, if at all. Additional equity financings could result in significant dilution to shareholders. If sufficient capital is not available, or available at prohibitive cost, the Company may be required to delay or reduce the scope of development and/or commercialization of its technologies, which could have a material adverse effect on its business and financial condition.

No assurance of market acceptance

Industry acceptance of the Company's platform technologies is currently being tested. There can be no assurance that any products successfully developed by the Company, if approved for marketing, will achieve substantial market acceptance.

Competition

The yeast industry and animal healthcare industry are both highly competitive. New products developed by other companies in these industries could render the Company's products or technologies non-competitive. Competitors are developing and testing products and technologies that would compete with the products that the Company has developed. Some of these products may be more effective or have an entirely different approach or means of accomplishing the desired effect than the Company's products. Many yeast and animal healthcare manufacturers have substantially greater product development capabilities and financial, scientific, marketing, and human resources.

Reliance upon third party distributors

In order to commercialize its product candidates successfully, the Company intends, on a product-by-product basis, either to develop internal sales, marketing, and distribution capabilities or make arrangements with third parties to perform some or all of these services. The Company currently has limited marketing capabilities and a small internal sales force. To the extent that the Company internally develops a sales force, the cost of establishing and maintaining a sales force could be substantial and may exceed its cost effectiveness. In addition, in marketing its products, the Company would likely compete with many companies that currently have extensive and well-funded marketing and sales operations. Therefore, the Company may rely on additional third parties to market and sell its products in certain territories, rather than establish an internal sales force. If so, revenues will depend upon the efforts of these third parties, which may not be successful. If the Company fails to establish successful marketing and sales capabilities or to make arrangements with third parties for such purposes, the Company's business, financial condition, and results of operations will be materially adversely affected.

Dependence upon key personnel

The Company is currently dependent upon a relatively small number of key personnel and the loss of any of them could have an adverse effect on the Company. The Company does not maintain "key person" life insurance on any of its personnel.

Nature of research

The Company has collected compelling data in specific applications but until repeated product specific proof of concept data is available, the Company cannot determine the scope of application of this platform technology. Many potential development hurdles stand between a research product of this nature and a consistent, robust production process. The regulatory acceptability, especially as it relates to safety and efficacy can cause obstacles to licensing – in the very least delays. The yeast platform has completed more of the research and development cycle and is, therefore, better understood and predictable. Current activities for the yeast platform center around repetitive enhancements of various strains but the Company may still face obstacles in establishing a complete product platform.

Dependence on collaborative partners and licensors

The Company's activities have required and will require it to enter into various arrangements with corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, manufacturing, marketing and commercialization of its products. The Company intends to continue to attract corporate partners and enter into additional research collaborations. There can be no assurance, however, that the Company will be able to establish such additional collaborations on favourable terms, if at all, or that its current or future collaborations will be successful.

The Company holds licenses for certain technologies. There can be no assurance that these licenses will not be terminated, or that they will be renewed on conditions acceptable to the Company.

The Company is in good standing with all its current contracts and sees no justification for early termination of these agreements.

Potential product liability

The Company's products involve an inherent risk of product liability claims and associated adverse publicity. Product liability insurance is costly, and availability is limited and may not be on terms which would be acceptable to the Company. An inability to maintain sufficient insurance coverage on reasonable terms or otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products. A product liability claim brought against the Company or withdrawal of a product from the market could have a material adverse effect upon the Company and its financial condition.

The Company currently has product liability insurance. However, there can be no assurance that the coverage currently in place will be sufficient to cover any potential claims.

Nature of patent applications

Given that the patent applications for the Company's platform yeast technology involves complex legal, scientific and factual questions, there can be no assurance that they will result in patents being issued in all jurisdictions in which they have been filed or that, if issued, the patents will provide a competitive advantage or will afford protection against competitors with similar technology, or will not be challenged successfully or circumvented by competitors.

To date, no patent applications have been rejected in any jurisdictions where filings have been made.

Potential patent litigation

Should anything arise, the Company's involvement in any patent litigation, interference, opposition, or other administrative proceedings will likely cause the Company to incur substantial expenses, and the efforts of technical and management personnel will be significantly diverted. In addition, an adverse determination in litigation could subject the Company to significant liabilities.

The Company is not currently involved in any such litigation.

Hazardous material and environmental matters

The Company's activities involve the controlled use of hazardous materials and therefore, the Company is subject to federal, provincial and local laws and regulations in all jurisdictions in which it operates or sells its products governing the use, manufacturing, storage, handling and disposal of such materials and certain waste products. Although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by those laws and regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. Should this occur, the Company could be held liable for any damages that result, and any such liability could exceed its financial resources. Also, there can be no assurance that the Company will not be required to incur significant costs to comply with environment laws and regulations in the future, or that it will not be materially adversely affected by future environmental laws or regulations.

The Company is currently complying in all material respects with all federal, provincial and local laws and regulations in all jurisdictions in which it operates relating to hazardous materials and environmental matters. The Company has a hazardous materials policy in place with appropriate training for all staff. The Company has identified potential environmental risks and has put standard operating procedures in place to mitigate these risks.

Foreign currency risk

The Company is exposed to currency risk to the extent transactions incurred by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk. The Company's cash and accounts payable and accrued liabilities are held in Canadian dollars, United States dollars and Euros; therefore US dollar and Euro accounts are subject to fluctuation against the Canadian dollar.

At this point, the Company believes that elaborate hedging contracts are not economically feasible due to the current level of foreign currency transactions. However, a US dollar bank account has been implemented to purchase US dollars sufficient to mitigate the short term risks.