U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended April 30, 2012

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number 001-34048

Islet Sciences, Inc.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	87-0531751 (IRS Employer Identification No.)

641 Lexington Avenue, 6th Floor
New York, New York 10022
(Address of principal executive offices)

Issuer’s telephone number, including area code: (646) 863-6341

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.001 Par Value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was Required to submit and post such files). þ Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (as defined in Rule 12b-2 of the Exchange Act). Check one:

Large accelerated filer	o	Non-accelerated filer	o
Accelerated Filer	o	Smaller reporting company	þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

As of October 31, 2011, the last day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of the Registrant's common stock held by non-affiliates (based upon the closing stock price of $2.8803 as reported on the Over-the-Counter Bulletin Board) was approximately $538,792. Shares of the Registrant's common stock held by each executive officer and director and by each person who owns 10 percent or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of July 30, 2012, there were outstanding 52,794,853 shares of the registrant's common stock, $.001 par value.
Documents incorporated by reference: None.

EXPLANATORY NOTE

Islet Sciences, Inc., is filing this Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended April 30, 2012, originally filed with the Securities and Exchange Commission on July 30, 2012 (the "2012 Form 10-K"), to add additional language surrounding a contract with a placement agent in Note 7 and the results of an agreement reached with the same placement agent made subsequent to the year ended April 30, 2012 in Note 10. In addition, the Company entered into a consulting agreement in May 2012 which has been disclosed in Note 10.

No item of, or disclosure appearing in, our 2012 Form 10-K is affected by this filing other than as described above. This report on Form 10-K/A is presented as of the filing date of the 2012 Form 10-K and reflects certain disclosures of events occurring after that date.

PART IV

ITEM 15. EXHIBITS

Number	Description
31.1	Certifications of John Steel pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certifications of Richard Egan pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Islet Sciences, Inc.	
Date: September 13, 2012	By:	/s/ John Steel John Steel Chief Executive Officer, Director (principal executive officer)

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name and Title	Date
/s/ John Steel John Steel Chief Executive Officer and Director (Principal Executive officer)	September 13, 2012
/s/ Richard Egan Richard Egan Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	September 13, 2012
/s/ Joel Perlin Joel Perlin, Director	September 13, 2012
/s/ Jonathan Lakey Jonathan Lakey, Director	September 13, 2012

ISLET SCIENCES, INC.

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of
Islet Sciences, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of Islet Sciences, Inc. and Subsidiary (A Development Stage Company) (the “Company”) as of April 30, 2012 and the related consolidated statements of operations, stockholder's equity/(deficit), and cash flows for the year then ended and for the period from inception (May 4, 2010) through April 30, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We have conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Islet Sciences, Inc. and Subsidiary (A Development Stage Company) as of April 30, 2012, and the results of its operations and cash flows for the year then ended and for the period from inception (May 4, 2010) through April 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred losses since inception resulting in an accumulated deficit of approximately $5,740,000 as of April 30, 2012 and further losses are anticipated in the development of its business that raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PKF
PKF
Certified Public Accountants
A Professional Corporation

July 30, 2012 (except for Notes 7 and 10, for
which the date is September 13, 2012)
San Diego, California

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Islet Sciences, Inc.

We have audited the accompanying balance sheet of Islet Sciences, Inc. (the Company) (a development stage company) as of April 30, 2011, and the related statement of operations, stockholders' equity, and cash flows for the year then ended, and the period from inception (May 4, 2010) through April 30, 2011. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of April 30, 2011, and the results of its operations and its cash flows for the year then ended, and the period from inception (May 4, 2010) through April 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred substantial operating losses and negative operating cash flows for the period from inception (May 4, 2010) through April 30, 2011, whereby its accumulated deficit during the deficit stage is approximately $702,000. These matters raise substantial doubt about its ability to continue as a going concern. Management's plans concerning this matter are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PMB Helin Donovan, LLP

Seattle, Washington

January 5, 2012 (except for Note 7, for
which the date is September 13, 2012)

Islet Sciences, Inc. and Subsidiary

(A Development Stage Company)

Consolidated Balance Sheets

	April 30 ,2012	April 30, 2011
ASSETS		
CURRENT ASSETS		
Cash	$1,908,532	$3,290
Loan to related party	-	6,700
Total current assets	1,908,532	9,990
OTHER ASSETS		
Intangible assets, net (Note 4)	1,506,192	169,596
Goodwill (Note 4)	2,111,107	-
	3,617,299	169,596
TOTAL ASSETS	$5,525,831	$179,586
LIABILITIES & STOCKHOLDERS' EQUITY/(DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$168,578	$49,821
Accounts payable - related party	14,228	107,300
Subscribed shares – not issued (Note 6)	1,124,265	-
Accrued expenses (Notes 6 and 7)	1,135,365	-
Notes payable - related party	1,442	30,000
Derivative liability (Note 5)	824,875	-
Total current liabilities	3,268,753	187,121
Deferred income taxes (Notes 3 and 9)	547,000	-
Total liabilities	3,815,753	187,121
Commitments and contingencies (Note 7)		
STOCKHOLDERS' EQUITY/(DEFICIT)		
Preferred stock, $0,001 par value, 10,000,000 shares authorized; no shares issued and outstanding at April 30, 2012 and 2011, respectively	-	-
Common stock, $0.001 par value, 100,000,000 shares authorized; 44,584,855 and 21,321,729 shares issued and outstanding at April 30, 2012 and 2011, respectively	44,585	21,322
Additional paid-in capital	7,405,197	672,709
Deficit accumulated during the developments stage	(5,739,704)	(701,566)
Total stockholders' equity/(deficit)	1,710,078	(7,535)
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY/(DEFICIT)	$5,525,831	$179,586

F-4

Islet Sciences, Inc. and Subsidiary
(A Development Stage Company)
Consolidated Statements of Operations

	Year ending April 30, 2012	Year ending April 30, 2011	For the period from May 4, 2010 (Inception) through April 30, 2012
REVENUE	$-	$-	$-
OPERATING EXPENSES			
General and administrative	1,888,136	420,117	2,308,253
Research and development	1,803,671	281,449	2,085,120
Total operating expenses	3,691,807	701,566	4,393,373
LOSS FROM OPERATIONS	(3,691,807)	(701,566)	(4,393,373)
OTHER INCOME (EXPENSE)			
Other expenses	(1,345,710)	-	(1,345,710)
Interest expense	(621)	-	(621)
Total other expense	(1,346,331)	-	(1,346,331)
LOSS BEFORE INCOME TAXES	(5,038,138)	(701,566)	(5,739,704)
INCOME TAX EXPENSE	-	-	-
NET LOSS	$(5,038,138)	$(701,566)	$(5,739,704)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	$(0.15)	$(0.04)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC AND DILUTED	33,956,094	18,802,961	

Islet Sciences, Inc. and Subsidiary
(A Development Stage Company)
Consolidated Statement of Stockholders' Equity/(Deficit)

	Series A Preferred Number of Shares	Series A Preferred Amount	Series B Preferred Number of Shares	Series B Preferred Amount	Series C Preferred Number of Shares	Series C Preferred Amount	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Tota Shar Equ (Def
Balance, May 4, 2010	-	$-	-	$-	-	$-	-	$-	$-	$-	$-
Issuance of founders' common stock	-	-	-	-	-	-	13,430,000	13,430	(13,430)	-	-
Issuance of common stock in exchange for intangible asset	-	-	-	-	-	-	3,000,000	3,000	197,000	-	20
Issuance of common stock to reduce accounts payable – related party	-	-	-	-	-	-	100,000	100	9,900	-	10
Conversion of debt and accrued interest into common stock	-	-	-	-	-	-	3,591,729	3,592	353,408	-	35
Stock-based compensation	-	-	-	-	-	-	-	-	7,031	-	7,0
Issuance of common stock for services	-	-	-	-	-	-	1,200,000	1,200	118,800	-	12
Net loss	-	-	-	-	-	-	-	-	-	(701,566)	(70
Balance, April 30, 2011	-	-	-	-	-	-	21,321,729	21,322	672,709	(701,566)	(7,
Sale of common stock at $0.10/share	-	-	-	-	-	-	8,090,000	8,090	780,910	-	78
Issuance of common stock for services	-	-	-	-	-	-	4,931,668	4,932	488,236	-	49
Sale of common stock	-	-	-	-	-	-	2,474,997	2,475	287,525	-	29

at $0.12/share											
Issuance of common stock for purchase consideration in reverse merger	-	-	-	-	-	-	1,187,476	1,187	533,178	-	53
Sale of Series A preferred stock at $450/share	1,173	1	-	-	-	-	-	-	464,638	-	46
Conversion of shares during merger	-	-	38,006	38	-	-	(38,005,870)	(38,006)	37,968	-	-
Assumption of One E-Commerce shares upon reverse merger	-	-	-	-	-	-	187,063	187	(187)	-	-
Purchase of DTI with stock	-	-	-	-	200,000	200	100,000	100	2,829,523	-	2,8
Automatic conversion of Series A and B preferred stock into common stock	(1,173)	(1)	(38,006)	(38)	-	-	39,178,870	39,179	(39,140)	-	-
Automatic conversion of Series C Preferred shares into common stock	-	-	-	-	(200,000)	(200)	2,000,000	2,000	(1,800)	-	-
Sale of common stock at $0.45/share	-	-	-	-	-	-	3,118,922	3,119	1,346,876	-	1,3
Stock-based compensation	-	-	-	-	-	-	-	-	4,761	-	4,7
Net loss	-	-	-	-	-	-	-	-	-	(5,038,138)	(5,
Balance, April 30, 2012	-	$-	-	$-	-	$-	44,584,855	$44,585	$7,405,197	$(5,739,704)	$1,7

Islet Sciences, Inc. and Subsidiary

(A Development Stage Company)

Consolidated Statements of Cash Flows

	Year ending April 30, 2012	2011	For the period from May 4, 2010 (Inception) through April 30, 2012
Cash flows from operating activities:			
Net loss	$(5,038,138)	$(701,566)	$(5,739,704)
Adjustments to reconcile net loss to net cash used in operating activities:			
Equity issued for acquisition of One E-Commerce Corporation	534,365	-	534,365
Equity issued for payment of accounts payable - related party	-	10,000	10,000
Stock based compensation	4,761	7,031	11,792
Stock issued for services	493,168	120,000	613,168
Derivative liabilities	824,875		824,875
Accrued expenses for Progenitor agreement	1,135,365		1,135,365
Amortization of intangible assets	30,404	30,404	60,808
Change in operating assets and liabilities:			
Advances to related party	6,700	(6,700)	-
Accounts payable	53,433	49,821	103,254
Accounts payable - related party	(127,300)	107,300	(20,000)
Net cash used in operating activities	(2,082,367)	(383,710)	(2,466,077)
Cash flows from investing activities:			
Net cash provided by investing activities	-	-	-
Cash flows from financing activities:			
Proceeds from issuance of stock	2,893,633	357,000	3,250,633
Subscribed shares – not issued	1,124,265	-	1,124,265
Proceeds from notes payable - related party	-	30,000	30,000
Payments on notes payable - related party	(30,289)	-	(30,289)
Net cash provided by financing activities	3,987,609	387,000	4,374,609
Net increase in cash	1,905,242	3,290	1,908,532
Cash at beginning of year	3,290	-	-
Cash at end of year	$1,908,532	$3,290	$1,908,532

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	$-	$-	$-
Income taxes	$-	$-	$-
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING INFORMATION:			
Shares issued for acquisition of Diakine Therapeutics, Inc.	$2,829,823	$-	$2,829,823
Net liabilities assumed in acquisition of Diakine Therapeutics, Inc.	$101,284	$-	$101,284
Deferred income tax liability and goodwill associated with the acquisition of Diakine Therapeutics, Inc.	$547,000	$-	$547,000
Common stock issued in exchange for convertible notes	$-	$357,000	$357,000
Common stock issued in exchange for intangible asset	$-	$200,000	$200,000
Common stock issued in exchange for accounts payable - related party	$-	$10,000	$10,000

F-7

ISLET SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF BUSINESS AND GOING CONCERN

Description of Business

Islet Sciences, Inc., a Nevada corporation ("Islet Sciences"), is a development stage company engaged in the research, development, and commercialization of patented technologies in the field of transplantation therapy for people with conditions requiring cell-based replacement treatments, with a focus on type 1, or insulin-dependent diabetes. Patented islet transplantation technology, along with our own developments, constitute methods for isolating, culturing, cryopreservation, and immuno-protection (microencapsulation) of islet cells. Islet Sciences intends to continue its research and development efforts and ultimately to introduce products to the market. Currently, Islet Sciences has no products for sale and are focused on research and development activities in preparation for clinical activities.

Islet Sciences was incorporated under the name One E-Commerce Corporation on September 14, 1994 in the State of Nevada. Effective February 23, 2012, the Company changed its name to Islet Sciences, Inc. On March 14, 2012, Islet Sciences acquired Diakine Therapeutics, Inc., a Delaware corporation (“DTI”) (see Note 3). Islet Sciences together with its subsidiaries, Islet Sciences Inc., a Delaware corporation (“ISI”), and DTI are referred to as the Company.

Going Concern

The financial statements have been prepared assuming the Company will continue as a going concern. Since inception, the Company has incurred operating losses of $5,739,704 and has had negative operating cash flows of $2,466,077. As of April 30, 2012 the Company had cash of $1,908,532. Further, the Company has incurred net losses of $5,038,138 and negative operating cash flows of $2,082,367 for the fiscal year ended April 30, 2012. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company’s future cash requirements will depend on many factors, including continued scientific progress in its research and development programs, the scope and results of pre-clinical and clinical trials, the time and costs involved in obtaining regulatory approvals, the costs involved in filing, prosecuting and enforcing patents, competing technological and market developments, and the cost of product commercialization. The Company does not expect to generate a positive cash flow from operations at least until the commercial launch of its first product and possibly later given the expected spending for research and development programs and the cost of commercializing product candidates. The Company’s continued operations will depend on its ability to raise funds through various potential sources such as debt and equity financing. There can be no assurance that such capital will be available on favorable terms or at all. If the Company is unable to raise additional capital, the Company will likely be forced to curtail its desired development activities, which would delay the development of its product candidates.

Merger Agreement

On September 15, 2011, Mr. John Welch, shareholder, director and Chief Executive Officer of One-E Commerce Corporation, entered into a stock purchase agreement, pursuant to which Mr. Welch sold to ISI, an aggregate of 9,902,180 shares of One E-Commerce Corporation common stock, which shares then represented approximately 54.06% of the issued and outstanding shares of common stock, and certain convertible promissory notes in the aggregate principal amount of $514,458 and accrued interest, previously issued by One E-Commerce Corporation, for an aggregate purchase price of $250,000. Additionally, under the stock purchase agreement, ISI agreed to cause One E-Commerce Corporation to enter into a reverse merger transaction at a future date whereby the Company was to acquire all of the outstanding equity interests of ISI in consideration for the issuance of its shares to the shareholders of ISI ("Reverse Merger Transaction"). The closing that took place on September 22, 2011, resulted in the change of control of One E-Commerce Corporation. Immediately after the closing, the shares together with the notes, acquired by ISI comprised 54.06% of the then issued and outstanding common stock of the One E Commence Corporation on a non-diluted basis and 82.8% on a fully-diluted basis.

On December 30, 2011, ONCE, Inc., a Delaware corporation wholly-owned by the Company (the "Merger Sub"), ISI and Islet Sciences consummated the Reverse Merger Transaction, whereby the Merger Sub was merged with and into ISI, and the holders of common stock of ISI received an aggregate of 38,005.87 shares of Islet Sciences' Series B preferred stock, $0.001 par value per share ("Series B Preferred") in exchange for the cancellation of all of the shares of common stock of ISI formerly owned by them, and the holders of Series A preferred stock of ISI received an aggregate of 1,173 shares of the Series A preferred stock, $0.001 par value per share ("Series A Preferred") in exchange for the cancellation of all of the shares of Series A preferred stock of ISI formerly owned by them. The issuance of Series A and B Preferred, with each share of preferred stock having voting rights equal to 1,000 shares of the Company's common stock, resulted in ISI' shareholders having obtained control of the combined Company. ISI is deemed to be the accounting acquirer (legal acquiree) and One E-Commerce Corporation to be the accounting acquiree (legal acquirer). The financial statements before the date of the Reverse Merger Transaction are those of ISI with the results of the Company being consolidated from the date of the Reverse Merger Transaction. The equity section and earnings per share have been retroactively restated to reflect the reverse acquisition. The merger of a private operating company into a non-operating public shell corporation with nominal net assets is considered to be a capital transaction, in substance, rather than a business combination, for accounting purposes. Accordingly, ISI treated this transaction as a capital transaction without recording goodwill or adjusting any of its other assets or liabilities. The consideration in the amount of $784,365 for the Company, consisting of $250,000 paid in cash and $534,365 paid in the form of common stock (see Note 5), was recorded as an other expense item in the accompanying consolidated statements of operations. Effective February 23, 2012, Islet Sciences completed a 1-for-45 reverse stock split of its issued and outstanding common stock. Upon effectiveness of the reverse stock split, all outstanding shares of Series A Preferred and Series B Preferred were converted into common shares based on their respective conversion ratios. In connection with the closing of the Reverse Merger Transaction, ISI agreed to cancel the shares and the outstanding notes of One E-Commerce Corporation purchased from Mr. Welch, and the interest accrued thereon effective upon the effectiveness of the reverse stock split.

In addition, under the stock purchase agreement, the Company is required to issue to Mr. Welch shares of common stock representing 3% of the outstanding shares, after giving effect to the issuance of shares of common stock in the Company's private offering up to $4,000,000 (see Note 4).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. All shares and per share amounts in these consolidated financial statements and notes thereto have been retroactively adjusted to give effect to the reverse stock split.

The accompanying consolidated financial statements include the accounts of Islet Sciences and its wholly-owned subsidiaries, ISI and DTI. All significant intercompany balances have been eliminated.

The Company's planned principal operations have not yet commenced. Accordingly, the Company's activities have been accounted for as those of a development stage enterprise in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification (“ASC”) 915-10, Accounting and Reporting by Development Stage Enterprises (FASB ASC 915-10). All losses since inception have been considered as part of the Company's development stage activities.

Reclassifications

Certain prior year balances and account groupings have been reclassified to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the recoverability of long-lived assets, the valuation of intangible assets and goodwill, the valuation of common stock, warrants and stock options and the valuation of deferred tax assets. Actual results could differ from those estimates.

Concentration of Credit Risk

The Company maintains its cash balances at a credit-worthy financial institution and management believes the risk of loss of cash balances to be low. All cash balances are fully insured.

Intangible Assets

Intangible assets represent a patent acquired from a third party, which is recorded at cost and amortized over the remaining life of the patent. Intangible assets also include the purchase of Diakine Therapeutics, Inc. patent portfolio and know-how as in-process research and development. The intangible assets with estimable useful lives are amortized on a straight line basis over their respective estimated useful lives to their estimated residual values. This method of amortization approximates the expected future cash flow generated from their use. Definite lived intangibles are reviewed for impairment in accordance with FASB ASC 360, Property, Plant and Equipment (FASB ASC 360).

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the identifiable assets acquired and liabilities assumed in business acquisitions. Goodwill is reviewed at least annually for impairment in the fourth quarter of the fiscal year, at the Company level, which is the sole reporting unit, and at any other time at which events occur or circumstances indicate that the carrying amount of goodwill may exceed its fair value. Such indicators would include a significant reduction in the Company’s market capitalization, a decrease in operating results or a deterioration in the Company’s financial position.

Impairment of Long-Lived Assets

The Company applies the provisions of FASB ASC 360-10, Property, Plant and Equipment (FASB ASC 360-10), where applicable to all long lived assets. FASB ASC 360-10 addresses accounting and reporting for impairment and disposal of long-lived assets. The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with FASB ASC 360-10. FASB ASC 360-10 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal.

Loss Per Share Data

Basic loss per share is calculated based on the weighted average common shares outstanding during the period. Diluted earnings per share also give effect to the dilutive effect of restricted stock. The Company does not present diluted earnings per share for years in which it incurred net losses as the effect is anti-dilutive.

At April 30, 2012, 1,116,668 unvested shares of restricted common stock and warrants to exercise 2,145,961 shares of common stock were outstanding, but were not included in the computation of diluted earnings per share as their effect would be anti-dilutive. At April 30, 2011, 200,000 unvested shares of restricted common stock were outstanding, but were not included in the computation of diluted earnings per share as their effect would be anti-dilutive.

Fair Value of Financial Instruments

The Company adopted FASB ASC 820, Fair Value Measurements and Disclosures (FASB ASC 820), which provides a framework for measuring fair value under GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard also expands disclosures about instruments measured at fair value and establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices for identical assets and liabilities in active markets;

Level 2 — Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Research and Development

Research and development expenses consist of expenses incurred in performing research and development activities including salaries and benefits, facilities and other overhead expenses, contract services and other outside expenses. Research and development costs are charged to operations when incurred.

F-11

Stock Based Compensation

Stock awards

FASB ASC 718, Compensation-Stock Compensation (FASB ASC 718), requires the fair value of all share-based payments to employees, including grants of stock options, to be recognized in the statement of operations over the requisite service period. Under FASB ASC 718, employee option grants are generally valued at the grant date and those valuations do not change once they have been established. The fair value of each stock award is estimated on the date of grant using the then available price of shares that have most recently been traded or sold through a private offering and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period. The Company accounts for share-based payments to non-employees, with guidance provided by ASC 505-50, "Equity-Based Payments to Non-Employees". The Company has not issued any stock options.

Warrants

Warrants granted to service providers are normally valued at the fair value of the instrument on the date of the grant (grant date) and are recognized in the statement of operations over the requisite service period or when they vest. When the requisite service period precedes the grant date and a market condition exists in the warrant, the Company values the warrant using the Black-Scholes Method. Warrants issued in connection with capital raises are normally valued at the fair value of the instrument on the date of the grant (grant date) and valued for disclosure purposes if they meet all the criteria under FASB ASC 718. The Company values these warrant using the Black-Scholes Method as well. As allowed by FASB ASC 718 for companies with a short period of publicly traded stock history, the Company's estimate of expected volatility is based on the average volatilities of a sampling of companies with similar attributes to the Company, including industry, stage of life cycle, size and financial leverage. The risk-free rate for periods within the contractual life of the warrant is based on the U.S. Treasury yield curve in effect at the time of grant valuation. The Company used the following assumptions in valuing the warrants issued:

		April 30, 2012		April 30, 2011
Price per share of common stock	$	0.45 - $1.40		-
Exercise price per share	$	1.00		-
Expected volatility		80.0 - 90.0	%	-
Risk-free interest rate		0.82 - 1.12	%	-
Dividend yield		-		-

Income Taxes

The Company accounts for income taxes under an asset and liability approach. This process involves calculating the temporary and permanent differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The temporary differences result in deferred tax assets and liabilities, which would be recorded on the Company's consolidated balance sheets in accordance with FASB ASC 740, Income Taxes, which established financial accounting and reporting standards for the effect of income taxes. The Company must assess the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent the Company believes that recovery is not likely, the Company must establish a valuation allowance. Changes in the Company's valuation allowance in a period are recorded through the income tax provision on the consolidated statements of operations.

F-12

FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FASB ASC 740-10, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FASB ASC 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of ASC 740, the Company recognized no material adjustment in the liability for unrecognized income tax benefits.

The Company's policy is to record interest and penalties on uncertain tax positions as income tax expense. As of April 30, 2012 and 2011, the Company has no accrued interest or penalties related to uncertain tax positions.

Segment Reporting

The Company currently operates in a single operating segment. In addition, financial results are prepared and reviewed by management as a single operating segment. The Company continually evaluates its operating activities and the method utilized by management to evaluate such activities and will report on a segment basis if and when appropriate to do so.

Recent Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurements and Disclosures (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS")." The amendments in this ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRS. The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted. The Company does not expect that the adoption of ASU 2011-04 will have a material impact on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." Specifically, the new guidance allows an entity to present components of net income or other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. The new guidance is effective for fiscal years and interim periods beginning after December 15, 2011 and is to be applied retrospectively. The Company does not expect that the adoption of ASU 2011-05 will have a material impact on its consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, Intangibles—Goodwill and Other (Topic 350) which provides guidance on financial accounting and reporting related to goodwill and other intangibles, other than the accounting at acquisition for goodwill and other intangibles acquired in a business combination or an acquisition by a not-for-profit. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, the Company early adopted the guidance for fiscal year 2011 and implementation did not have a material impact on its financial statements.

F-13

NOTE 3. ACQUISITIONS

DTI Acquisition

On March 14, 2012, the Islet Sciences acquired Diakine Therapeutics, Inc., a Delaware corporation, through the issuance of 200,000 shares of Series C preferred stock in exchange for all issued and outstanding shares of DTI. The Series C Preferred stock was valued at $13.97 per share. The Company also agreed to issue to DTI 100,000 shares of its common stock for no additional consideration in satisfaction of DTI's liabilities outstanding at the closing under the agreement. Diakine Therapeutics, Inc. is a development stage biopharmaceutical company developing new, proprietary drugs for unmet medical needs in diabetes and complications related to diabetes.

The therapies under development from DTI's drug platform are small molecules with unique anti-inflammatory and immune modulating properties that represent a novel approach to treating type 1 and type 2 diabetes and many related complications. Because of this novel approach to therapy this class of drugs has the potential to become the standard of care by arresting the disease, restoring insulin production and halting long term complications. DTI's lead compound, Lisofylline (LSF), works at the cellular level by improving the function of insulin producing islet cells and protect. By combining the specialized skill sets of DTI with the Company's existing consultant capabilities, geographic footprint and increased visibility in universities, the Company believes it has increased its ability to improve and expand its future products and assist the Company in the areas of management consulting, corporate advisory, strategic communications and product development. This expected synergy gave rise to goodwill recorded as part of the purchase price of DTI. The Company believes by combining these technologies with the Company's technology, the Company will have state-of-the-art methods for the commercial production of vastly improved microencapsulated islet cells, and thereby, have the first potential transplantation therapy for diabetes patients worldwide.

The assets and liabilities of Diakine were recorded at fair value at the date of acquisition. The Company will continue to evaluate certain assets and liabilities as new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. Changes to the assets and liabilities recorded may result in a corresponding adjustment to goodwill, and the measurement period will not exceed one year from the acquisition date. Further, any associated restructuring activities will be expensed in future periods and not recorded through purchase accounting. There were no contingent consideration arrangements in connection with the acquisition.

The results of operations of DTI are included in the Company's Consolidated Statements of Operations from March 14, 2012, the date of acquisition. The following are the assets acquired and liabilities assumed on the DTI acquisition as well as the allocation of the purchase price:

Fair value of consideration given:		
Shares of Company Series C Preferred shares and common stock	$	2,829,823
Fair value of identifiable assets acquired and liabilities assumed:		
Cash	$	1,385
In process research and development		1,367,000
Total identifiable assets		1,368,385
Deferred income tax liability		(547,000)
Accounts payable and notes payable		(102,669)
Total identifiable liabilities		(649,669)
Goodwill		2,111,107

$	2,829,823

The purchase price set forth in the table above was allocated based on the fair value of the tangible and intangible assets acquired, and liabilities assumed, as of March 14, 2012. The fair value of the existing technology assets acquired was established based on their highest and best use by a market participant using the "Royalty Savings Method." In the Royalty Savings Method, the value of an asset is estimated by capitalizing the royalties saved because the Company owns the asset. The Company utilized a 15% pre-Tax royalty rate.

Initially, the residual purchase price of $1,564,107 has been recorded as goodwill related to the acquisition of DTI. However, none of the goodwill recognized or amortization of in process research and development acquired is expected to be deductible for income tax purposes. Accordingly, in conjunction with the valuation of intangible assets acquired, it was determined that a deferred income tax liability of $547,000 was recorded to reflect the book to tax differences of the acquisition. The excess of the purchase price paid over the fair value of the assets acquired and liabilities assumed, including the deferred tax liability, was adjusted to $2,111,107 and was allocated to goodwill.

Pro Forma Financial Information

The pro forma impact of the acquisitions on current and prior periods is not presented as the Company believes it is impractical to do so. Management was not able to compile what they believed to be complete, accurate and reliable accounting information to use as a basis for pro forma presentations without an unreasonable effort. DTI was a private development stage company which was not previously audited and had a different year-end (December 31). Based on management's knowledge of the financial information, the pro forma information not indicative of what the operations will look like going forward and may mislead the readers of these financial statements.

NOTE 4. INTANGIBLE ASSETS AND GOODWILL

On May 4, 2010, the Company was assigned the intellectual property rights for a patent that was issued on December 1, 1999. The rights to this patent where purchased out of the bankruptcy proceedings of MicroIslet, Inc. for $200,000 and then assigned to ISI in exchange for the issuance of 3,000,000 shares of common stock.

On March 14, 2012, the Company acquired the in-process research and development ("IPR&D") from Diakine Therapeutics, Inc. The Company will assess the integration of this technology into its product line in the near future. Once this assessment has been completed, the IPR&D will be amortized over the projected useful life. If the IPR&D cannot be aligned with the current product strategy, it will be written off to expense. As of April 30, 2012, the IPR&D is classified as indefinite life asset and is not being amortized.

The following is a summary of goodwill and intangible assets for the years ended April 30, 2012 and 2011:

	April 30, 2012			April 30, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Identifiable intangibles:						
Patents	$200,000	$ (60,808)	$139,192	$200,000	$ (30,404)	$169,596
In-process technology	1,367,000	-	1,367,000	-	-	-
Subtotal of identifiable intangibles	1,567,000	(60,808)	1,506,192	200,000	(30,404)	169,596
Goodwill	2,111,107	-	2,111,107	-	-	-
Total goodwill and intangibles	$3,678,107	$ (60,808)	$3,617,299	$200,000	$ (30,404)	$169,596

The patent is being amortized based on the remaining life of the patent, which was 6.5 years at May 4, 2010, the date of assignment. For the years ending April 30, 2012 and 2011, the amount amortized to expense was $30,404 per year. The Company expects to amortize $30,404 each of the next four fiscal years with the remaining balance amortized in 2018.

NOTE 5. DERIVATIVE LIABILITIES

The Company has two agreements for which it accounts for in accordance with accounting guidance for derivatives. The accounting guidance provides a two-step model to be applied in determining whether a financial instrument is indexed to an entity's own stock that would qualify such financial instruments for a scope exception. This scope exception specifies that a contract that would otherwise meet the definition of a derivative financial instrument would not be considered as such if the contract is both (i) indexed to the entity's own stock and (ii) classified in the stockholders' equity section of the balance sheet. The Company determined that these two agreements are ineligible for equity classification as a result of the anti-dilution provisions.

The Company entered into a research and manufacturing contract with Progenitor Cell Therapy, whereby the Company has committed to issue shares for no consideration so that Progenitor Cell Therapy's ownership is not less than 1% of outstanding shares on a fully diluted basis (see Note 7) through December 31, 2013. The Company has accrued $263,530 as a derivative liability related to the terms of the anti-dilution provision of this contract.

The Company accounted for the anti-dilution provision per the Reverse Merger Transaction (see Note 1), which required the Company to issue to Mr. John Welch shares of common stock representing 3% of the outstanding shares, after giving effect to the issuance of shares of common stock in the Company's private offerings of up to $4,000,000. Once the Company has raised the $4,000,000, no additional shares will require issuance. On December 30, 2011 and in conjunction with the Reverse Merger Transaction, the Company issued to Mr. Welch 1,187,476 shares of common stock as a partial issuance pursuant to the required 3% ownership. The remaining required issuance of shares was computed and issued subsequent to year end (see Note 10). At April 30, 2012, the Company valued this remaining issuance of shares as a derivative liability at $561,345 based on its valuation of the Company at that time which was $1.40 per share.

The Company will revalue the derivative liability on each subsequent balance sheet date until the securities to which the derivative liabilities relate are exercised or expire, with any changes in the fair value between reporting periods recorded as other income or expense or research and development, based on its initial classification.

The Progenitor Cell Therapy derivative liability was valued as of April 30, 2012 using the Monte Carlo Simulation method with the following assumptions:

		April 30, 2012		April 30, 2011
Value price per share of common stock	$	1.40		-
Exercise price per share	$	1.00		-
Expected volatility		80.0	%	-
Risk-free interest rate		0.241	%	-
Dividend yield		-		-
Floor price	$	0.87		-
Remaining expected term of underlying securities (years)		1.66		-

In addition, as of the valuation dates, management assessed the probabilities of future financings assumptions in the Monte Carlo Simulation method, as well as the probability of the conditional exercise feature.

NOTE 6. PREFERRED STOCK AND COMMON STOCK

As of April 30, 2012, the Company had 100,000,000 authorized shares of common stock, par value $0.001 per share. Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders. Holders of common stock are entitled to receive dividends ratably, if any, as may be declared by the Board of Directors out of legally available funds, subject to any preferential dividend rights of any outstanding preferred stock. Upon liquidation, dissolution or winding up, the holders of common stock are entitled to receive ratably net assets available after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock.

Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are fully paid and non-assessable. The rights, preferences and privileges of holders of the common stock are subject to, and may be adversely affected by, the rights of holders of shares of any series of preferred stock.

As of April 30, 2012, the Company had 10,000,000 authorized shares of preferred stock, par value $0.001 per share, none of which are issued and outstanding. Shares of Series A and Series B preferred stock issued at the closing of the Reverse Merger Transaction were automatically converted, upon the effectiveness of the reverse split on February 23, 2012, into common stock at a conversion rate of one thousands shares of common stock for one share of preferred stock. In February 2012, the Board of Directors of the Company adopted resolutions providing for the designation of Series C Preferred stock at $0.001 par value. Shares of Series C preferred stock issued at the closing of the DTI acquisition were converted on April 26, 2012 into common stock at a conversion rate of ten shares of common stock for one share of preferred stock. At the conversion of all issued and outstanding shares of Series A, Series B ad Series C preferred stock, designations of all three series of preferred stock were cancelled.

On February 23, 2012, the Company effected a 1-for-45 reverse stock-split of shares of its common stock outstanding at the close of business on January 19, 2012. The information presented below represents shares of common stock issued after the record date for the reverse split and such issuances were not impacted by it.

At the inception, the Company issued 13,430,000 founder shares of common stock for intellectual property assignments related to the company's purpose, mission and contributions to the business plan and strategy for no consideration.

On May 4, 2010, the Company issued 3,000,000 shares of common stock for the assignment of the intellectual property rights purchased from a company in bankruptcy proceedings for $200,000.

In May 2010, the Company issued a convertible note payable to Sand Dollar Partners, LLC, an investor, in the amount of $357,000. In September 2010, the note payable was converted to 3,591,729 shares of common stock.

In July 2010, Dr. Jonathan Lakey, Scientific Advisor Board Member, and in October 2010, Mr. Richard Egan, CFO, each received a restricted stock grant of 100,000 shares of common stock for services provided to the Company. The shares vest 50% on the first anniversary of the date of the agreement and the remaining shares vest on the second anniversary of the date of the agreement. At April 30, 2012, 50% of the shares had vested (or 100,000 shares) and were issued. For the years ended April 30, 2012 and 2011, the Company recognized stock-based compensation expense of $4,761, and $7,031, respectively. The share price of the shares issued was valued at $0.10 per share, which equated to the then share price of common stock being sold to other investors.

In March 2011, as part of a consultant agreement for consulting services to be provided for a one year period, the Company issued 1,200,000 shares of common stock to Edward Gibstein. The common shares were valued at $120,000 at the grant date, and were fully expensed as stock-based compensation upon issuance as the shares were not subject to forfeiture. The share price of the shares issued was valued at $0.10 per share, which equated to the then share price of common stock being sold to other investors.

In April 2011, the Company converted a accounts payable balance with a related party in the amount of $10,000 into 100,000 shares of common stock.

From June to September of 2011, the Company consummated a private placement of its common stock to certain accredited investors whereby the Company issued 8,090,000 shares of common stock for cash at a purchase price of $0.10 per share and 2,474,997 shares of common stock for a cash purchase price of $0.12 per share for total gross proceeds of $1,106,000. Originally, the shares sold were those of ISI's common stock, which were ultimately converted into common stock of Islet Sciences as a result of the Reverse Merger Transaction and following the reverse stock split of Islet Sciences' common stock.

In October 2011, the Company granted Mr. John Steel, the Company's CEO, 1,190,000 shares of common stock, for the services that he has provided in previous periods as part of his employment agreement; 866,668 shares of common stock, as a signing bonus as part of his employment agreement; and 866,668 shares of common stock, as a deferred stock compensation with a vesting schedule of 50% on the first anniversary date and 50% on the second anniversary date. The total number of shares issued was 2,056,668 and were valued at $205,667 at the grant date, and was expensed ratably over the corresponding service period. The share price of the shares issued was valued at $0.10 per share, which equated to the then share price of shares being sold to other investors. The Company has agreed to issue Mr. Steel and additional 200,000 of common shares upon the completion of the contemplated Diakine Therapeutics, Inc. acquisition. For the year ending April 30, 2012, the Company accrued $280,000 as a stock-based compensation expense related to the 200,000 shares which were to be granted as the result of the Diakine Therapeutics, Inc. purchase. The shares were valued at $1.40 per share based on the valuation performed at the acquisition date. The grant of 866,668 shares of common stock which remains unvested will be expensed once each restriction is lifted as services are provided and valued at the Company's then current fair value of the underlying shares.

In October 2011, the Board of Directors granted certain consultants to the Company 2,775,000 shares of common stock as part of consultant agreements for services to be provided for multiple year periods. For the year ended April 30, 2012, the Company recognized $277,542 of stock-based compensation expense related to these grants. The share price of the shares issued was valued at $0.10 per share, which equated to the then share price of common stock being sold to other investors.

In October 2011, the Board of Directors allocated 400,000 shares of common stock for future issuance to members of the Company's Scientific Advisor's Board once Scientific Advisory Board members have been selected, other than Dr. Lakey. The members of the Scientific Advisory Board will have a term of two years.

In December 2011, the Company consummated a private placement of its preferred stock to certain accredited investors whereby the Company issued 1,173 shares of Series A preferred stock for cash at a purchase price of $450 per share for total gross proceeds of $528,000. Originally, the shares sold were those of ISI's Series A preferred stock, which were ultimately converted into common stock of Islet Sciences as a result of the Reverse Merger Transaction and following the reverse stock split of Islet Sciences' common stock. In conjunction with the issuance of preferred stock, each share of issued preferred stock included the right to receive a warrant to purchase 500 shares of common stock of Islet Sciences at a price of $1.00 per share upon conversion of the preferred stock. The warrants were valued at approximately $147,000 based on the assumptions used in Note 2.

Under the stock purchase agreement dated September 15, 2011, the Company is required to issue to Mr. John Welch shares of common stock representing 3% of the outstanding shares, after giving effect to the issuance of shares of common stock in the financing. On December 30, 2011, the Company issued to Mr. Welch 1,187,476 shares of common stock valued at $534,365 and is included in other expenses (see Note 5). Subsequent to year-end the Company computed the remaining number of shares issuable under the anti-dilutive provision of the contract in the amount of 375,398 shares, valued at $561,345 and are included as derivative liabilities in the consolidated balance sheets. The shares were valued at $1.40 per common share based on the stock valuation performed at the acquisition date.

On March 14, 2012, in exchange for all issued and outstanding stock of DTI, the Company issued to DTI shareholders 200,000 shares of Series C Preferred Stock with each share of preferred stock convertible into ten shares of the Company's common stock. The Company also issued 100,000 shares of its common stock as part of the acquisition. On April 24, 2012, the Company issued a total of 2,000,000 shares of common stock to holders of 200,000 shares Series C Preferred Stock upon conversion of Series C Preferred Stock (see Note 3).

On April 1, 2012, as compensation for future services, Mr. Egan, CFO, was awarded a grant 150,000 shares of the common stock which shall be subject to forfeiture if his consulting engagement is terminated before January 31, 2013. Compensation costs will be recognized as services are performed.

In March and April of 2012, the Company consummated a private placement of its common stock at a per share price of $0.45 pursuant to a series of subscription agreements with a number of accredited investors including one of the Company's director's. The investors in the private placement were also issued for no additional consideration warrants to purchase shares of the Company's common stock. The warrants grant to the subscribers the right to purchase a number of shares of common stock, par value $.001 per share, of the Company's common stock equal to fifty percent (50%) of the number of shares of common stock subscribed for. The Warrants will have an initial exercise price equal to $1.00 per share and shall be exercisable for a five year period. The warrants were valued at approximately $392,000 based on the assumptions used in Note 2. As of April 30, 2012, 3,118,922 shares of common stock and 1,559,461 warrants were issued for total gross proceeds of $1,403,515. For the remaining shares of common stock and warrants which had not yet been issued, the Company recorded the proceeds, which amounted to $1,124,265, as a subscribed shares not issued liability on the accompanying consolidated balance sheets.

The following table summarizes information regarding the warrants outstanding as of April 30, 2012 and 2011:

	Number of Warrants	Weighted Average Exercise Price	Expiry Dates
Warrants at May 4, 2010 (Inception)	-	$-	n/a
Granted	-	$-	n/a
Expired	-	$-	n/a
Warrants at April 30, 2011	-	$-	n/a
Granted	2,145,961	$1.00	December 2016 to March 2017
Expired	-	$-	n/a
Warrants at April 30, 2011	2,145,961	$1.00	December 2016 to March 2017

NOTE 7. COMMITMENTS AND CONTINGENCIES

Contracts

On January 10, 2012, the Company entered into an agreement with Progenitor Cell Therapy ("PCT"), a wholly owned subsidiary of NeoStem, Inc. ("NeoStem"), which was amended by an agreement dated May 15, 2012 by and between the Company and NeoStem. Under the agreements, PCT will be providing the protocols, procedures, systems, equipment, testing, quality controls, and manufacturing and distribution services to support the development and commercialization of the Company's encapsulated porcine islet cells for the treatment of diabetes. As compensation for the services of PCT, the Company agreed to pay to PCT a non-refundable monthly fee of $63,000 and a non-refundable monthly charge of between $33,000 and $54,000. NeoStem is also entitled to receive 400,000 shares of the Company's common stock and warrants to purchase 350,000 shares of the Company's common stock at an exercise price of $1.00 per share, as well as additional shares for no consideration so that NeoStem's ownership is not less than 1% of outstanding shares on a fully diluted basis (see Note 5). PCT has the right for a period of ten years to be the exclusive manufacturer of any product involved in the services to be provided under the agreement. With respect to commercial production of such products, PCT will be entitled to a royalty of 2.85% of gross sales and 5% of any sublicensing fees, royalties, milestone fees or profit sharing payments.

The Company accrued $855,365 as a research and development expense for the 400,000 shares and 350,000 warrants which were to be granted as part of this agreement. The shares were valued at $1.40 per share based on a stock valuation performed and the warrants were valued based on the assumptions discussed in Note 2.

F-20

In April 2011, the Company entered into an agreement with a private placement agent to raise funds for the Company. The agreement entitled the agent to earn 10% of all proceeds, certain out of pocket costs, plus shares of common stock equaling 5% of the Company's fully diluted stock if the equity raised was between $3.3 million and $5.5 million. The agreement terminated on April 30, 2012 without the placement agent raising the required funds. In June 2012, the Company agreed to issue 1,750,000 shares of its common stock to this placement agent (see Note 10).

Litigation

The Company may be subject from time to time to litigation, claims and suits arising in the ordinary course of business. As of April 30, 2012, the Company was not a party to any material litigation, claims or suits whose outcome could have a material effect on our financial statements.

NOTE 8. RELATED PARTY TRANSACTIONS

The Company granted certain shares of common stock to its CEO for past services as well as reserved shares if certain events occur – see Note 6 for details.

The Company's CEO has agreed to advance to the Company up to $160,000 during any fiscal year. In consideration of the loan of $30,000, the Company has issued a promissory note to the CEO in the aggregate principal amount of $30,000. The note was paid down during the year ended April 30, 2012.

The Company issued restricted stock grants to both a shareholder and Scientific Advisory Board member – see Note 6 for details.

NOTE 9. INCOME TAXES

As of April 30, 2012 and 2011, the Company's net deferred tax assets were as follows:

	2012	2011
Deferred tax assets:		
Net operating loss carryforwards	$ 1,473,900	$ 265,000
Derivative liability	328,600	-
Accrued expenses	452,300	-
Depreciation and amortization	15,700	7,000
Research and development credits	74,600	25,000
Total deferred tax assets	2,345,100	297,000
Valuation allowance	(2,345,100)	(297,000)
Deferred tax liabilities	(547,000)	-
Net deferred tax liability	$ (547,000)	$ -

F-21

FASB ASC 740, Income Taxes, requires that a valuation allowance be established when it is more likely than not that its net deferred tax asset will not be realized. In determining whether a valuation allowance is required, a company must take into account all positive and negative evidence with regard to the utilization of a deferred tax asset. FASB ASC 740 further states that it is difficult to conclude that a valuation allowance is not needed when there is negative evidence such as cumulative losses in recent years.

The Company plans to continue to provide a full valuation allowance on future tax benefits until it can sustain an appropriate level of profitability and until such time, the Company would not expect to recognize any significant tax benefits in its future results of operations. The valuation allowance increased $2,048,100 and $297,000 for the years ended April 30, 2012 and 2011, respectively.

As of April 30, 2012, the Company had net operating loss carry forwards for Federal and state income tax purposes of approximately $3,570,000 and $3,597,000, respectively. These Federal and state net operating loss carry forwards will expire in 2031. The Company had research and development credits carry forwards for Federal and state income tax purposes of approximately $46,000 and $43,000, respectively. Pursuant to the Internal Revenue Code, Sections 382 and 383, use of the Company’s net operating loss and credit carry forward could be limited if a cumulative change in ownership of more than 50% occurs within a three-year period.

The provision for income taxes differs from the amount computed by applying the US statutory Federal income tax rate of 35% to income before income taxes. The reconciliation of statutory and effective taxes for the years ended April 30, 2012 and 2011 are presented below:

		2012		2011
Provision computed at statutory rate	$	(1,713,000)	$	(246,000)
State income tax, net of Federal tax benefit		(294,000)		(37,000)
Research and development credit		(50,000)		(25,000)
Change in valuation allowance		2,048,100		297,000
Permanent differences		5,000		9,000
Other		3,900		2,000
	$	-	$	-

NOTE 10. SUBSEQUENT EVENTS

In May 2012, the Company issued an aggregate of 4,552,222 shares of common stock and warrants to purchase 2,276,111 shares of common stock at an exercise price of $1.00 per share in connection with two closings of the private placement of $2,048,500 of its common stock that occurred in April 2012. Because the shares and warrants were issued after the fiscal year end, the proceeds from these two closings were included within subscribed shares not issued liability on the accompanying consolidated balance sheets.

On May 1, 2012 the Company entered into an agreement with a consultant to provide financial services. As part of the compensation provided by this agreement the Company agreed to issue 375,000 shares of the Company’s common stock to the consultant which is not subject to any vesting conditions or forfeiture. The Company accrued $525,000 for its issuance of shares as part of this agreement and included as general and administrative expenses in the condensed consolidated statements of operations for the period ended July 31, 2012. The shares were valued at $1.40 per share based on a stock valuation.

F-22

On May 2, 2012, the Company, entered into a license agreement with the Yale University ("Yale"). Under the agreement, the Company received exclusive license to the technology patented by Yale. In consideration of the license granted under the agreement, the Company agreed to pay to Yale a license issue royalty of $10,000 (plus a $10,000 annual renewal fee) and issue 20,000 shares of its common stock, and to pay certain milestones royalties by issuing an aggregate of 160,000 shares of common stock. The Company also agreed to pay to Yale a royalty of 5% of net sales. The agreement will expire automatically, on a country-by-country basis, on the date on which the last of the claims of the subject patents expires. It can be terminated by Yale if the Company defaults on its obligations under the agreement and fails to cure such default within 60 days of a written notice by the university. The Company can terminate the agreement upon a six month notice subject to payment of all amounts due Yale under the agreement. In May 2012, the Company issued 20,000 shares of its common stock valued at $28,000.

On May 9, 2012, the Company consummated a private placement of an aggregate of 1,711,667 shares its common stock at a per share price of $0.45, for gross proceeds of $770,250 pursuant to a series of subscription agreements with a number of accredited investors. The investors in the private placement were also issued for no additional consideration warrants to purchase 855,833 shares of common stock at an exercise price of $1.00 per share.

On May 23, 2012, the Company issued a total of 270,000 shares of common stock as compensation to its employee and consultants valued at $378,000 of which 200,000 shares (or $280,000) were accrued as of April 30, 2012.

On June 6, 2012, the Company issued 375,398 shares of common stock to John Welch pursuant to the stock purchase agreement dated September 15, 2011 by and between the Company and Mr. Welch pursuant to the Reverse Merger Transaction.

On June 21, 2012, the Company consummated a private placement of an aggregate of 717,778 shares of common stock at a per share price of $0.45, for gross proceeds of $323,000 pursuant to a series of subscription agreements with a number of accredited investors. The investors in the private placement were also issued for no additional consideration warrants to purchase 358,889 shares of common stock at an exercise price of $1.00 per share.

On July 23, 2012, the Company entered into a long-term supply agreement with a source animal facility to purchase pigs for use in the Company's xenotransplantation research. Regardless of the number of pigs supplied under this agreement, the Company is obligated to pay $100,000 for each month of this agreement, plus an initial and one time facility setup up $25,000, and to pay certain milestones royalties by issuing warrants exercisable into an aggregate of 300,000 shares of common stock. The initial term of the agreement is for two years with an automatic renewal for one additional year, unless terminated prior to the renewal period. It can be terminated by either party if either party defaults on its obligations under the agreement and fails to cure such default within 90 days.

On July 23, 2012, the Company entered into a licensing agreement with the Winthrop University Hospital ("Winthrop") to license certain patents and technology. In consideration of the license granted under the agreement, the Company agreed to pay to Winthrop a license issue royalty of $10,000 (plus a $10,000 annual renewal fee) and issue 20,000 shares of its common stock, and to pay certain milestones royalties by issuing an aggregate of 160,000 shares of common stock. The Company also agreed to pay to Winthrop a royalty of 5% of net sales. The agreement will expire automatically, on a country-by-country basis, on the date on which the last of the claims of the subject patents expires. It can be terminated by Winthrop if the Company defaults on its obligations under the agreement and fails to cure such default within 60 days of a written notice by the university. The Company can terminate the agreement upon a six month notice subject to payment of all amounts due Winthrop under the agreement.

On July 25, 2012, the Company entered into a license agreement with the University of California, Los Angeles. Under the Agreement, the Company received a worldwide, exclusive license to certain "small molecules used for islet expansion

In July 2012, the Company issued 400,000 shares as part of its agreement with PCT along with a warrant to purchase 350,000 shares at an exercise price of $1.00 per share. These issuances were valued at approximately $855,000 and accrued at April 30, 2012. In addition and as part of the anti-dilution provision, the Company issued an additional 162,933 shares of common stock to maintain NeoStem's 1% ownership of the Company during the three months ended July 31, 2012.

In July 2012, the Company agreed to issue 1,750,000 shares of its common stock to one of its placement agent pursuant to an agreement dated as of April 21, 2011, as amended on June 29, 2012. The initial performance conditions in the agreement were not met by the placement agent, however, both parties agreed to settle and amend the agreement by issuing a total of 1,750,000 shares of the Company's common stock to the placement agent. This issuance was accrued for at July 31, 2012 in the amount of $2,450,000, which was based on a shares price of $1.40 based on a stock valuation performed, and is included as general and administrative expenses in the condensed consolidated statements of operations, during the period ended July 31, 2012.

In August 2012, the Company issued an additional 20,273 shares of common stock to NeoStem pursuant to the supplier agreement dated January 10, 2012 by and between the Company and PCT.

On August 27, 2012 the Company issued 3,000 shares of common stock under a license agreement.

In August 2012, the Company entered into an agreement with the Regents of the University of California ("UCI"), whereby UCI will provide work dealing with small molecule mediated porcine islet proliferation. Work under this agreement will be performed for a period of six (6) months with an estimated cost of $23,100.

In August 2012, the Company agreed to assume certain liabilities in connection with claims and liens on certain patents acquired for approximately $17,000 in cash and the issuance of 144,342 shares of its common stock for total consideration valued at $202,078.

In August 2012, a complaint was filed against the Company and John Steel for infringement and misappropriation of MicroIslet patent in the United States District Court for the District of Utah, Central Division. The plaintiffs contend that they were the actual purchasers of the MicroIslet patent out of MicroIslet's bankruptcy proceedings in 2009 and that the respective intellectual property rights have been never assigned to either ISI or the Company. As a result, they allege that the Company's claim to the ownership of the MicroIslet patent based on the assignment of the patent by its founders are baseless. The complaint seeks monetary damages including punitive damages of at least $12 million, costs, attorneys' fees, and declaratory judgment. Management believes the plaintiffs' claims to be without merit and intend to vigorously defend against this action.