

MedMira Inc.

Condensed Interim Consolidated Financial Statements
For the three month period ended October 31, 2012
(Unaudited - Prepared by Management)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ending October 31, 2012.

December 28, 2012

Management's responsibility for financial reporting

The accompanying condensed interim consolidated financial statements of MedMira Inc. (the Company) are the responsibility of management and have been approved by the Board of Directors. The condensed interim consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS). The condensed interim consolidated financial statements include amounts and assumptions based on management's best estimates which have been derived with careful judgement.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparation of the condensed interim consolidated financial statements.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the condensed interim consolidated financial statements and the accompanying management's discussion and analysis. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is a subcommittee of the Board of Directors. It is responsible for oversight of the internal control and financial matters assisting the Company's management and independent auditors to ensure that the integrity of the financial reporting process is maintained.

(signed) *Hermes Chan*
Chief Executive Officer

(signed) *Daniel Frid*
Chief Financial Officer

Unaudited consolidated statement of financial position

	<i>Notes</i>	31-Oct-12 \$	31-Jul-12 \$
Assets			
<i>Current assets</i>			
Cash		1,295,472	2,416,809
Trade and other receivables		503,591	164,292
Prepaid expenses		91,601	98,097
Current tax assets		46,307	46,307
Inventories	5	231,890	225,854
Total current assets		<u>2,168,861</u>	<u>2,951,359</u>
<i>Non-current assets</i>			
Property, plant and equipment	6	30,409	18,878
Intangible assets	7	2	2
Total non-current assets		<u>30,411</u>	<u>18,880</u>
Total assets		<u>2,199,272</u>	<u>2,970,239</u>
Liabilities			
<i>Current liabilities</i>			
Current portion of debt	10	440,674	7,184,916
Accounts payable and accrued liabilities		2,463,302	3,290,151
Deferred revenue	10	63,175	574,225
Total current liabilities		<u>2,967,151</u>	<u>11,049,292</u>
<i>Non-current liabilities</i>			
Provision for royalty	12	422,915	401,443
Long term portion of debt	10	7,375,153	227,803
Total non-current liabilities		<u>7,798,068</u>	<u>629,246</u>
Total liabilities		<u>10,765,219</u>	<u>11,678,538</u>
Equity			
Share capital	8	55,661,183	55,661,183
Warrant reserve	8	4,493,647	4,493,647
Stock based compensation reserve	8	1,099,202	1,099,202
Equity reserve		595,770	595,770
Accumulated deficit		(70,415,749)	(70,558,101)
Total shareholders deficiency		<u>(8,565,947)</u>	<u>(8,708,299)</u>
Total liabilities and equity		<u>2,199,272</u>	<u>2,970,239</u>

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

Approved on behalf of the Board of Directors

(signed) *Hermes Chan*, Director

(signed) *Romano Robusto*, Director

Unaudited consolidated statement of operations and comprehensive income
For the three months ended October 31, 2012 and October 31, 2011

	<i>Notes</i>	31-Oct-12 \$	31-Oct-11 \$
Continuing operations			
Revenue	4	544,501	234,773
Cost of sales		<u>(377,463)</u>	<u>(88,294)</u>
Gross profit		<u>167,038</u>	<u>146,479</u>
Operating expenses			
Depreciation	6	(4,286)	(4,754)
Administrative expenses		(191,810)	(191,916)
Marketing expenses		(47,364)	(27,711)
Wages and salaries		(316,366)	(382,627)
Research and development expenses	14	<u>(80,790)</u>	<u>(76,751)</u>
Total operating expenses		<u>(640,616)</u>	<u>(683,759)</u>
Results from operations		<u>(473,578)</u>	<u>(537,280)</u>
Non-operating income (expenses)			
Finance costs		(118,828)	(1,009,022)
Exchange rate gains (losses)		16,932	(366,903)
Other income		2,136	-
Gain on forgiveness of debt		<u>715,689</u>	<u>-</u>
Total non-operating income (expenses)		<u>615,929</u>	<u>(1,375,925)</u>
Net and comprehensive income (loss)		<u>142,351</u>	<u>(1,913,205)</u>
Earnings per share			
Basic earnings (loss) per share		0.001	(0.008)
Diluted earnings (loss) per share		0.001	(0.008)

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

**Unaudited consolidated statement of changes in equity
Attributable to equity holders of the Company**

	Share capital					Accumulated deficit	Total equity
	Common shares	Preferred shares	Warrant reserve	Option reserve	Equity reserve		
	\$	\$	\$	\$	\$	\$	\$
Balance at July 31, 2011	50,982,750	2,500	2,205,330	1,030,354	595,770	(73,930,403)	(19,113,699)
Net and comprehensive income (loss)	-	-	-	-	-	(1,913,205)	(1,913,205)
Issuance of options	-	-	-	68,848	-	-	68,848
Balance at October 31, 2011	50,982,750	2,500	2,205,330	1,099,202	595,770	(75,843,608)	(20,958,056)
Net and comprehensive income (loss)	-	-	-	-	-	5,285,508	5,285,508
Issuance of common shares and warrants for cash	4,320,752	-	2,110,313	-	-	-	6,431,065
Issuance of common shares and warrants for debt	390,931	-	178,004	-	-	-	568,935
Share issuance costs	(35,750)	-	-	-	-	-	(35,750)
Balance at July 31, 2012	55,658,683	2,500	4,493,647	1,099,202	595,770	(70,558,100)	(8,708,298)
Net and comprehensive income (loss)	-	-	-	-	-	142,351	142,351
Balance at October 31, 2012	55,658,683	2,500	4,493,647	1,099,202	595,770	(70,415,749)	(8,565,947)

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

Consolidated statement of cash flows
For the years ended October 31, 2012 and October 31, 2011

	31-Oct-12	31-Oct-11
	\$	\$
Cash from operating activities		
Cash receipts from customers	519,459	173,684
Cash paid to suppliers and employees	<u>(1,372,912)</u>	<u>(537,512)</u>
Net cash from operating activities	<u>(853,453)</u>	<u>(363,828)</u>
Cash from investing activities		
Payments to acquire property, plant and equipment	<u>(15,817)</u>	<u>(3,343)</u>
Net cash from investing activities	<u>(15,817)</u>	<u>(3,343)</u>
Cash from financing activities		
Cash payments on existing debt	(192,552)	(447,649)
Cash payments of interest	<u>(58,785)</u>	<u>(198,814)</u>
Net cash from financing activities	<u>(251,336)</u>	<u>(646,464)</u>
Net increase in cash	(1,120,606)	(1,013,635)
Cash at the beginning of the period	2,416,809	1,026,763
Effects of exchange rate changes on the balance of cash held in foreign currencies	<u>(731)</u>	<u>19,617</u>
Cash at the end of the period	<u>1,295,472</u>	<u>32,744</u>

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

1. Reporting entity

Nature of operations

MedMira Inc. (MedMira or the Company) is a biotechnology company headquartered in Canada. The address of the Company's registered office is 155 Chain Lake Drive, Suite 1, Halifax, Nova Scotia, B3S 1B3. OnSite Lab Holdings AG owns the majority of MedMira's shares and is the controlling shareholder. The condensed interim consolidated financial statements of the Company as at and for the three months ended October 31, 2012 and 2011, comprise the Company and its subsidiaries. MedMira, through its subsidiaries, is engaged in the business of research, development and manufacturing of rapid diagnostics and technologies. The Company invests in research in order to maintain and expand its position in the global diagnostics market. MedMira's research is focused on specific areas of the broader diagnostics market, namely the rapid, point-of-care, and *in vitro* sectors.

2. Basis of preparation

a. Statement of compliance

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee. The condensed interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended July 31, 2012. The Audit Committee of the Board of Directors reviewed the condensed interim consolidated financial statements for October 31, 2012 and the Board of Directors approved this document on December 28, 2012.

b. Going-concern

The accompanying condensed interim consolidated financial statements have been prepared on the basis of IFRS applicable to a going-concern, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations. However, certain adverse conditions and events cast significant doubt upon the validity of this assumption. The Company has incurred losses and negative cash flows from operations on a cumulative basis since inception. For the period ended October 31, 2012, the Company realized a net income of approximately \$0.1 million (October 31, 2011 – net loss \$1.9 million), consisting of a net loss from operations of \$0.5 million (October 31, 2011 - \$0.5 million), a gain on forgiveness of debt of \$0.7 million (October 31, 2011 – \$nil), and other non-operating losses of \$0.1 million (October 31, 2011 - \$1.4 million). Negative cash flows from operations were approximately \$0.9 million (October 31, 2011 - \$0.4 million). As at October 31, 2012, the Company had an accumulated deficit of approximately \$70.4 million (July 31, 2012 - \$70.6 million). In addition to its on-going working capital requirements, the Company must secure sufficient funding for its research and development programs for existing commitments, including its current portion of loans of approximately \$0.4 million. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going-concern.

Management is pursuing other financing alternatives to fund the Company's operations so it can continue as a going-concern. Management plans to secure the necessary financing through new equity and debt arrangements. Nevertheless, there is no assurance that this initiative will be successful.

The Company is subject to risks associated with early stage companies, including but not limited to, dependence on key individuals, competition from substitute services and larger companies, and the requirement for the continued

successful development and marketing of its products and services. The Company's ability to continue as a going-concern is dependent upon its ability to generate positive cash flow from operations and secure additional financing. These financial statements do not reflect the adjustments to carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going-concern assumption inappropriate and these adjustments could be material.

c. Basis of measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis with the exception of certain financial instruments, which are measured in accordance with the policy described in Note 3 of the July 31, 2012 Consolidated Financial Statements, and inventory, which is measured at the lower of cost and net realisable value.

d. Functional and presentation currency

The condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries. All financial information is presented in Canadian dollars and no rounding is used unless explicitly stated.

e. Use of estimates and judgements

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. These include but are not limited to:

- Amounts recorded for depreciation, impairment and reversals of impairment of property, equipment and intangibles which depend on estimates of net recoverable amounts based on expected economic lives and future cash flows from related assets;
- Amounts recorded for investment tax credits recoverable which are calculated based on the expected eligibility and tax treatment of qualifying scientific research and experimental development expenditures recorded in the Company's condensed interim consolidated financial statements;
- Contingencies that are accrued on an undiscounted basis when it is probable that a liability for past events exists and the liability can be reasonably estimated. In determining whether a liability exists, the Company is required to make judgements as to the probability of future events occurring;
- The allocation of proceeds between common shares and warrants, determined by valuation of warrants which includes assumptions regarding the volatility and risk free rate;
- The fair value calculation of promissory notes, convertible debt, and long-term debt, which includes assumptions of the market rate and expected cash flows;
- The fair calculation of royalty liabilities, which includes determination of an appropriate discount rate, estimation of future sales, and estimation on price and cost of production;
- The fair value calculation of stock-based compensation, including determination of appropriate volatility and risk free rate;

- The fair value allocation of consideration for multiple element revenue arrangements, including timing of revenue recognition and allocation of cost; and
- Determination of operating segments.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies

Accounting standards issued but not yet applied:

IFRS 9, “Financial Instruments”: The International Accounting Standards Board (“IASB”) has issued IFRS 9, “Financial Instruments”, effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 introduces net classification and measurement requirements for financial instruments.

IFRS 10, “Consolidated Financial Statements”: The IASB issued IFRS 10, “Consolidated Financial Statements”, effective for annual periods beginning on or after January 1, 2013. IFRS 10 replaces portions of IAS 27, “Consolidated and Separate Financial Statements”, that addresses consolidation, and supersedes Standing Interpretations Committee (SIC) SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended to reflect the issuance of IFRS 10 and retains guidance only for separate financial statements.

IFRS 11, “Joint Ventures”: The IASB issued IFRS 11, “Joint Ventures”, effective for annual periods beginning on or after January 1, 2013. IFRS 11 supersedes IAS 31, “Interest in Joint Ventures”, and SIC-13, “Jointly Controlled Entities – Non Monetary Contributions by Venturers”. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements which are controlled jointly. As a result of the issuance of IFRS 10 and IFRS 11, IAS 28 was amended to reflect the guidance provided in IFRS 10 and IFRS 11.

IFRS 12, “Disclosure of Interests in Other Entities”: The IASB issued IFRS 12, “Disclosure of Interests in Other Entities”, effective for annual periods beginning on or after January 1, 2013. IFRS 12 requires extensive disclosures relating to a company’s interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance.

IFRS 13, “Fair Value measurement”: The IASB issued IFRS 13, “Fair Value Measurement”, effective for annual periods beginning on or after January 1, 2013. IFRS 13 defines fair value, provides guidance in a single framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement.

Amendments to standards

IAS 19, “Employee Benefits”, has been amended effective for annual periods beginning on or after January 1, 2013. The revised standard requires immediate recognition of actuarial gains and losses in other comprehensive income, eliminating the previous options that were available. A number of other amendments have been made to recognition, measurement and classification.

4. Revenue

	31-Oct-12	31-Oct-11
	\$	\$
Goods sold	201,687	234,773
Service revenue	342,814	-
Total revenues	544,501	234,773

Service revenue is generated from research work on the US Army contract. The costs associated with research conducted to earn this revenue have been recognized as a cost of sales (see note 14).

The Company organizes and records revenue based on major geographical territories around the world. The table below provides the geographic breakdown of revenue.

	31-Oct-12	31-Oct-11
	\$	\$
North America	479,197	132,293
Latin America and the Caribbean	63,829	2,967
Europe	1,475	380
Asia Pacific	-	99,133
Total revenue	544,501	234,773

5. Inventories

As at October 31, 2012, there were no valuation allowances against inventory (July 31, 2012 - \$nil).

During the period ended October 31, 2012, inventory valued at \$61,874 was expensed as a cost of goods sold (October 31, 2011 - \$74,508).

	31-Oct-12	31-Jul-12
	\$	\$
Raw materials and consumables	115,320	95,476
Work in process	106,777	98,192
Finished goods	9,793	32,186
Total inventories	231,890	225,854

6. Property, plant and equipment

During the period ended October 31, 2012, the Company did not identify any indicators of impairment (July 31, 2012). The Company did not make any commitment to acquire property, plant and equipment during the period ended October 31, 2012 (July 31, 2012 – nil).

The table below summarizes changes in property, plant and equipment.

	Leasehold improvements	Laboratory equipment	Manufacturing equipment	Office equipment and furniture	Total
	\$	\$	\$	\$	\$
Cost					
Balance at July 31, 2011	561,079	23,931	174,394	180,694	940,098
Additions	-	-	-	3,343	3,343
Balance at October 31, 2011	561,079	23,931	174,394	184,037	943,441
Additions	-	-	-	2,365	2,365
Balance at July 31, 2012	561,079	23,931	174,394	186,402	945,806
Additions	-	-	-	15,813	15,813
Balance at October 31, 2012	561,079	23,931	174,394	202,215	961,619
Accumulated depreciation and impairment losses					
Balance at July 31, 2011	543,541	23,931	168,878	171,249	907,599
Depreciation for the year	3,684	-	413	657	4,754
Balance at October 31, 2011	547,225	23,931	169,291	171,906	912,353
Depreciation for the year	11,050	-	1,238	2,287	14,575
Balance at July 31, 2012	558,275	23,931	170,529	174,193	926,928
Depreciation for the year	2,804	-	413	1,065	4,282
Balance at October 31, 2012	561,079	23,931	170,942	175,258	931,210
Carrying amounts					
At July 31, 2011	17,538	-	5,516	9,445	32,499
At October 31, 2011	13,854	-	5,103	12,131	31,088
At July 31, 2012	2,804	-	3,865	12,209	18,878
At October 31, 2012	-	-	3,452	26,957	30,409

7. Intangible assets

	Intellectual properties \$	Product technology \$	Total \$
Cost or deemed cost			
Balance at July 31, 2011	2,584,899	258,137	2,843,036
Balance at October 31, 2011	2,584,899	258,137	2,843,036
Balance at July 31, 2012	2,584,899	258,137	2,843,036
Balance at October 31, 2012	2,584,899	258,137	2,843,036
Accumulated amortization and accumulated impairment losses			
Balance at July 31, 2011	2,584,898	258,136	2,843,034
Balance at October 31, 2011	2,584,898	258,136	2,843,034
Balance at July 31, 2012	2,584,898	258,136	2,843,034
Balance at October 31, 2012	2,584,898	258,136	2,843,034
Carrying amounts			
At July 31, 2011	1	1	2
At October 31, 2011	1	1	2
At July 31, 2012	1	1	2
At October 31, 2012	1	1	2

The Company acquired product technology and intellectual properties in 2000 through the acquisition of Precious Life Savings Products Inc. and MedMira Laboratories Inc. In 2001, the Company recorded an impairment charge to write-down these assets to a nominal value. There is no indication that this impairment has reversed.

During 2006, the Company acquired intellectual properties, in the form of patents and technology with a value of \$2,102,569 related to the acquisition of Maple Biosciences Inc. and the BAG-1 technology. During 2008, management reduced its research and development efforts related to these intangible assets and recorded an impairment charge to write-down these assets to a nominal value. Impairment charges at October 31, 2012 total \$1,693,046 (July 31, 2012 -\$1,693,046). There is no indication that this impairment has reversed.

8. Capital and other components of equity

a. Authorized

Unlimited number of Series A preferred shares, non-voting, non-participating, redeemable at \$0.001 per share after March 31, 2010, convertible into an equal number of common shares upon the Company meeting certain milestones. The preferred shares earn no dividends.

Unlimited number of voting common shares without nominal or par value.

b. Share capital issued

	Number of		Value of		
	Common shares	Preferred shares	Common shares \$	Preferred shares \$	Share capital \$
Balance at July 31, 2011	252,264,320	5,000,000	50,982,750	2,500	50,985,250
Balance at October 31, 2011	252,264,320	5,000,000	50,982,750	2,500	50,985,250
Issued to repay debt	8,621,296	-	390,931	-	390,931
Issued for cash	131,378,704	-	4,320,752	-	4,320,752
Share issuance costs	-	-	(35,750)	-	(35,750)
Balance at July 31, 2012	392,264,320	5,000,000	55,658,683	2,500	55,661,183
Balance at October 31, 2012	392,264,320	5,000,000	55,658,683	2,500	55,661,183

The total common shares issued and outstanding includes 4,064,464 common shares held in escrow scheduled to be released when the company obtains positive operating cash flow.

The Series A preferred shares had a stated capital of \$2,500 at October 31, 2012 (July 31, 2012 - \$2,500).

c. Warrants

	Number of warrants	Warrant reserve \$
Balance at July 31, 2011	96,119,500	2,205,330
Balance at October 31, 2011	96,119,500	2,205,330
Issued to repay debt	8,621,296	178,004
Issued for cash	131,378,704	2,110,313
Balance at July 31, 2012	236,119,500	4,493,647
Balance at October 31, 2012	236,119,500	4,493,647

At October 31, 2012, the Company had the following warrants outstanding:

Issued	Number	Exercise price \$	Expiry date
December 22, 2008	6,119,500	0.10	December 22, 2013
November 4, 2009	40,000,000	0.10	November 4, 2012
December 8, 2010	20,000,000	0.10	December 8, 2014
July 18, 2011	30,000,000	0.10	July 18, 2015
January 31, 2012	20,000,000	0.10	January 31, 2016
June 11, 2012	<u>120,000,000</u>	0.10	June 11, 2016
Total outstanding warrants	<u>236,119,500</u>		

d. Stock based compensation

The Company has established a stock option plan for its employees, officers, and directors. All options vest immediately upon issue and the Company is authorized to issue a maximum of 6,000,000 options annually upon approval by shareholders. The options are exercisable into an equivalent of 5,050,000 common shares (July 31, 2012 – 5,840,000) at exercise prices ranging between \$0.10 and \$0.34. The options expire between the dates of July 2, 2013 and October 13, 2014. During the period ended October 31, 2012 no options were issued (October 31, 2011 – 3,290,000 with a fair value of \$68,848). All options outstanding at October 31, 2012 are exercisable.

The total options outstanding from July 31, 2011 to October 31, 2012 are shown below.

	Number	Weighted average exercise price \$	Stock based compensation reserve \$
Options outstanding July 31, 2011	3,845,000	0.13	1,030,354
Options granted	3,290,000	0.10	68,848
Options expired/forfeit	(300,000)	0.10	-
Options outstanding October 31, 2011	6,835,000	0.13	1,099,202
Options expired/forfeit	(995,000)	0.10	-
Options outstanding July 31, 2012	5,840,000	0.12	1,099,202
Options expired/forfeit	(790,000)	0.10	-
Options outstanding October 31, 2012	5,050,000	0.12	1,099,202

The following table summarizes information about options outstanding and exercisable at October 31, 2012.

Range of exercise prices \$	Number outstanding and exercisable	Weighted average exercise price per share \$	Weighted average remaining contractual life (Years)
0.100	4,550,000	0.10	1.74
0.335	500,000	0.34	0.67
	5,050,000	0.12	1.63

9. Gain (loss) per share

	31-Oct-12 \$	31-Oct-11 \$
Net income (loss) attributable to common shareholders	142,351	(1,913,205)
Diluted income (loss)	142,351	(1,913,205)
Issued common shares	392,264,320	252,264,320
Weighted average number of common shares	392,264,320	252,264,320
Weighted average number of warrants	236,119,500	-
Weighted average number of options	5,651,087	-
Weighted average number of diluted shares	634,034,907	252,264,320
Basic earnings (loss) per share	0.001	(0.008)
Diluted earnings (loss) per share	0.001	(0.008)

The diluted weighted average number of common shares outstanding is the same as the basic weighted average number of common shares outstanding for the period ended October 31, 2011, as the Company had a net loss and the exercise of potentially dilutive instruments would be anti-dilutive.

10. Loans and borrowings

a. Loans

	31-Oct-12	31-Jul-12
	\$	\$
Loan 1	1,150,000	650,000
Loan 2	1,500,000	1,468,716
Loan 3	-	189,803
Loan 4	47,000	50,000
Loan 5	49,950	75,218
ACOA loans	1,491,486	1,498,981
Nova Scotia government loan 1	3,480,000	3,480,000
Nova Scotia government loan 2	97,390	-
Total loan principal	<u>7,815,826</u>	<u>7,412,718</u>
Long term portion	7,375,152	227,802
Current portion payable	440,674	7,184,916

Loan 1

At July 31, 2012, the loan was a convertible debenture with a coupon interest rate of 9% per annum, payable monthly, maturing four years from the date of close.

The convertible debenture was renegotiated as a 3% loan and combined with \$500,000 that was previously classified as unearned revenue. Payment terms include interest only payments until November 2013 followed by equal monthly principal payments for five additional years ending November 31, 2018. The loan is secured by interest on intellectual property and on the step-up technology. The loan was not in default at October 31, 2012.

Loan 2

At July 31, 2012, this balance consisted of two loans at 10% and 15% rates of interest and was in default at year end. This loan has been renegotiated as a single loan bearing 3% interest with interest only payments until July 31, 2013, followed by equal monthly payments of principle for five additional years ending in July 31, 2018. The loan was not in default at October 31, 2012.

Loan 3

At July 31, 2012, the loan was at 3% interest with interest only payments until July 31, 2013, followed by equal monthly payments of principal for five additional years ended July 31, 2018. In August 2012, the company entered into an agreement to settle the loan with a single payment of \$156,790, resulting in the forgiveness of \$33,621 of principal and accrued interest.

Loan 4

The loan bears interest at 3% with monthly payments of \$1,000 in principal in addition to accrued interest until September 30, 2016. The loan was not in default at October 31, 2012.

Loan 5

The loan bears no interest and is payable in equal monthly payments of US\$5,000. The loan was not in default at October 31, 2012.

ACOA loan

At July 31, 2012, the ACOA loan consisted of 5 loans at varying terms (See Note 10 in the July 31, 2012 Consolidated Financial Statements). The ACOA loan has been renegotiated and remains a no interest loan with monthly principal payments of \$3,747 until July 31, 2012, followed by equal monthly principal payments of \$24,234 until July 31, 2018. The loan is secured by all present and after acquired personal property, excepting consumer goods. The loan was not in default at October 31, 2012.

Nova Scotia government loan 1

The loan was renegotiated and now bears interest at 3% with interest only payments until July 31, 2013 followed by equal monthly payments of principal until July 31, 2013. The loan is secured by first interest on intellectual property and on the Maple Bio sensor technology. The loan was not in default at October 31, 2012.

Nova Scotia government loan 2

This loan was established under the terms of the agreement in Nova Scotia government loan 1, whereby accrued interest was capitalized into a deferred loan with no interest with the balance due by August 31, 2018. The loan is secured by first interest on intellectual property and on the Maple Bio sensor technology. The loan is not in default at October 31, 2012.

11. Financial instruments

a. Capital management

The Company's objectives when managing capital are to provide an adequate return to shareholders, safeguard its assets, maintain a competitive cost structure and continue as a going-concern in order to pursue the development and sale of its products. To maximize ongoing development and growth effort, the Company did not pay out dividends during the period ended October 31, 2012 (October 31, 2011 - \$nil). The Company is not anticipating paying out dividends during the year ended July 31, 2013.

The Company's capital is summarized in the table below.

	31-Oct-12	31-Jul-12
	\$	\$
Total debt	7,815,827	7,412,719
Cash and cash equivalents	<u>(1,295,472)</u>	<u>(2,416,809)</u>
Net debt	6,520,355	4,995,910
Total shareholders deficiency	<u>(8,565,947)</u>	<u>(8,708,299)</u>
Total capital	<u>(2,045,592)</u>	<u>(3,712,389)</u>

To facilitate the management of its capital structure, the Company prepares annual expenditure operating budgets that are updated as the input parameters change. Cash flow is monitored and updated daily.

b. Categories of financial instruments and fair value

	October 31, 2012		July 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
<i>Available for sale</i>				
Cash	1,295,472	1,295,472	1,026,763	1,026,763
<i>Amortized cost</i>				
Trade and accounts receivable	503,591	503,591	82,942	82,942
Financial liabilities				
<i>Amortized cost</i>				
Trade and other payables	2,463,302	2,463,302	3,290,151	3,290,151
Current portion of debt	440,674	440,674	3,290,151	3,290,151
Long term portion of debt	7,375,153	7,375,153	227,803	227,803

c. Foreign currency risk

Most of the Company's sales are made in foreign currencies. The carrying amounts of the Company's US dollar foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as shown in the table below.

	31-Oct-12	31-Jul-12
	US\$	US\$
Cash	37,210	25,930
Trade and other receivables	387,114	44,901
Accounts payable and accrued liabilities	346,644	165,422
Deferred income	27,950	523,541
Debt	50,000	75,000

A one cent change in the US dollar exchange rate would result in approximately a \$5,000 (2012 - \$7,000) impact on the balance sheet and consolidated statement of income. The Company's foreign exchange exposure to the US dollar has decreased in the year ended July 31, 2012 due mainly to the settlement of US dollar denominated loans.

d. Interest rate risk

The Company is not exposed to interest rate risk as it borrows funds at fixed rates.

e. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The company mitigates this risk by requiring a 50% down payment on most orders at the time of purchase, and the remaining 50% prior to shipment. The receivables balance of \$503,591 represents primarily

receivables on research initiatives and trade receivables from sale of the Company's products. Historically, there have been no collection issues and the Company does not believe it is subject to any significant concentration of credit risk.

f. Liquidity risk

Liquidity risk represents the possibility that the Company may not be able to gather sufficient cash resources, when required and under reasonable conditions, to meet its financial obligations. At present, the company does not have sufficient cash to meet all of its continual liabilities.

The Company also continues to have an ongoing need for substantial capital resources to research and develop, commercialize and manufacture its products and technologies. The Company is currently not yet receiving a significant ongoing revenue stream, nor can it be certain that it will receive significant revenue before additional cash is required. As a result, there can be no assurance that the Company will have sufficient capital to fund its ongoing operations, develop or commercialize its products without future financing.

The Company's contractual maturities for the Company's financial liabilities are outlined in the table below.

As at October 31, 2012

	Total \$	Less than 1 year \$	1 to 3 years \$	4 to 5 years \$	After 5 years \$
Loans	7,815,826	440,674	3,061,368	3,044,582	1,269,202
Total debt	7,815,826	440,674	3,061,368	3,044,582	1,269,202

As at July 31, 2012

	Total \$	Less than 1 year \$	1 to 3 years \$	4 to 5 years \$	After 5 years \$
Loans	6,762,719	6,534,916	99,922	89,921	37,960
Debentures	650,000	650,000	-	-	-
Total debt	7,412,719	7,184,916	99,922	89,921	37,960

Payments noted above do not include interest payments.

g. Fair value of financial instruments

Management has determined that the carrying amounts of financial assets and financial liabilities recognized in the condensed interim consolidated financial statements approximate fair value.

12. Royalty liability

Management uses an effective annual discount rate of 23.17% which it believes fairly represents the market rate for the time value of money and the risks specific to the liability. During the three months ended October 31, 2012, \$21,472 in interest was accrued on this liability (October 31, 2011 - \$75,423).

The calculation of fair value was based on management estimates that include: the likelihood and timing of completion of the research and development of the product, the likelihood of obtaining regulatory approval, the demand for the product at the time of completion, the price the Company will be able to sell the product for, and the cost of manufacturing the product.

	31-Oct-12	31-Jul-12
	\$	\$
Provision for royalty	260,000	260,000
Increase in royalty	66,020	66,020
Accrued interest	96,895	75,423
Total provision for royalty	422,915	401,443

13. Related parties

The following transactions occurred within the normal course of operations during the three months ended October 31, 2012:

- A director of MedMira received payments of \$19,615 in the quarter ended October 31, 2012 (October 31, 2011 – \$nil) for the establishment of a subsidiary.

The following balances with related parties were outstanding at October 31, 2012:

- A receivable balance of \$8,630 is owed to MedMira by a company which is presided over by a director (July 31, 2012 – \$8,630).
- An accounts payable balance of \$10,997 is owed to a director of MedMira (July 31, 2012 - \$22,083).
- A royalty provision is owed to OnSite Lab Holding AG of \$422,915 (July 31, 2012 – \$401,433).

14. Research and development

The Company receives government grants to offset the cost of developing certain products. These grants are recognized as a credit against the research expense in the period the expense is incurred. There are no unfulfilled conditions regarding the grants.

In addition to grants, the company receives revenue related to the US Army contract. Research expenses related to the US Army contract are recognized in cost of sales when the revenue is earned. During the quarter ended October 31, 2012, \$290,028 of the research costs incurred was recognized in cost of sales (October 31, 2011 - \$nil).

The following table provides a summary of aggregate research costs and reimbursements:

	31-Oct-12	31-Oct-11
	\$	\$
Research and development expenses	389,737	127,617
Less: research costs transferred to cost of sales	290,028	-
Less: reimbursed research and development expenses	18,919	50,866
Net research and development expense	80,790	76,751

15. Operating segments

Management has determined that the Company has one reportable operating segment, rapid diagnostic products and services. This segment accounts for all of MedMira's revenue, cost of sales and operating expenses. Determination of operating segment was based on the level of financial reporting to the Company's chief decision makers.