

MedMira Inc.

Consolidated Financial Statements
July 31, 2010 and 2009

November 29, 2010

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of **MedMira Inc.** (the "Company") have been prepared by the Company's management. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and contains estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

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 consolidated financial statements and the accompanying management discussion and analysis. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, are appointed by the shareholders to conduct an audit in accordance with Canadian generally accepted auditing standards and their report follows.

(signed) "*Hermes Chan*"
President & Chief Executive Officer

(signed) "*Daniel Frid*"
Chief Financial Officer

Halifax, Nova Scotia

November 29, 2010

Auditors' Report

To the Shareholders of MedMira Inc.

We have audited the consolidated balance sheets of **MedMira Inc.** as at July 31, 2010 and 2009 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "*PricewaterhouseCoopers LLP*"

Chartered Accountants

MedMira Inc.

Balance Sheet

As at July 31, 2010 and 2009

	2010 \$	2009 \$
Assets		
Current assets		
Accounts receivable	40,289	44,737
Inventory (note 4)	359,641	311,619
Prepaid expenses	59,366	74,255
Investment tax credits recoverable (note 5)	53,098	58,974
	<u>512,394</u>	<u>489,585</u>
Property and equipment (note 6)	55,782	33,827
Intangible assets (note 7)	2	2
	<u>568,178</u>	<u>523,414</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 3)	62,745	3,468,709
Accounts payable and accrued liabilities	3,887,097	4,133,439
Unearned revenue	591,108	663,287
Promissory notes payable to related parties (note 8)	5,045,272	3,389,453
Promissory notes payable to non-related parties (note 8)	501,790	438,668
Convertible debentures payable to related parties (note 9)	650,000	650,000
Convertible debentures payable to non-related parties (note 9)	791,667	821,667
Current portion of long-term debt payable to related parties (note 10)	—	758,182
Current portion of long-term debt payable to non-related parties (note 10)	5,272,189	1,260,290
	<u>16,801,868</u>	<u>15,583,695</u>
Long-term debt (note 10)	430,328	936,563
	<u>17,232,196</u>	<u>16,520,258</u>
Shareholders' Deficiency		
Share capital and warrants (note 11)	50,681,078	46,929,590
Contributed surplus (note 11)	1,656,124	1,656,124
Deficit	<u>(69,001,220)</u>	<u>(64,582,558)</u>
	<u>(16,664,018)</u>	<u>(15,996,844)</u>
	<u>568,178</u>	<u>523,414</u>
Going-concern (note 1)		
Commitments (note 14)		

Approved on behalf of the Board of Directors

(signed) "Hermes Chan", Director

(signed) "Romano Robusto", Director

MedMira Inc.

Consolidated Statements of Loss, Comprehensive Loss and Deficit For the years ended July 31, 2010 and 2009

	2010	2009
	\$	\$
Sales	1,073,175	1,137,645
Cost of sales	338,152	580,236
Gross profit	735,023	557,409
Expenses		
Amortization	33,548	40,528
General and administrative	1,308,504	1,159,936
Research and development	332,364	317,303
Sales and marketing	40,459	67,601
Stock-based compensation	–	182,490
Wages and benefits	1,357,468	1,316,204
	3,072,343	3,084,062
Net loss before the following	(2,337,320)	(2,526,653)
Other income (expenses)		
Interest expense	(2,395,246)	(2,465,993)
Other income	45,913	11,274
Foreign exchange gain (loss)	267,991	(281,799)
Net loss and comprehensive loss for the years	(4,418,662)	(5,263,171)
Deficit – Beginning of years	(64,582,558)	(59,319,387)
Deficit – End of years	(69,001,220)	(64,582,558)
Basic and diluted loss per share (note 18)	(0.02)	(0.05)

MedMira Inc.

Consolidated Statements of Cash Flows For the years ended July 31, 2010 and 2009

	2010 \$	2009 \$
Cash provided by (used in)		
Operating activities		
Net loss and comprehensive loss for the years	(4,418,662)	(5,263,171)
Charges (credits) to income not involving cash		
Amortization	33,548	42,080
Stock-based compensation	–	182,490
Value of debenture conversion feature expensed	–	496,457
Foreign exchange gain	(267,991)	281,799
	(4,653,105)	(4,260,345)
Net change in non-cash working capital balances related to operations		
Decrease in accounts receivable	4,448	6,342
Decrease (increase) in inventory	(48,022)	158,888
Decrease in prepaid expenses	14,889	952
Decrease in investment tax credits recoverable	5,876	80,000
Increase (decrease) in accounts payable and accrued liabilities	2,110,776	1,941,040
Increase (decrease) in unearned revenue	(72,179)	50,303
	(2,637,317)	(2,022,820)
Financing activities		
Net change in bank indebtedness	(3,405,964)	448,184
Proceeds from issuance of share capital and warrants (net of share issuance costs)	2,265,970	905,555
Proceeds from issuance of long-term debt	3,553,796	268,966
Repayment of long-term debt	(48,132)	(17,417)
Proceeds from issuance of promissory notes	514,150	459,265
Repayment of promissory notes	(187,000)	(487,323)
Proceeds from issuance of convertible debentures	–	424,081
	2,692,820	2,001,311
Investing activities		
Proceeds on disposal of property and equipment	–	21,509
Purchase of property and equipment	(55,503)	–
	(55,503)	21,509
Net change in cash during the years and Cash – End of years	–	–
Supplemental cash flow information (note 17)		

MedMira Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2010 and 2009

1 Nature of operations and going-concern

Nature of operations

MedMira Inc (the “Company”), through its subsidiaries, is engaged in the business of research and development and manufacturing of medical diagnostic testing kits and other medical devices. The Company invests in research in order to maintain its position in the world-wide market place in the current areas of expertise.

Going-concern

The accompanying financial statements have been prepared on the basis of Canadian generally accepted accounting principles (“GAAP”) 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 cashflows on a cumulative basis since inception. For the year ended July 31, 2010, the Company incurred a net loss of approximately \$4.4 million and negative cashflows from operations of approximately \$2.6 million. As at July 31, 2010, the Company has an accumulated deficit of approximately \$69.0 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 promissory notes payable of approximately \$5.5 million, long-term debt repayments through 2015, including approximately \$5.3 million due in fiscal 2011, and redemption of convertible debentures of approximately \$1.4 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.

In recognition of these circumstances, subsequent to July 31, 2010, the Company has secured funding in the amount of approximately \$670,000 (see note 20). These undertakings, while significant, are not sufficient in and of themselves to enable the Company to fund all aspects of its operations and, accordingly, 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 the issuance of new equity instruments. 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 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.

MedMira Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2010 and 2009

2 Significant accounting policies

Financial statement presentation

These financial statements have been prepared in accordance with GAAP. All amounts are expressed in Canadian dollars unless otherwise stated.

a) Changes in accounting policies

Goodwill and intangible assets and financial instruments

Goodwill and Intangible Assets

On August 1, 2009, the Company adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets" replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". The section establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with International Accounting Standard ("IAS") 38, "Intangible Assets". The adoption of this section had no impact on the Company's consolidated financial position or results of operations.

Financial Instruments

In June 2009, the Accounting Standards Board ("AcSB") issued amendments to Section 3862, "Financial Instruments – Disclosures", to require enhanced disclosures about the relative reliability of the data, or "inputs", that an entity uses in measuring the fair values of its financial instruments. The new requirements are effective for annual financial statements for fiscal years ending after September 30, 2009. The additional disclosures have been included in note 15.

The Company has applied these standards without restatement of prior years.

MedMira Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2010 and 2009

2 Significant accounting policies (continued)

b) Future accounting changes

The following is an overview of accounting standards that the Company will be required to adopt in future years:

The CICA issued new accounting standards: International Financial Reporting Standards (“IFRS”), Section 3064, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interest. Sections 1581, 1601, 1602 and IFRS are effective for fiscal years beginning on or after January 1, 2011 and accordingly, the Company is anticipating adopting them on August 1, 2011, but as early adoption is permitted, the Company is considering its options.

International Financial Reporting Standards (“IFRS”)

In January 2006, the AcSB announced its decision to replace Canadian GAAP with IFRS. In February 2008, the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011.

While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences. The Company will commence reporting under the new standards on August 1, 2011. The Company is currently assessing the impact of IFRS on its information systems and its financial statements.

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests” which replace Section 1581, “Business Combinations” and Section 1600, “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the entity’s interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. While permitted, the Company does not expect to early adopt these sections.

The Company is in the process of evaluating the impact of disclosure, presentation and measurement of these new standards.

MedMira Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2010 and 2009

2 Significant accounting policies (continued)

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries:

MedMira Laboratories Inc.
Precious Life Saving Products Inc.
MedMira Laboratories (HK) Ltd.
Maple Biosciences Inc.
1091089 Alberta Ltd.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and highly liquid investments with maturity dates not extending over ninety days and do not include bank overdrafts.

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the yearend date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in the determination of net loss for the current year.

Inventory

Raw materials are valued at the lower of cost and net realizable value, determined using the first-in, first-out method, and replacement cost. Work-in-process and inventory of finished goods are valued at the lower of cost, determined on a specific item basis, and net realizable value.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis as follows:

Manufacturing equipment	5 years
Laboratory equipment	5 years
Office equipment and furniture	5 years
Leasehold improvements	over term of the lease

Intangible assets

Intangible assets represent intellectual properties and product technology which are recorded at cost and are being amortized on a straight-line basis over their useful life estimated at 11-15 years. The value of intellectual properties and product technology is regularly evaluated by reviewing the returns of the related business, taking into account the risks associated with the investment. Any impairment in the value of the intellectual properties and product technology is written off against earnings.

MedMira Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2010 and 2009

2 Significant accounting policies (continued)

Research and development

All research costs are charged to operations in the year of expenditure. Development costs are capitalized if they meet the criteria for capitalization and amortized over the period of the expected life. Development costs are written off when there is no longer expectation of future benefits.

Investment tax credits

Investment tax credits arise as a result of the Company incurring eligible research and development expenses and are recorded as a reduction of the current year expense when it is determined it is more likely than not they will be realized.

Stock-based compensation

The Company accounts for stock-based compensation as required by the CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*. This section requires that all stock-based payments, including those issued to employees, be measured at fair market value as of the date of grant or award. The fair market value of stock-option awards granted to employees or non-employees is recorded as an expense in the statement of operations over the related vesting period and shown as "Contributed surplus" on the balance sheet. The fair value of share options is estimated using an option-pricing model on the grant date.

Future income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes are recognized for estimated income taxes payable for the current year. Future tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or when losses are expected to be utilized. The effect on future income tax assets and liabilities of a change in tax rates is recognized in operations in the year in which the change occurs. Future income tax assets are evaluated and if realization is not considered, more likely than not, a valuation allowance is provided.

Revenue recognition

Revenue from sales of products is recognized when title passes to customers, which is generally at the time the products are shipped, and ultimate collection is reasonably assured.

Revenue from license fees is recognized based on the terms of the license agreement and when ultimate collection is reasonably assured. Licenses subject to attaining milestones are recognized as milestones are reached. Non-refundable up front license fees are recognized as revenue over the term of the license.

MedMira Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2010 and 2009

2 Significant accounting policies (continued)

Management estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management's best estimates as additional information becomes available in the future. The main critical accounting estimates requiring key assumptions and judgment are the impairment of assets, accrued liabilities and capital and warrant valuation.

3 Bank indebtedness

In 2009, the Company had a bank line of credit of \$3,500,000 against which a security interest in all inventory and accounts receivable of the Company, a guarantee by the Province of Nova Scotia for \$3,500,000, and guarantees and postponement of claims by MedMira Laboratories Inc. and Maple Biosciences Inc. for \$3,500,000 each were pledged as collateral. During 2010, this line of credit was paid out with funds from a loan acquired from the Province of Nova Scotia (note 10). As at July 31, 2010, the company is indebted to the bank in the amount of \$62,745 (2009 - \$3,468,709). Included in bank indebtedness is a bank account with a \$nil balance which is available on demand to a creditor.

4 Inventory

	2010 \$	2009 \$
Raw materials	147,592	227,040
Work in process	99,293	67,620
Finished goods	112,756	16,959
	<hr/>	<hr/>
	359,641	311,619
	<hr/>	<hr/>

At July 31, 2010 a portion of inventory owned by MedMira is being held at a third party location which consists of the following:

	\$
Raw materials	16,297
Work in process	23,513
Finished goods	102,521
	<hr/>
	142,331
	<hr/>

As at July 31, 2010 there are no valuation allowances against inventory (2009 - \$nil) nor have there been any impairments charged throughout the year (2009 - \$nil).

MedMira Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2010 and 2009

5 Investment tax credits recoverable

The balance represents refundable investment tax credits for Scientific Research and Development claims. This amount is subject to assessments by Canada Revenue Agency. During the year, the Company recorded an adjustment to investment tax credits of \$5,876 (2009 - \$nil) which has been applied against the research and development expenses.

6 Property and equipment

	2010		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Manufacturing equipment	702,478	694,311	8,167
Laboratory equipment	467,028	465,007	2,021
Office equipment and furniture	508,665	495,342	13,323
Leasehold improvements	561,076	528,805	32,271
	<u>2,239,247</u>	<u>2,183,465</u>	<u>55,782</u>
	2009		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Manufacturing equipment	694,224	691,860	2,364
Laboratory equipment	467,028	461,020	6,008
Office equipment and furniture	505,334	479,879	25,455
Leasehold improvements	516,874	516,874	-
	<u>2,183,460</u>	<u>2,149,633</u>	<u>33,827</u>

7 Intangible assets

	2010	2009
	\$	\$
Intellectual properties	2,584,899	2,584,899
Product technology	258,137	258,137
Accumulated amortization and write-downs	<u>(2,843,034)</u>	<u>(2,843,034)</u>
	<u>2</u>	<u>2</u>

MedMira Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2010 and 2009

7 Intangible asset (continued)

The Company acquired product technology and intellectual properties 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.

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. The Company recorded amortization on patents of \$nil during the year (2009 - \$nil). 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 in 2008.

8 Promissory notes payable

	2010 \$	2009 \$
Due to directors and officers on demand, interest at 3% - 25%. A director has provided a personal guarantee for one of the promissory notes in the amount of US \$380,290	5,045,272	3,389,453
Due on demand, interest at 12% - 15%	501,790	438,668
	<u>5,547,062</u>	<u>3,828,121</u>

The above promissory notes are repayable prior to certain other creditors. The promissory notes as at July 31, 2010 and 2009 include \$5,045,272 and \$3,389,453, respectively, denominated in US currency (US \$4,906,500 and US \$3,090,902, respectively). One promissory note in the amount of US \$3,897,683 is accruing additional interest at the rate of 25% as the promissory note is in default.

During the year, the Company received \$514,150 (2009 - \$459,265) in cash proceeds from promissory notes payable. The Company repaid in cash \$187,000 (2009 - \$487,323) during the year of which \$nil (2009 - \$86,706) was to directors.

MedMira Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2010 and 2009

9 Convertible debentures

	2010 \$	2009 \$
Convertible debenture for a two-year term with a coupon interest rate of 10% payable monthly. The principal is repayable in full on February 29, 2010. The debenture is convertible to common shares at any time during the term at \$0.33 per share at the option of the holder. If the entire debenture was converted to common shares it would result in the issuance of an additional 2,398,990 common shares. The debenture is currently in default and is classified as a current liability	791,667	791,667
Convertible debenture, coupon interest rate of 15% payable monthly. The principal is repayable in full on September 30, 2009. The debenture is convertible to common shares at any time during the term at \$0.12 per share at the option of the holder. If the entire balance was converted to shares, it would result in the issuance of an additional 250,000 common shares. The debenture was settled through the issuance of 600,000 common shares in 2010.	–	30,000
Convertible debenture, coupon interest rate of 9% per annum and will mature four years from the date of close. The debentures are convertible in whole or in part into common shares of MedMira Inc. at \$0.15 per share during the first two years. The conversion price will increase by 10% in year three and increase by an additional 10% in year four. If the remaining balance of the debenture was converted to common shares, it would result in the issuance of an additional 4,333,333 common shares. The debenture is classified as a current liability as it is in default	650,000	650,000
	<u>1,441,667</u>	<u>1,471,667</u>
Less: Current portion payable to related parties	650,000	650,000
Current portion payable to non-related parties	<u>791,667</u>	<u>821,667</u>
	<u>–</u>	<u>–</u>

During the year ended July 31, 2010, the Company received cash proceeds of \$nil (2009 - \$650,000) from the issuance of convertible debentures.

During the year ended July 31, 2010, \$30,000 (2009 - \$nil) of debentures were converted to shares and \$nil (2009 - \$nil) were repaid in cash.

MedMira Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2010 and 2009

10 Long-term debt

	2010 \$	2009 \$
Loan payable to Atlantic Canada Opportunities Agency, non-interest bearing, payable in six payments of \$500 and 40 payments of \$9,950 and one payment of \$5,935 beginning November 2006. During 2010 payment terms changed to be six payments of \$1,000 and 37 payments of \$9,950 for the remainder of the balance. The loan is currently in default and classified as a current liability	374,086	393,985
Loan payable to Atlantic Canada Opportunities Agency, non-interest bearing, payable in 48 equal monthly principal instalments beginning January 2008. During 2010 payment terms changed to be six payments of \$500 and 41 payments of \$4,117. The loan is currently in default and is classified as a current liability	171,382	179,615
Loan payable to the Atlantic Canada Opportunities Agency, non-interest bearing, payable in five payments of \$750 and 60 payments of \$8,334 beginning July 2010. The loan is currently in default and is classified as a current liability	500,000	500,000
Loan payable to the Atlantic Canada Opportunities Agency, non-interest bearing, payable in four payments of \$750 and 60 payments of \$8,334 beginning August 2010	500,000	446,204
Loan payable, 10% per annum, payable in 33 monthly instalments interest and principal of \$23,415 starting March 2009. The loan is currently in default and is classified as a current liability	677,049	677,049
Loan payable to a director, 10% per annum, payable in 60 monthly payments of \$16,998 blended principal and interest starting March 2009. The loan was settled through the issuance of shares	–	758,182
Loan payable to Nova Scotia Government Department of Economic and Rural Development with interest bearing at Province's five year cost of funds plus 2%. The loan is payable in 54 monthly instalments beginning June 1, 2010. The loan is secured by first interest on intellectual property and on the Maple Bio sensor technology. The loan principle payments are in arrears and therefore the loan is classified as a current liability	3,480,000	–
	<u>5,702,517</u>	<u>2,955,035</u>
Less: Current portion payable to related parties	–	758,182
Current portion payable to non-related parties	5,272,189	1,260,290
	<u>430,328</u>	<u>936,563</u>

MedMira Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2010 and 2009

10 Long-term debt (continued)

Interest on long-term debt in the amount of \$97,707 (2009 - \$nil) was paid during the year.

In October 2009, MedMira was granted a loan of \$3,500,000 from the Province of Nova Scotia which was used to pay down the company's operating line of credit (\$3,500,000) with the Royal Bank of Canada.

During the year ended July 31, 2010, the Company received \$53,796 (2009 - \$268,966) in cash proceeds from the issuance of long-term debt and repaid \$48,132 (2009 - \$17,419) in cash and converted \$758,182 (2009 - \$nil) to common shares.

The minimum annual principal repayments of long-term debt over the next five years, assuming the loans in default are fully repaid in fiscal 2011, are as follows:

	\$
Years ending July 31, 2011	5,272,189
2012	100,008
2013	100,008
2014	100,008
2015	100,008

MedMira Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2010 and 2009

11 Share capital and warrants

a) Authorized

Unlimited number of Series A preferred shares, non-voting, non participating, redeemable at \$.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) Issued

	Number of					
	Common shares	Preferred shares	Stock purchase warrants	Common shares \$	Preferred shares \$	Warrants \$
Balance, July 31, 2008	98,323,154	5,000,000	–	44,128,621	2,500	–
Issued for cash in drawdown of equity line of credit	7,108,864	–	–	525,000	–	–
Issued to repay convertible debenture through equity line of credit	6,632,803	–	–	728,760	–	–
Issued to repay promissory notes	3,497,055	–	–	260,500	–	–
				503,858	–	–
Issued to settle accounts payable	6,606,386	–	–	274,145	–	–
Issued to repay long term debt	4,984,456	–	–	163,841	–	142,134
Issued for cash	6,119,500	–	6,119,500	25,651	–	–
Exercise of options	150,000	–	–	–	–	225,919
Warrants issued with convertible debt	–	–	4,333,333	–	–	–
Share issue costs	–	–	–	(51,339)	–	–
Balance, July 31, 2009	<u>133,422,218</u>	<u>5,000,000</u>	<u>10,452,833</u>	<u>46,559,037</u>	<u>2,500</u>	<u>368,053</u>
Total share capital and warrants						<u>46,929,590</u>
	Number of					
	Common shares	Preferred shares	Stock purchase warrants	Common shares \$	Preferred shares \$	Warrants \$
Balance, July 31, 2009	133,422,218	5,000,000	10,452,833	46,559,037	2,500	368,053
Issued for cash in drawdown of equity line of credit	5,091,638	–	–	300,000	–	–
Issued to repay promissory notes	418,417	–	–	25,105	–	–
Issued to settle accounts payable	10,095,677	–	–	672,231	–	–
Issued to repay long-term debt	12,636,370	–	–	758,182	–	–
Issue for cash	40,000,000	–	40,000,000	1,186,581	–	813,419
Issued to repay convertible debentures	600,000	–	–	30,000	–	–
Share issuance costs	–	–	–	(34,030)	–	–
Balance, July 31, 2010	<u>202,264,320</u>	<u>5,000,000</u>	<u>50,452,833</u>	<u>49,497,106</u>	<u>2,500</u>	<u>1,181,472</u>
Total share capital and warrants						<u>50,681,078</u>

MedMira Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2010 and 2009

11 Share capital and warrants (continued)

b) Issued (continued)

- (i) The total common shares issued and outstanding includes 4,064,464 common shares held in escrow, scheduled to be released in accordance with pre-determined dates.
- (ii) The Series A preferred shares have a stated capital of \$2,500 (2009 - \$2,500).

c) Stock option plan

The Company has established a stock option plan for its shareholders, employees, officers, directors and consultants. All options vest immediately upon issue and the Company is authorized to issue options not to exceed 10% of the number of shares issued and outstanding in the capital of the Company calculated on a non-diluted basis. The options are exercisable into an equivalent of 4,713,225 common shares (2009 – 5,007,540) at exercise prices ranging between \$0.10 and \$0.59. The options expire between the dates of November 25, 2010 and January 4, 2014. All options outstanding at July 31, 2010 and 2009 are exercisable.

There were no options issued during the year. The compensation expense for the options issue during 2009 was determined based on the fair value of the options at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009
Expected option life	4.2 years
Risk-free interest rate	2.6%
Dividend yield	\$nil
Expected volatility	135%

MedMira Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2010 and 2009

11 Share capital and warrants (continued)

c) Stock option plan (continued)

	2010			2009		
	Number (000's)	Weighted average exercise price \$	Other contributed surplus \$	Number (000's)	Weighted average exercise price \$	Other contributed surplus \$
Outstanding, Beginning of year	5,007	0.14	1,030,354	4,126	0.39	858,515
Granted	—	—	—	3,385	0.10	182,490
Exercised	—	—	—	(150)	0.10	(10,651)
Expired/forfeited	(294)	0.11	—	(2,354)	(0.52)	—
Options at year-end	<u>4,713</u>	0.14	1,030,354	<u>5,007</u>	0.14	1,030,354
Equity component of convertible debenture			595,770			595,770
Cumulative ascribed value of expired warrants			<u>30,000</u>			<u>30,000</u>
			<u>1,656,124</u>			<u>1,656,124</u>

The weighted average grant-date fair value of options granted during 2009 was \$0.05 per option.

The following table summarizes information about options outstanding and exercisable at July 31, 2010:

Range of exercise prices \$	Number outstanding and exercisable \$	Weighted average exercise price per share \$	Weighted average remaining contractual life (years) \$
0.100	3,895,000	0.10	2.64
0.335	750,000	0.335	2.92
0.590	<u>68,225</u>	0.59	0.32
	<u>4,713,225</u>	0.144	2.65

MedMira Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2010 and 2009

11 Share capital and warrants (continued)

d) Stock purchase warrants

During the year ended July 31, 2010, 40,000,000 (2009 - 6,119,500) stock purchase warrants were issued in conjunction with shares issued for cash. These warrants are to purchase one common share each at \$0.06 per share for the first year and then 0.10 per share for years two and three. At July 31, 2010 the Company had the following warrants outstanding:

Number	Exercise Price \$	Expiry date
4,333,333	0.15	August 28, 2010
6,119,500	0.10	December 22, 2013
<u>40,000,000</u>	0.06 – 0.10	November 4, 2012
<u>50,452,833</u>		

The fair value of the warrants has been estimated by management using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model to value the warrants are as follows:

	2010	2009
Risk-free interest rate	1.4%	2.6%
Term	3.0 years	3.0 years
Expected volatility	152%	103%
Expected dividend yield	\$nil	\$nil

e) Equity line of credit

The Company has entered into an agreement with Cornell Capital Partners, LP (“Cornell”) where the Company has the right, but not the obligation, to require Cornell to purchase up to \$10 million of common shares over a 58-month period beginning on November 22, 2005 and ending on September 6, 2010. To exercise its draw down rights, the Company is required to deliver a draw down notice to Cornell specifying, among other things, the minimum price at which the Company is prepared to sell its shares, the dollar amount of common shares that the Company is willing to sell, to a maximum of \$150,000, and the draw down pricing period start date. The purchase price of the common shares will be calculated, at the time of issuance, using a formula based on a percentage of volume-weighted average market price (“VWAP”) over a 10-day pricing period. As of July 31, 2010, the Company has completed draw downs totalling \$3,621,210 and issued 28,498,336 common shares to Cornell under the terms of the equity line.

MedMira Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2010 and 2009

12 Income taxes

a) Reconciliation between statutory and actual rate

	2010 \$	2009 \$
Loss for the years	4,418,662	5,263,171
Combined basic federal and provincial income tax recovery at 34.4% (2009 – 35.2%)	1,520,000	1,853,000
Effect of income taxes of:		
Non-deductible stock-based compensation	–	(64,000)
Non-deductible interest	(6,000)	(170,000)
Non-recognition of operating losses	(1,541,000)	(1,530,000)
Excess amortization over capital cost allowance	(12,000)	(14,000)
Scientific research and development expenditures	(55,000)	(58,000)
Other	94,000	(17,000)
	–	–

b) Non-capital losses

The Company has non-capital losses available for income tax purposes totalling approximately \$35,372,000. This amount can be used to reduce taxable income of future years. The benefit of these losses has not been reflected in these financial statements as realization is not considered to be more likely than not. These losses expire as follows:

	\$
Years ending July 31, 2013	3,893,000
2015	5,355,000
2026	6,428,000
2027	5,898,000
2028	4,778,000
2029	4,538,000
2030	4,482,000
	<u>35,372,000</u>

During the year, approximately \$4,994,000 of non-capital losses expired.

c) Property and equipment

The Company has a tax asset arising from excess amortization over capital cost allowance of approximately of \$1,811,000. The benefit of this asset has not been recorded in these consolidated financial statements as realization is not considered more likely than not.

MedMira Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2010 and 2009

12 Income taxes (continued)

d) Scientific research and development costs

As at July 31, 2010, the Company has non-deducted scientific research and development costs of approximately \$3,517,000 (2009 - \$3,408,000) with no expiry date. The benefit of this asset has not been recorded in these consolidated financial statements as realization is not considered more likely than not.

e) Income tax credits

As at July 31, 2010, the Company has scientific research and development income tax credits of approximately \$1,183,000 (2009 - \$1,167,000) that can be offset against future taxes payable. The benefit of this asset has not been recorded in these consolidated financial statements as realization is not considered more likely than not. The right to claim these credits expires as follows:

	\$
Years ending July 31, 2019	17,000
2020	109,000
2021	288,000
2022	118,000
2023	89,000
2024	99,000
2025	128,000
2026	128,000
2027	88,000
2028	105,000
2029	48,000
2030	33,000
	<hr/>
	1,250,000
	<hr/>

13 Related party transactions

- a) The following transactions with shareholders and directors were in the normal course of operations and are measured at the exchange amount as agreed upon by the parties:

	2010 \$	2009 \$
Interest expense	1,895,942	1,292,557

- b) As at July 31, 2010, there was \$1,578,601 (2009 - \$1,343,244) of accounts payable to shareholders and directors.
- c) As at July 31, 2010 there was \$39,810 (2009 - \$nil) of inventory held at a shareholder's site.

MedMira Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2010 and 2009

14 Commitments

The Company has minimum operating lease commitments as follows:

	Premises \$	Office equipment \$	Total \$
Years ending July 31, 2011	219,066	3,000	222,066
2012	221,840	3,000	224,840
2013	224,845	1,250	226,095
2014	18,748	–	18,748
	<hr/> 684,499	<hr/> 7,250	<hr/> 691,749

15 Financial instruments

The Company has implemented the following classifications for financial assets and financial liabilities:

- Cash is classified as “Held-for-Trading”. Changes in fair value for the year are recorded in net earnings.
- Accounts receivable are classified as “Loans and Receivables.” After their initial value measurement, they are measured at amortized cost using the effective interest method.
- Bank indebtedness, accounts payable and accrued liabilities, promissory notes payable, convertible debt and long-term debt are classified as “Other Financial Liabilities.” After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

a) Fair value

Management believes the carrying value of accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate fair value at the year-ends due to their short-term nature.

The fair value of the promissory notes payable, convertible debentures and long-term debt in default is not reasonably determinable as these are in default and due on demand.

The fair value of long-term debt not in default is set out below and is estimated using discounted cash flow analyses based on discount rates that reflect current market conditions for instruments with similar terms and risks.

MedMira Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2010 and 2009

15 Financial instruments (continued)

a) Fair value (continued)

	2010	
	Carrying value	Fair value
	\$	\$
Long-term debt	500,000	450,000

Fair value estimates are made at a specific point in time on relevant market information. These are estimates and involve uncertainties and matters of significant judgment and cannot be determined with precision. Change in assumptions and estimates could significantly affect fair values.

Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices observed in active markets for identical assets and liabilities.
- Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in the markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices used in a valuation model that are observable market for that instruments, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the consolidated balance sheets as at July 30, 2010, classified using the fair value hierarchy described above:

	Level 1	Level 2	Level 3
	\$	\$	\$
Bank indebtedness	62,745	-	-

MedMira Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2010 and 2009

15 Financial instruments (continued)

b) Currency risk

Virtually all of the Company's sales are made in foreign currencies. A 1% change in the USD or Euro exchange rate would have an estimated impact on net income of \$10,000. In addition, the Company has promissory notes denominated in USD, for which a fluctuation of 1% in the USD exchange rate would have an impact on net income of approximately \$20,000.

c) Credit risk

The Company derives approximately 87% (2009 - 88%) of its revenue from two (2009 – three) main customers and, for these customers, assesses the recoverability of each account on a regular basis. There was \$8,810 in bad debts during the year (2009 - \$12,186). As of July 31, 2010, 76% of the accounts receivable balance is due from three customers (2009 – 71% due from one customer) and no other customers account for more than 10% of the accounts receivable balances as at July 31, 2010 or 2009.

d) Liquidity risk

The Company manages liquidity by forecasting and monitoring operating cash flows and through the use of revolving credit facilities and share issuances (see note 1).

e) Contractual maturity analysis for financial liabilities

	Total	Less than 1 year	2 to 3 years	4 to 5 years	After 5 years
Bank indebtedness	62,745	62,745	–	–	–
Promissory notes	5,547,062	5,547,062	–	–	–
Long-term debt	5,702,517	5,272,189	200,016	200,016	30,296
Operating leases					
Convertible debt	1,441,667	1,441,667	–	–	–
	<u>12,753,991</u>	<u>12,323,663</u>	<u>200,016</u>	<u>200,016</u>	<u>30,296</u>

Payments noted above do not include interest.

MedMira Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2010 and 2009

16 Segmented information

The Company has determined that it has a single reportable segment and has two product lines: commercial products and research products which are broken down as follows:

	2010 \$	2009 \$
Commercial	1,068,544	1,137,645
Research	4,631	-

The Company has entered a new market sector with a research product line aimed at medical and life sciences researchers. The line consists of fully commercialized products designed for in vitro diagnostics (IVD) used by research specialists for a variety of uses as well as a unique Developer Toolkit.

The company's geographic information is as follows:

	2010 \$	2009 \$
Sales		
North America	876,478	893,950
Africa	2,046	7,194
Central and South America	49,575	60,434
Europe	79,620	147,222
Russia	-	14,947
Asia	41,529	-
Other	23,927	13,898
	<hr/> 1,073,175	<hr/> 1,137,645

17 Supplemental cash flow information

	2010 \$	2009 \$
Non-cash financing		
Shares issued to repay convertible debentures and related costs	30,000	728,760
Shares issued to repay promissory notes	25,105	260,500
Shares issued to repay long-term debt	758,182	-
Promissory notes converted to long-term debt	-	-
Accrued liabilities converted to long-term debt	-	918,670
Shares issued to repay accrued liabilities	672,231	603,858
Interest paid	162,060	163,127

MedMira Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2010 and 2009

18 Basic and diluted loss per share

Loss per common share is calculated as follows:

	2010 \$	2009 \$
Net loss	(4,418,662)	(5,263,171)
Weighted average number of common shares – Basic and diluted	188,202,175	116,445,557
Loss per common share – Basic and diluted	(0.02)	(0.05)

For the years ended July 31, 2010 and July 31, 2009, the diluted weighted average number of common shares outstanding is the same as the basic weighted average number of common shares outstanding, as the Company had a net loss and the exercise of potentially dilutive instruments would be anti-dilutive.

19 Capital disclosures

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 pipeline products. To maximize ongoing development and growth effort, the Company did not pay out dividends during the year ended July 31, 2010 (2009 - \$nil). The Company is not anticipating paying out dividends during the year ended July 31, 2011.

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

	2010 \$	2009 \$
Total bank indebtedness, long-term debt, promissory notes and convertible debentures	12,753,991	11,723,532
Less: Cash	—	—
Net debt	12,753,991	11,723,532
Total Shareholders' Deficiency	(16,634,018)	(15,996,844)
	<u>(3,880,027)</u>	<u>(4,273,312)</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.

As disclosed in notes 8, 9 and 10, the Company is in default on its promissory notes payable, convertible debentures and certain long-term debt. As a result, these amounts are classified as current liabilities.

MedMira Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2010 and 2009

20 Subsequent events

Short-term Bridge Loan

In August 2010, the Company obtained a US\$200,000 loan, repayable 45 days after the date of the advance of the total funds or upon the receipt of certain customer payments for the rapid HIV tests sales whichever is earlier (the "Short-term Bridge Loan"). In connection with the Short-term Bridge Loan, interest of US\$40,000 is due 45 days after the date of the advance of the total funds or upon the receipt of certain customer payments for the rapid HIV tests sales, whichever is earlier. If the Short-term Bridge Loan is not repaid 45 days after the date of the advance of funds, a US\$200 per day interest fee is payable for days 46 through 52, and US\$500 per day interest fee is payable starting 53 days after the date of the advance of funds until the loan is repaid. In the event of default, the lender is entitled to receive a \$0.10 charge on all MedMira product orders for a period of 5 years. In the case of default, a total of 6.5 million shares of the Company will be issued to the lender to settle all amounts owing under this loan. The Company has provided as security to the lender certain inventory of the Company and a first charge on all monies received from certain customers.

In addition, the Company agreed to pay a US\$20,000 commission fee related to the Short-term Bridge Loan. The commission fee is repayable 45 days after the date of the advance of the total funds or upon the receipt of certain customer payments for the rapid HIV tests sales, whichever is earlier under the Short-term Bridge Loan. If the commission fee is not repaid 45 days after the date of the advance of total funds or upon the receipt of certain customer payments for the rapid HIV tests sales, whichever is earlier under the Short-term Bridge Loan, a US\$200 per day interest fee is payable for days 46 through 52, and US\$500 per day interest fee is payable starting 53 days after the date of the advance of funds until the commission fee is repaid. In the event of default, the lender is entitled to receive a \$0.10 charge on all MedMira product orders for a period of 5 years. In the case of default, a total of 6.5 million shares of the Company will be issued to the lender to settle all amounts owing under this loan. The Company has provided as security to the lender certain inventory of the Company and a first charge on all monies received from certain customers.

Short-term Loans from a Shareholder

In November 2010, the Company obtained loans of \$320,000 and US\$150,000 from a shareholder. The loans each bear interest at the rate of 3% per annum and are due on demand.