MedMira Inc.

Consolidated Financial Statements
July 31, 2011 and 2010

November 28, 2011

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 contain 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'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.

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
Halifax, Nova Scotia

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

PricewaterhouseCoopers LLP
Chartered Accountants
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November 28, 2011

Independent Auditor's Report

To the Shareholders
of MedMira Inc.

We have audited the accompanying consolidated financial statements of **MedMira Inc.** and its subsidiaries, which comprise the consolidated balance sheets as at July 31, 2011 and 2010 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MedMira Inc. and its subsidiaries as at July 31, 2011 and 2010 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 in the financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about MedMira Inc.'s ability to continue as a going concern.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

MedMira Inc.

Balance Sheet

As at July 31, 2011 and 2010

	2011 $	2010 $
Assets		
Current assets		
Cash	1,026,763	–
Accounts receivable	82,942	40,289
Inventory (note 4)	214,601	359,641
Prepaid expenses	109,009	59,366
Investment tax credits recoverable (note 5)	26,307	53,098
	1,459,622	512,394
Property and equipment (note 6)	32,499	55,782
Intangible assets (note 7)	2	2
	1,492,123	568,178
Liabilities		
Current liabilities		
Bank indebtedness (note 3)	–	62,745
Accounts payable and accrued liabilities	5,308,216	3,887,097
Unearned revenue	643,976	591,108
Promissory notes payable to related parties (note 8)	6,554,465	5,045,272
Promissory notes payable to non-related parties (note 8)	970,731	501,790
Convertible debentures payable to related parties (note 9)	650,000	650,000
Convertible debentures payable to non-related parties (note 9)	791,667	791,667
Current portion of long-term debt (note 10)	5,686,767	5,272,189
	20,605,822	16,801,868
Long-term debt (note 10)	–	430,328
	20,605,822	17,232,196
Shareholders' Deficiency		
Share capital and warrants (note 11)	52,934,661	50,681,078
Contributed surplus and other (note 11)	1,845,043	1,656,124
Deficit	(73,893,403)	(69,001,220)
	(19,113,699)	(16,664,018)
	1,492,123	568,178

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, 2011 and 2010

	2011 $	2010 $
Sales	909,869	1,073,175
Cost of sales	493,914	338,152
Gross profit	415,955	735,023
Expenses		
Amortization	30,106	33,548
General and administrative	661,533	1,308,504
Research and development	275,272	332,364
Sales and marketing	2,213	40,459
Wages and benefits	1,303,935	1,357,468
	2,273,059	3,072,343
Net loss before the following	(1,857,104)	(2,337,320)
Other income (expenses)		
Interest expense	(3,603,613)	(2,395,246)
Other income	2,548	45,913
Foreign exchange gain	528,986	267,991
Loss before income taxes	(4,929,183)	(4,418,662)
Recovery of future income taxes (note 12)	37,000	–
Net loss and comprehensive loss for the years	(4,892,183)	(4,418,662)
Deficit – Beginning of years	(69,001,220)	(64,582,558)
Deficit – End of years	(73,893,403)	(69,001,220)
Basic and diluted loss per share (note 18)	(0.02)	(0.02)

MedMira Inc.

Consolidated Statements of Cash Flows

For the years ended July 31, 2011 and 2010

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Net loss for the years	(4,892,183)	(4,418,662)
Charges (credits) to income not involving cash		
Amortization	30,106	33,548
Foreign exchange gain	(528,986)	(267,991)
Non-cash interest expense	1,992,232	1,306,767
Recovery of future income taxes	(37,000)	–
	(3,435,831)	(3,346,338)
Net change in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable	(42,653)	4,448
Decrease (increase) in inventory	145,040	(48,022)
Decrease (increase) in prepaid expenses	(49,643)	14,889
Decrease in investment tax credits recoverable	26,791	5,876
Increase in accounts payable and accrued liabilities	1,610,446	804,009
Increase (decrease) in unearned revenue	52,868	(72,179)
	(1,692,982)	(2,637,317)
Financing activities		
Net change in bank indebtedness	(62,745)	(3,405,964)
Proceeds from issuance of share capital and warrants	1,479,502	2,265,970
Proceeds from issuance of long-term debt	–	3,553,796
Repayment of long-term debt	(15,750)	(48,132)
Proceeds from issuance of promissory notes	1,336,136	514,150
Repayment of promissory notes	(10,575)	(187,000)
	2,726,568	2,692,820
Investing activities		
Purchase of property and equipment	(6,823)	(55,503)
Net change in cash during the years and Cash – End of years	1,026,763	–

Supplemental cash flow information (note 17)

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 cash flows on a cumulative basis since inception. For the year ended July 31, 2011, the Company incurred a net loss of approximately $4.9 million (2010 - $4.4 million) and negative cash flows from operations of approximately $1.7 million (2010 - $2.6 million). As at July 31, 2011, the Company has an accumulated deficit of approximately $73.9 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 $7.5 million, long-term debt repayments of approximately $5.7 million, all due in fiscal 2012, 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.

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.

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.

Changes in accounting policies and future accounting standard changes

Convergence with International Financial Reporting Standards ("IFRS")

The Company will cease to prepare its financial statements in accordance with GAAP as set out in Part V of the Canadian Institute of Chartered Accountants ("CICA") Handbook – Accounting, for the periods beginning on or after August 1, 2011, when it will start to apply as its primary basis of accounting IFRS as published by the International Accounting Standards Board and set out in Part I of the CICA Handbook – Accounting. Consequently, future accounting changes to GAAP that are effective on or after August 1, 2011, are not discussed in these financial statements as they will not be applied by the Company.

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.
Maple Biosciences Inc.
1091089 Alberta Ltd.

Cash

Cash consists of cash on hand and bank balances.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the balance sheet. Non-monetary assets, liabilities and other items recorded in net loss are translated at rates of exchange in effect at the date of the transaction. 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.

2 Significant accounting policies (continued)

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

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be used is measured by comparing the net book value of the asset to the undiscounted future cash flows expected to be generated by the asset. An impairment is recognized to the extent that the carrying amount exceeds the fair value of the asset.

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.

Research and development

All research costs are expensed in the period incurred. 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 with reasonable assurance that they will be realized.

Loss per share

Loss per share is computed based on the weighted average number of common shares outstanding during the years. Diluted loss per share is equal to the loss per share since the exercise of options and warrants is anti-dilutive.

Stock-based compensation

The Company has a stock option plan, which is described in note 11 (c). The CICA Handbook Section 3870, “stock-based compensation and other stock-based payments”, sets out a fair value based method for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

2 Significant accounting policies (continued)

Stock-based compensation (continued)

The value of options is determined using the Black-Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock, expected dividends on the stock, the risk-free interest rate over the expected life of the option, as well as the expected volatility of its stock over the expected life of the option. The resulting value of the options granted to employees is expensed on a straight-line basis over their vesting periods. Options granted to non-employees are measured at fair value initially when granted and re-measured at each reporting date until the measurement date is reached, which is the earliest of completion of performance, a performance commitment being achieved or when vesting occurs.

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.

Management estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of certain assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities at the date of the financial statements and for the year presented. Actual results could differ significantly from those estimates and assumptions. These include but are not limited to:

- Amounts recorded for amortization and impairment of property and equipment 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 financial statements;

2 Significant accounting policies (continued)

Management estimates (continued)

- 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 judgments as to the probability of a future event occurring;
- The allocation of proceeds between common shares and warrants;
- The fair value calculation of stock-based compensation; and
- The fair value allocation of consideration for multiple element revenue arrangements.

3 Bank indebtedness

During 2010, the Company had a bank line of credit of $3,500,000 that was repaid with funds from a loan acquired from the Province of Nova Scotia (note 10). As at July 31, 2011, the Company had a bank overdraft in the amount of $nil (2010 - $62,745).

4 Inventory

	2011 $	2010 $
Raw materials	83,677	147,592
Work in process	116,214	99,293
Finished goods	14,710	112,756
	214,601	359,641

At July 31, 2011 a portion of inventory owned by MedMira is being held at a third party location which consists of the following:

	2011 $	2010 $
Raw materials	–	16,297
Work in process	49,744	23,513
Finished goods	–	102,521
	49,744	142,331

As at July 31, 2011, there are no valuation allowances against inventory (2010 - $nil). Included in cost of sales is a write-off of inventory of $73,840 (2010 - $nil) to reduce inventory to the lower of cost or net realizable value.

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 investment tax credits recoverable in the amount of $26,307 (2010 - $5,876), which has been applied against the research and development expenses.

6 Property and equipment

			2011
	Cost	**Accumulated amortization**	**Net**
	$	**$**	**$**
Manufacturing equipment	174,394	168,878	5,516
Laboratory equipment	23,931	23,931	–
Office equipment and furniture	180,695	171,249	9,446
Leasehold improvements	561,077	543,540	17,537
	940,097	907,598	32,499

			2010
	Cost	**Accumulated amortization**	**Net**
	$	**$**	**$**
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
	2,239,247	2,183,465	55,782

7 Intangible assets

	2011	**2010**
	$	**$**
Intellectual properties	2,584,899	2,584,899
Product technology	258,137	258,137
Accumulated amortization and write-downs	(2,843,034)	(2,843,034)
	2	2

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. 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.

8 Promissory notes payable

	2011 $	2010 $
Due to directors and officers on demand, interest at 3% - 25%	6,554,465	5,045,272
Due on demand, interest at 12% - 15%, two at US $500 daily	779,631	501,790
Due on demand, interest payable at the daily rate of US $500 each for the two promissory notes	191,100	–
	7,525,196	5,547,062

The above promissory notes are repayable prior to certain other creditors. The promissory notes as at July 31, 2011 and 2010 include $6,333,675 and $5,045,272, respectively, denominated in US currency (US $6,628,650 and US $4,906,418, respectively). One promissory note in the amount of US $5,846,795 is accruing additional interest at the rate of 25% as the promissory note is in default. A director has provided a personal guarantee for one of the promissory notes in the amount of US $380,290.

The two promissory notes payable (the "Notes") at July 31, 2011 for $191,100 are denominated in US currency (US $200,001). The terms of the two Notes are identical. Each Note bears interest at a daily rate of US $500. As the Notes are in default, they are due on demand and include the following additional obligations and security. Each Note has a charge over inventory; each Note has the rights to a US $0.10 charge on all company product orders for a period of five years; each Note has a priority charge on all monies received from certain customers. The Notes, including unpaid interest and all other obligations, can be settled by the issuance of 6.5 million shares of the Company for each Note.

During the year, the Company received $1,336,136 (2010 - $514,150) in cash proceeds from promissory notes payable. The Company repaid in cash $10,575 (2010 - $187,000) during the year of which $nil (2010 - $nil) was to the directors.

9 Convertible debentures

	2011 $	2010 $
Convertible debenture with a coupon interest rate of 10% per annum, payable monthly, maturing two years from the date of close. The principal was repayable in full on February 29, 2010. The debenture was convertible to common shares at any time during the term at $0.33 per share at the option of the holder. The debenture is in default and is classified as a current liability.	791,667	791,667
Convertible debenture with a coupon interest rate of 9% per annum, payable monthly, maturing four years from the date of close. The principal is repayable in full on August 28, 2012. The debenture is convertible in whole or party into common shares of MedMira Inc. at $0.15 per share in years one and two, $0.165 in year three, and $0.1815 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 in years one and two, 3,939,394 in year three, and 3,581,267 in year four. The loan is secured by interest on intellectual property and on the step-up technology. The debenture is in default and is classified as a current liability.	650,000	650,000
	1,441,667	1,441,667
Less: Current portion payable to related parties	650,000	650,000
Current portion payable to non-related parties	791,667	791,667
	–	–

During the year ended July 31, 2011, $nil (2010 - $30,000) of debentures were converted to shares and $nil (2010 - $nil) were repaid in cash.

10 Long-term debt

	2011 $	2010 $
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.	368,085	374,086
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.	168,382	171,382
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.	496,250	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. The loan is currently in default and is classified as a current liability.	497,000	500,000
Loan payable, 10% per annum, payable in 33 monthly instalments of interest and principal of $23,415 starting March 2009. The loan is currently in default and is classified as a current liability.	677,050	677,049
Loan payable to Nova Scotia Government Department of Economic and Rural Development with interest bearing at the 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	3,480,000
	5,686,767	5,702,517
Less: Current portion	5,686,767	5,272,189
	–	430,328

Interest on long-term debt in the amount of $46,588 (2010 - $97,707) was paid during the year.

During the year ended July 31, 2011, the Company received $nil (2010 - $53,796) in cash proceeds from the issuance of long-term debt and repaid $15,750 (2010 - $48,132) in cash and converted $nil (2010 - $758,182) to common shares.

All long-term debt is in default and therefore fully payable in fiscal 2012.

11 Share capital and warrants

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) Issued

	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	202,264,320	5,000,000	50,452,833	49,497,106	2,500	1,181,472
Total share capital and warrants						50,681,078

	Number of					
	Common shares	**Preferred shares**	**Stock purchase warrants**	**Common shares $**	**Preferred shares $**	**Warrants $**
Balance, July 31, 2010	202,264,320	5,000,000	50,452,833	49,497,106	2,500	1,181,472
Issued to repay promissory notes	20,000,000	–	20,000,000	636,588	–	363,412
Issue for cash	30,000,000	–	30,000,000	869,554	–	630,446
Expiration of warrants	–	–	(4,333,333)	–	–	(225,919)
Share issuance costs	–	–	–	(20,498)	–	–
Balance, July 31, 2011	252,264,320	5,000,000	96,119,500	50,982,750	2,500	1,949,411
Total share capital and warrants						52,934,661

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 and events.

(ii) The Series A preferred shares have a stated capital of $2,500 (2010 - $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 a maximum of 6,000,000 options. The options are exercisable into an equivalent of 3,845,000 common shares (2010 – 4,713,225) at exercise prices ranging between $0.10 and $0.34. The options expire between the dates of October 19, 2012 and January 5, 2014. All options outstanding at July 31, 2011 and 2010 are exercisable.

There were no options issued during the year.

	2011			2010		
	Number (000's)	Weighted average exercise price $	Contributed surplus and other $	Number (000's)	Weighted average exercise price $	Contributed surplus and other $
Outstanding, Beginning of year	4,713	0.14	1,030,354	5,007	0.14	1,030,354
Expired/forfeited	(868)	0.21	–	(294)	0.11	–
Options at year-end	3,845	0.13	1,030,354	4,713	0.14	1,030,354
Equity component of convertible debenture			595,770			595,770
Cumulative ascribed value of expired warrants, net of tax effect			218,919			30,000
Contributed Surplus			1,845,043			1,656,124

The following table summarizes information about options outstanding and exercisable at July 31, 2011:

Range of exercise prices $	Number outstanding and exercisable	Weighted average exercise price per share $	Weighted average remaining contractual life (years)
0.100	3,345,000	0.100	1.71
0.335	500,000	0.335	1.92
	3,845,000	0.131	1.74

11 Share capital and warrants (continued)

d) Stock purchase warrants

During the year ended July 31, 2011, 50,000,000 (2010 - 40,000,000) stock purchase warrants were issued in conjunction with shares issued for cash. These warrants permit the purchase of one common share each at $0.10 per share and are exercisable over four years. At July 31, 2011 the Company had the following warrants outstanding:

Number	Exercise Price $	Expiry date
6,119,500	0.10	December 22, 2013
40,000,000	0.06 – 0.10	November 4, 2012
20,000,000	0.10	November 16, 2014
30,000,000	0.10	July 18, 2015
96,119,500		

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:

	2011	2010
Risk-free interest rate	2.6%	1.4%
Term	4.0 years	3.0 years
Expected volatility	151%	152%
Expected dividend yield	$nil	$nil

e) Equity line of credit

The Company entered into an agreement with Cornell Capital Partners, LP ("Cornell") in which the Company had 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 was required to deliver a draw down notice to Cornell specifying, among other things, the minimum price at which the Company was prepared to sell its shares, the dollar amount of common shares that the Company was willing to sell, to a maximum of $150,000, and the draw down pricing period start date. The purchase price of the common shares was 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 had completed draw downs totalling $3,621,210 and issued 28,498,336 common shares to Cornell under the terms of the equity line. There were no further draw downs in 2011.

12 Income taxes

a) Reconciliation between statutory and actual rate

	2011 $	2010 $
Loss for the years before income taxes	4,929,183	4,418,662
Combined basic federal and provincial income tax recovery at 33.1% (2010 – 34.4%)	1,632,000	1,520,000
Effect of income taxes of:		
Non-deductible stock-based compensation	(8,000)	–
Non-deductible interest	(27,000)	(6,000)
Non-recognition of operating losses	(1,683,000)	(1,541,000)
Excess amortization over capital cost allowance	(10,000)	(12,000)
Scientific research and development expenditures	(32,000)	(55,000)
Other	165,000	94,000
Recovery of income taxes	37,000	–

b) Non-capital losses

The Company has non-capital losses available for income tax purposes totalling approximately $40,455,000. 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, 2014	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
2031	5,083,000
	40,455,000

During the year, no ($nil) 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 $1,842,000. The benefit of this asset has not been recorded in these consolidated financial statements as realization is not considered more likely than not.

12 Income taxes (continued)

d) Scientific research and development costs

As at July 31, 2011, the Company has non-deducted scientific research and development costs of approximately $3,976,000 (2010 - $3,517,000) 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) Investment tax credits

As at July 31, 2011, the Company has scientific research and development investment tax credits of approximately $1,267,000 (2010 - $1,250,000) 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	290,000
2022	119,000
2023	89,000
2024	99,000
2025	109,000
2026	128,000
2027	88,000
2028	107,000
2029	49,000
2030	40,000
2031	23,000
	1,267,000

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:

	2011 $	2010 $
Sales revenue	80,718	–
Interest expense	2,579,278	1,895,942

b) As at July 31, 2011, the following balance sheet items were outstanding from related parties:

	2011 $	2010 $
Trade accounts receivable from a shareholder	10,521	–
Inventory held at a shareholder's site	–	39,810
Accounts payable to shareholders	1,690,803	1,578,601

14 Commitments

The Company has minimum operating lease commitments as follows:

	Premises $	Office equipment $	Total $
Years ending July 31, 2012	221,840	3,000	224,840
2013	224,845	1,250	226,095
2014	18,748	–	18,748
2015	–	–	–
	465,433	4,250	469,683

15 Financial instruments

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

- Cash is classified as "Held-for-Trading" and recorded at fair market value. Changes in fair value for the year are recorded in net loss;
- Accounts receivable are classified as "Loans and Receivables." After their initial value measurement, they are measured at amortized cost using the effective interest method; and
- 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.

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.

15 Financial instruments (continued)

a) Fair value (continued)

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 fair 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 for that instrument, 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 31, 2011, classified using the fair value hierarchy described above:

	Level 1 $	Level 2 $	Level 3 $
Cash	1,026,763	–	–

b) Currency risk

Most of the Company's sales are made in foreign currencies. A one cent change in the USD/CAD exchange rate would have an estimated impact on net income of $9,000. In addition, the Company has promissory notes denominated in USD, for which a fluctuation of one cent in the USD/CAD exchange rate would have an impact on net income of approximately $90,000.

c) Credit risk

The Company derives approximately 86% (2010 - 87%) of its revenue from two (2010 - two) main customers and, for these customers, assesses the recoverability of each account on a regular basis. There was $382 in bad debts during the year (2010 - $8,810). As of July 31, 2011, 66% of the accounts receivable balance is due from three customers (2010 - 76% due from three customers) and no other customers account for more than 10% of the accounts receivable balances as at July 31, 2011.

15 Financial instruments (continued)

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
Promissory notes	7,525,196	7,525,196	–	–	–
Long-term debt	5,686,767	5,686,767	–	–	–
Convertible debt	1,441,667	1,441,667	–	–	–
	14,653,630	14,653,630	–	–	–

Payments noted above do not include interest.

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:

	2011 $	2010 $
Commercial	904,654	1,068,544
Research	5,215	4,631
	909,869	1,073,175

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:

	2011 $	2010 $
Sales		
North America	540,340	876,478
Africa	–	2,046
Central and South America	9,105	49,575
Europe	106,115	79,620
Asia	178,403	41,529
Other	75,906	23,927
	909,869	1,073,175

17 Supplemental cash flow information

	2011 $	2010 $
Non-cash financing		
Shares issued to repay convertible debentures and related costs	–	30,000
Shares issued to repay promissory notes	970,000	25,105
Shares issued to repay long-term debt	–	758,182
Shares issued to repay accrued liabilities	30,000	672,231
Accrued liabilities converted to promissory notes	1,622,573	–
Interest paid	53,024	162,060

18 Basic and diluted loss per share

Loss per common share is calculated as follows:

	2011 $	2010 $
Net loss	(4,892,183)	(4,418,662)
Weighted average number of common shares – Basic and diluted	216,593,087	188,202,175
Loss per common share – Basic and diluted	(0.02)	(0.02)

For the years ended July 31, 2011 and 2010, 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, 2011 (2010 - $nil). The Company is not anticipating paying out dividends during the year ended July 31, 2012.

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

	2011 $	2010 $
Total bank indebtedness, long-term debt, promissory notes and convertible debentures	14,653,628	12,753,991
Less: Cash	(1,026,763)	–
Net debt	13,626,865	12,753,991
Total Shareholders' Deficiency	(19,113,699)	(16,664,018)
	(5,486,834)	(3,910,027)

19 Capital disclosures (continued)

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.

20 Subsequent events

On October 14, 2011 the Company granted 3,290,000 stock options to employees and directors under its stock option plan. The options are exercisable at $0.10 over a three-year period.