medmira

# Annual Report 2014

www.medmira.com

# Contents



**Our Rapid Test Product Lines**

reveal

multiplo

miriad

# Our Vision

To transform the rapid diagnostics industry by becoming the leading brand known for fast, accurate, value-add testing products that enhance human health and wellness and continually generate long term value for our stakeholders.

# Our Mission

To employ our one-of-a-kind, patented technology platform to develop, market and sell high quality, easy-to-use, time and cost-saving products that improve global healthcare and save lives.

# Our Core Values

Our Company is built on a set of core shared values that form a consistent base for how we operate and interact with our customers, employees, shareholders, and partners.

**Innovation** – It is the lifeblood of our Company and at the heart of everything we do.

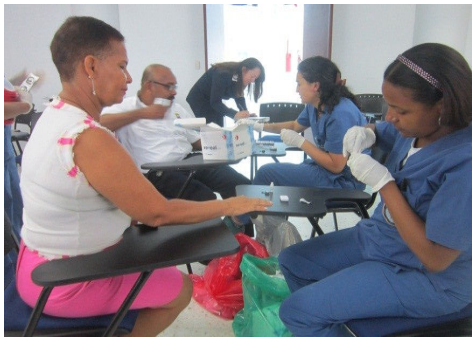
**Excellence** – We consistently embrace excellence in the disciplines of quality science, business, and manufacturing.

**Collaboration** – We build relationships with like-minded partners, alliances, and team members to foster new opportunities and continued innovation.

**Integrity** – Doing the right thing is a standard principle by which our entire team operates.

**Passion** – Our team has an intense passion for science, diagnostics, and technology, which shines through in the quality healthcare solutions we deliver.

**Results-oriented** – We are focused on delivering high quality on-time results to drive growth and profitability.



*"In the remote areas of Colombia where healthcare services and laboratory testing is scarce, pregnant women do not have access to life saving tests that could easily prevent mother-to-child transmission and neonatal deaths," said Dr. Liliana Lora Sierra, Public Health Support Professional, Colombian National Navy. "Working with MedMira, we are able to offer these women high quality, rapid tests that will help prevent vertical transmission of TP/HIV that could not only save their lives but the lives of their unborn children. The test is very easy to perform and does not require any special training allowing us to screen patients at the point-of-care. Without MedMira's innovative technology, these women would not have access to tests that those living in urban areas benefit from."*

# A Letter from Our Chairman

Dear Shareholders,

Earlier this year I joined the MedMira Board of Directors as the first non-executive Chairman, and for many years previous to this watched the Company's transition from a young start-up to the MedMira we have today. As with any organization, growth is a continual process and at MedMira changes in 2014 have positioned the Company for the future.

The team at MedMira made significant progress in 2014, ensuring that our clinical trials as well as a submission to the World Health Organization remained on track for success. We also launched enhanced branding initiatives and created new sales opportunities in key target markets and achieved new market penetration in India and Latin America. As always, the Company's commitment to innovation never wavered as the exploration of future product development and commercialization possibilities continued in order to maintain a robust R&D pipeline.

Innovation is core to what MedMira is and does. From internal corporate and financial systems that give the Company a solid base to grow on, to the new product concepts from our science visionaries, innovative thinking is applied across the organization. Along with innovation, the Company operates with a disciplined focus on a long-term strategic path for growth and results to increase shareholder value.

We look forward to 2015 to realize on the foundation we have established during the current year. Our key investors, both existing and new, continue to demonstrate their belief in MedMira and the global opportunities for our technology and products. We have created an organizational structure with the right resources, from key senior leadership to a highly efficient manufacturing unit, which positions us to capitalize on opportunities in 2015.

I'm confident that we are only beginning to see MedMira's emergence as a well-known and respected brand in the international diagnostics market. With the ongoing support of shareholders like you, MedMira will continue to create new opportunities to deliver value.

**Marvyn Robar**
**Chairman**

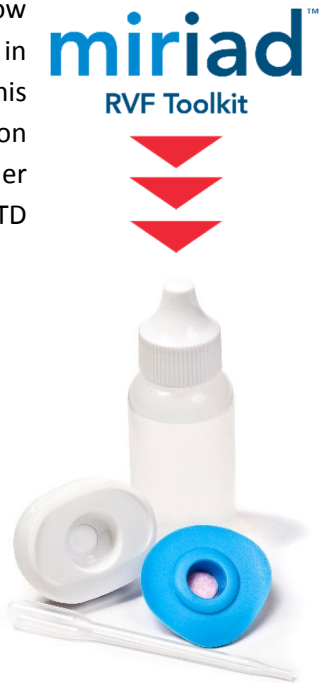

*MedMira's Reveal and Multiplo rapid tests.*

# A Letter from Our Co-Founder & CEO

Dear Shareholders,

Fueled by key investments and with the right resources in place, in 2014 we focused on the necessary groundwork, including our clinical trials and brand awareness building and market preparation activities in the United States that collectively support MedMira's new product launches planned for 2015. The clinical trials are nearly complete for three new products and will be followed by final submissions to the U.S. Food and Drug Administration.

2014 kicked-off with the roll-out of important branding and messaging changes that have resulted in increased market awareness of our Company, technology, and products. Perhaps the most substantial change in our message was about our technology platform as we positioned Rapid Vertical Flow Technology as its own brand. Our technology has created a new industry standard in rapid testing with unmatched speed and multiplexing capabilities. We launched this messaging at the VWR Americas Sales Conference as we began our new distribution relationship with VWR International, LLC. We continued to see awareness build at other events through the year including the China Medical Equipment Fair, the 2014 STD Prevention Conference, and the 2014 American Association for Clinical Chemistry Annual Meeting & Clinical Lab Expo.



*Miriad RVF Toolkit for researchers*

While many of our strategic activities were about building for the future, our sales remained steady in the U.S. In our other strategic markets, Latin America and China, we increased our sales and marketing initiatives, and established a new sales and outsourced manufacturing channel in India. This combined effort across all of our target markets resulted in a 26% increase in revenue and a 23% increase in gross profit at the fiscal year end. In Latin America we capitalized on key product approvals, new distribution agreements, and shipped orders. Our Reveal HIV test was introduced as the first all-inclusive, point-of-care rapid HIV test to be approved in and sold in Mexico. We also made good progress in Venezuela and Costa Rica and we continue to pursue other territories with our partners.

MedMira's position in China continues to grow steadily, where tender business is a key vertical that we focus on in cooperation with our partner Triplex International Biosciences Co., Ltd. Our rapid HIV test is consistently ranked amongst the top performers and in 2014 we sold over 100,000 units. Our brand in China was further strengthened with Hong Kong-Canada Business Achievement Award for Outstanding Business Innovation and a nomination for the Canada China Business Council's Excellence Awards.

Along with updated branding and messaging, we introduced our Miriad RVF Toolkit product at events in the U.S. and China. This product enables us to reach a broader variety of market sectors with our Rapid Vertical Flow Technology. In the hands of researchers and educators, the possibilities for our technology platform are truly endless and in 2014 this product has already created new collaborations and consulting business for MedMira, and the prospect of future licensing deals.

As word spreads about the successful clinical applications MedMira has produced on our technology platform and researchers explore the possibilities with the Miriad RVF Toolkit, new opportunities are growing in human medicine, veterinary, and environmental sectors. For MedMira this means engaging in contracts with partners, collaborators, and other biotech companies, like Beacon Biomedical LLC who we are working with to develop a rapid colon cancer test.

Our own product development and commercialization pipeline continues to grow, both organically and with collaborative efforts. In 2014 we announced the expansion of our Multiplo product line with three new tests that incorporate HIV, hepatitis C, and syphilis. More importantly these tests continue to advance our technology platform, proving its comprehensive capabilities as a both a screening test and a confirmatory test for specific diseases such as syphilis. For example, Multiplo TP/nTP detects both active and historic syphilis infections, saving healthcare providers and patients valuable time and resources, enabling treatment to begin immediately.

In 2014, MedMira has generated positive momentum on the foundation we are laying for future success. This energy we have created, both internally and externally, is propelling us forward to a healthy and prosperous 2015 in which we will see three new products launched, continued growth in key strategic markets, and new frontiers for our technology platform.

On behalf of our entire team at MedMira, thank you for your continued support.

**Hermes Chan**
**Co-Founder & CEO**

# MedMira Inc.

Management's Discussion & Analysis
For the year ended July 31, 2014

## Forward looking statements

This document contains forward looking statements, such as statements regarding future sales opportunities in various global regions and financing initiatives that are based on current expectations of management. These statements involve uncertainties and risks, including MedMira Inc.'s (MedMira or the Company) ability to obtain and/or access additional financing with acceptable terms, and delays in anticipated product sales. Such forward-looking statements should be given careful consideration and undue reliance should not be placed on these statements.

The preparation of Management's Discussion and Analysis (MD&A) may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Management bases estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Management believes the accounting policies, outlined in the Significant Accounting Policies section of its consolidated interim financial statements, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

## Introduction

The following MD&A for the three months and year ended July 31, 2014 has been prepared to help investors understand the financial performance of MedMira in the broader context of the Company's strategic direction, the risk and opportunities as understood by management, and the key metrics that are relevant to the Company's performance. The Audit Committee of the Board of Directors has reviewed this document and all other publicly reported financial information for integrity, usefulness, reliability and consistency.

Annual references are to the Company's fiscal years, which end on July 31. All amounts are expressed in Canadian dollars (CAD) unless otherwise noted.

Additional information about MedMira, this document, and the related quarterly financial statements can be viewed on the Company's website at www.medmira.com and are available on SEDAR at www.sedar.com.

## About MedMira

MedMira is a biotechnology company engaged in the development and commercialization of rapid diagnostics and technology platforms. The Company is headquartered in Halifax, Nova Scotia, Canada and is listed on the TSX Venture Exchange (TSX-V) under the symbol MIR.

The patented MedMira Rapid Vertical Flow Technology™ platform is the basis for the Company's line of rapid tests. Diagnostic applications based on this distinct technology are highly accurate, easy-to-use, and produce instant results – a strong advantage over most other rapid diagnostics on the market today. These features are enhanced further with the unique competitive advantage of enabling multiplex results on one test device with just one drop of specimen. The Company has created a new generation of rapid tests that are based on its customers' need to provide swift answers without increasing costs.

MedMira's technology and growing portfolio of diagnostic tools demonstrate excellence in performance and quality in the highly competitive diagnostics industry. More than $30 million has been invested in perfecting MedMira's core technology, which has proven itself time and time again with its excellent clinical performance and its success in rigorous evaluations and inspections, leading to regulatory approvals in the United States (FDA), Canada (Health Canada), the notified body in

the European Union (CE Mark), and China (CFDA – formerly known as SFDA) and in a number of countries in Latin America, Africa, and Asia. The Company is also ISO 9001:2008 and ISO 13485:2003 certified.

MedMira sells its rapid tests through a worldwide network of medical distributors and strategic business development partners with customers in all sectors of the healthcare industry, including laboratories, hospitals, point-of-care facilities, governments, and public health agencies. The Company launched its Miriad™ product line in early 2014 to create new opportunities in the high value technology licensing sector. This business allows the Company to monetize its award winning technology and core capabilities, including R&D, product development, and regulatory proficiency. Miriad provides access to MedMira Rapid Vertical Flow Technology for researchers, developers, and biotech companies on a license basis to facilitate the creation of new rapid tests or the transition of existing tests to this unique platform. Infiltrating new and different core sectors of the diagnostic industry, such as veterinary and environmental, with the Company's technology, enables MedMira to build a higher degree of global awareness, generate new revenue streams, and provide a superior diagnostic platform to the market.

## Intellectual property

The Company strives to protect its intellectual property in established and emerging markets around the world as warranted. MedMira's intellectual property portfolio for its Rapid Vertical Flow Technology and the methodology behind its rapid diagnostics includes the following:

| *Patent #* | *Title* | *Jurisdiction* |
|---|---|---|
| 8,025,850 | Rapid Diagnostic Device, Assay and Multifunctional Buffer | United States |
| 8,287,817 | Rapid Diagnostic Device, Assay and Multifunctional Buffer | United States |
| 8,586,375 | Rapid Diagnostic Device, Assay and Multifunctional Buffer | United States |
| 7,531,362 | Rapid Diagnostic Device, Assay and Multifunctional Buffer | United States |
| EP1417489 | Rapid Diagnostic Device and Assay | Europe |
| EP1328811 | HCV Mosaic Antigen Composition | Europe |
| ZL02819646.5 | Rapid Diagnostic Device and Assay | China |
| 2,493,616 | Rapid Diagnostic Device, Assay and Multifunctional Buffer | Canada |

The Company has four pending patents in eight markets.

The Company's corporate and product brand names are protected by trademarks in the United States and Canada.

## Corporate update

MedMira began Fiscal Year 2014 with a $6.105 million investment from OnSite Lab Holding AG (OnSite Lab), the Company's largest and controlling shareholder. This investment fueled increasing sales and marketing activities, including the addition of key personnel, new distribution channels, and enhanced marketing initiatives aimed at key audiences in the United States and the Company's international strategic focus markets.

Kevin Jones, Ph.D. joined MedMira as Senior Director, Global Sales & Marketing, bringing over 20 years of significant industry experience with demonstrated successes in sales and marketing in medical, diagnostics, and life sciences sectors to the Company's senior leadership team. Dr. Jones' primary focus during Fiscal Year 2014 was the expansion of MedMira's

sales and marketing initiatives in strategic focus markets and pre-launch preparation in the United States as the Company readies for new product introductions in 2015.

MedMira participated in the Military Health System Research Symposium, a highly focused military healthcare event in the United States, which has in the past, and will continue to in the future, play a key role in MedMira's sales and marketing efforts for the military sector. At this event, the MedMira team interfaced with key personnel from the United States Department of Defense and members of the international military community, all future customers for the Multiplo™ HBc/HIV/HCV and Reveal® HBsAg tests currently being developed and commercialized by MedMira under contract with the United States military. These development and commercialization projects with the United States military continue to advance on track with all major milestones being met during Fiscal Year 2014. MedMira received an additional USD$1.917 million to conduct supplementary testing, in parallel with the clinical trials in progress. The new funding enabled MedMira to collect clinical data required to obtain complementary label claims, intended uses, and expand the field applications for the products being commercialized under this contract.

The Company continued to advance work on the FDA approval process for Reveal G4, the next generation of its popular HIV test, with new whole blood applications. MedMira's Reveal tests have consistently been a market leader in performance, and Reveal G4, anticipated to be launched in 2015, will ensure MedMira customers can answer the increasing demand for routine HIV screening of all people aged 15-65 and all pregnant women during the normal course of medical care as laid out in the latest testing guidelines in the United States.

MedMira introduced its Miriad RVF Toolkit, a strategic expansion in the research and academic markets to augment its clinical business as well as open new opportunities for licensing the Company's patented technology platform. The Miriad RVF Toolkit capitalizes on the power of Rapid Vertical Flow Technology and enables researchers from a wide variety of fields to easily and quickly build rapid tests, transferring their findings to a proven platform, and speeding the path to commercialization. During the year this product has created a number of new collaborations and consulting business for MedMira.

Fiscal Year 2014 saw MedMira embark on a significant new distribution relationship in the United States with VWR International, LLC, a global solutions provider of laboratory supplies and services with worldwide sales in excess of $4.1 billion in 2012. To kick-off this new relationship, MedMira launched its Reveal G3 Rapid HIV-1 Antibody Test and its Miriad research product line to over 300 VWR sales representatives covering the research, education, and healthcare sectors at the VWR Americas Sales Conference.

Sales, marketing and brand building initiatives in the United States progressively increased throughout the year culminating in two major events for MedMira in June and July 2014 where the primary focus was the Multiplo product line. Multiplexing is a key differentiator and a hallmark of the Company's distinct Rapid Vertical Flow Technology and the Multiplo line. MedMira showcased its Multiplo rapid tests for HIV, syphilis and hepatitis and presented study results to sexually transmitted diseases and HIV experts at the 2014 STD Prevention Conference. Expanding further on the promotion of the Multiplo product line, the Company announced three new tests in advance of the 2014 American Association for Clinical Chemistry (AACC) Annual Meeting & Clinical Lab Expo. The new tests in the product range include Multiplo TP/nTP, which detects both active and historic syphilis infections, Multiplo TP/HIV/nTP, and Multiplo TP/HIV/HCV, which simultaneously detects syphilis, HIV and hepatitis C. These key sales and marketing events were supported by a mix of initiatives that built the Company's advertising profile with key customer segments in medical research, reference labs, teaching hospitals, public health labs and physician offices; public relations outreach which gained coverage for MedMira technology and products in key industry publications such as *Clinical Lab Products, SelectScience, and Advance for Administrators of the Laboratory*; and social media channels including the www.MedMira.com/blog.

Sales and marketing initiatives also expanded in Latin America with key product approvals, new distribution agreements signed, and product shipments. MedMira's Reveal HIV became the first all-inclusive, point-of-care rapid HIV test to be

approved and sold in Mexico. Diagno Medical, MedMira's distribution partner in Mexico received its first shipment of Reveal HIV in April 2014 and began selling to physician offices, community clinics, and mobile outreach centers serving over 30 per cent of Mexico's population that lives in suburban and rural areas. Elsewhere in Latin America, MedMira signed a distribution deal in Venezuela and received approval to market and sell Reveal HIV in Costa Rica. The Company continued to pursue registration and distribution partners in various other countries in Latin America in order to extend its market share in the region.

MedMira continued to win new business in China, another of the Company's strategic focus markets. Fiscal Year 2014 saw the steady gain of market share for the Company's consistently top-ranking rapid HIV test in the competitive and crowded Chinese market. Together with strategic distribution partner, Triplex International Biosciences Co., Ltd., MedMira has sold over 100,000 rapid HIV tests to various provinces in China. Additionally, the Company won follow-up tender business for 200,000 additional rapid HIV tests. Tenders, through which 80 per cent of the rapid HIV tests sold in China each year are procured, has become a key market for MedMira and its partner. A restructured healthcare system, higher quality standards, and demand for high performance products have also supported MedMira's growth in China during 2014 and set the stage for further brand expansion. MedMira launched its Miriad product line, including the Miriad RVF Toolkit, at the China Medical Equipment Fair and is preparing to introduce its Multiplo product line as demand for multiplex testing increases. Further strengthening MedMira's brand profile in China, the Company took home the Hong Kong-Canada Business Achievement Award for Outstanding Business Innovation in April 2014.

Two new members joined to the Company's Board of Directors in May 2014 and one Director retired. Marvyn Robar and Colin MacGillivray were appointed as Directors, with Mr. Robar being elected as MedMira's first non-executive Chairman. Dr. Shou-Ching Tang retired from the Board after 12 years of service. In July 2014, Markus Meile was appointed Chief Financial Officer. Mr. Meile formerly served on the Company's Board of Directors and Audit Committee and stepped down from the Board as he assumed his new duties as MedMira's Chief Financial Officer.

In 2014, MedMira made significant advancements supported by investment from key stakeholders, including the expansion of its sales and marketing activities in strategic focus markets including the United States, China, and Latin America; continuous product development and commercialization work capitalizing on the Company's technology platform; addition of key senior leadership team members to support further growth and development; and the implementation of key corporate and financial systems to ensure the Company has solid base from which to continue to grow.

## Financial results

### Basis of preparation and significant accounting policies

The basis of financial statement preparation and the significant accounting policies of MedMira are described in Notes 2 and 3 of the Company's July 31, 2014 consolidated financial statements.

**Selected quarterly information (in thousands of dollars except per share amounts)**

| **Income statement** | **Q4 2014** | **Q3 2014** | **Q2 2014** | **Q1 2014** | **Q4 2013** | **Q3 2013** | **Q2 2013** | **Q1 2013** |
|---|---|---|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| Revenue | 898 | 639 | 519 | 472 | 595 | 327 | 534 | 545 |
| Cost of sales | 677 | 428 | 316 | 332 | 343 | 277 | 374 | 377 |
| Gross profit | 221 | 211 | 203 | 140 | 252 | 50 | 160 | 168 |
| Operating expenses | 1,044 | 1,213 | 1,358 | 727 | 659 | 781 | 715 | 641 |
| Other expenses (gains) | (462) | 216 | 261 | 252 | 353 | 128 | (1,629) | (616) |
| Net earnings (loss) before tax | (361) | (1,218) | (1,417) | (839) | (760) | (859) | 1,074 | 143 |
| | | | | | | | | |
| **Balance sheet** | | | | | | | | |
| | **Q4 2014** | **Q3 2014** | **Q2 2014** | **Q1 2014** | **Q4 2013** | **Q3 2013** | **Q2 2013** | **Q1 2013** |
| | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| Current assets | 1,484 | 1,411 | 3,216 | 5,392 | 822 | 597 | 1,172 | 2,169 |
| Non-current assets | 358 | 373 | 378 | 336 | 345 | 262 | 102 | 30 |
| Total assets | 1,842 | 1,784 | 3,594 | 5,728 | 1,167 | 858 | 1,273 | 2,199 |
| Current liabilities | 4,286 | 3,456 | 3,792 | 4,354 | 4,854 | 3,694 | 3,040 | 2,967 |
| Non-current liabilities | 4,246 | 4,842 | 5,097 | 5,253 | 5,423 | 5,516 | 5,726 | 7,798 |
| Total liabilities | 8,532 | 8,298 | 8,890 | 9,607 | 10,277 | 9,210 | 8,765 | 10,765 |
| Total shareholders deficiency | (6,690) | (6,514) | (5,296) | (3,879) | (9,111) | (8,352) | (7,492) | (8,566) |
| Total liabilities and equity | 1,842 | 1,784 | 3,594 | 5,728 | 1,167 | 858 | 1,273 | 2,199 |
| | | | | | | | | |
| Net earnings (loss) per share | (0.001) | (0.002) | (0.003) | (0.002) | (0.001) | (0.002) | 0.003 | 0.001 |

**Fourth quarter analysis**

The following table compares the results of operations for the three months ended July 31, 2014 to the three months ended July 31, 2013.

| | For the three months ended | | |
|---|---|---|---|
| | **31-Jul-14** | **31-Jul-13** | **Better (worse)** |
| | **$** | **$** | **$** |
| **Product** | | | |
| Product sales | 313,825 | 244,289 | 69,536 |
| Royalties | 10,900 | - | 10,900 |
| Product cost of sales | (147,553) | (59,439) | (88,114) |
| **Gross margin on product** | 177,172 | 184,850 | (7,678) |
| **Services** | | | |
| Service sales | 573,255 | 351,826 | 221,429 |
| Service cost of sales | (529,115) | (289,237) | (239,878) |
| **Gross margin on services** | 44,140 | 62,589 | (18,449) |
| **Operating expenses** | | | |
| Research and development | 170,891 | 138,295 | 32,596 |
| Sales and marketing | (226,449) | (88,257) | (138,192) |
| Other direct costs | (188,239) | (96,345) | (91,894) |
| General and administrative | (800,801) | (621,068) | (179,733) |
| **Total operating expenses** | (1,044,598) | (667,375) | (377,223) |
| **Operating (expense) income** | (823,286) | (419,936) | (403,350) |
| **Non-operating expenses** | | | |
| Financing (expense) income | 462,648 | (338,770) | 801,418 |
| **Net Loss** | (360,638) | (758,706) | 398,068 |

*Product revenue and gross margin*

The Company recorded revenue from product sales in the quarter ended July 31, 2014 of $324,725 as compared to $244,289 for the same period last year. The increase in revenue was due to higher sales in Latin America and the United States. Gross profit for the quarter was $177,172 compared to $184,850 in the same period in 2013. The decrease in gross profit was due to an increase in product sales in Latin America where margins are typically lower than in the North American markets. The Company's product sales in North America have been steady and no decreases have been recorded. The cost of product sales was $147,553 during the three months ended July 31, 2014 (July 31, 2013– $59,439).

*Service revenue and gross margin*

The Company recorded revenue from service sales of $573,255 in the three months ended July 31, 2014 (July 31, 2013 - $351,826) with a related gross margin of $44,140 (July 31, 2013 - $ 62,589). The Company earned revenue and gross margin on two research contracts with the United States military. The current year gross margin on services was in line with the management's expectations. The slight decrease in profit margin was due to increased cost on quality assurance from the

end phase of the research projects.

*Operating expenses*

Total operating expenses increased to $1,044,598 in the quarter ended July 31, 2014, compared to $667,375 during the same period in 2013.

- Research and development recovery for the quarter ended July 31, 2014 were $170,891, compared to $138,295 for the same period last year. The increase in recovery is due to a higher refund related to the scientific research and experimental tax credits the company can claim.
- Sales and marketing expenses for the quarter ended July 31, 2014 was $226,449 compared to $88,257 for the same period last year.
- Other direct costs for the three months ended July 31, 2014 were $188,239 compared to $96,345 for the same period last year. This increase was due to higher costs on the on-going preparation for the FDA and WHO registrations.
- Administrative expenses were $800,801 for the quarter ended July 31, 2014, compared with $621,068 for the same period in 2013. The increase in administrative expense was attributed to mainly higher regulatory and professional fees related to the ongoing FDA and WHO registrations.

*Non-operating income and expenses*

- The gain in financing expenses was due to the re-measurement of the royalty provision and the long term debt. The Company gained $462,648 in comparison to the loss of $338,770 in the same period last year.

**Year to date analysis**

The following table compares the results of operations for the year ended July 31, 2014 to the year ended July 31, 2013.

| | For the year ended | | |
|---|---|---|---|
| | **31-Jul-14** | **31-Jul-13** | **Better(worse)** |
| | **$** | **$** | **$** |
| **Product** | | | |
| Product sales | 843,568 | 829,438 | 14,130 |
| Royalties | 10,900 | 35,360 | (24,460) |
| Product cost of sales | (436,406) | (435,409) | (997) |
| **Gross margin on product** | 418,062 | 429,389 | (11,327) |
| **Services** | | | |
| Service sales | 1,673,711 | 1,136,666 | 537,045 |
| Service cost of sales | (1,316,978) | (935,280) | (381,698) |
| **Gross margin on services** | 356,733 | 201,386 | 155,347 |
| **Operating expenses** | | | |
| Research and development | (294,425) | (133,304) | (161,121) |
| Sales and marketing | (1,086,328) | (262,271) | (824,057) |
| Other direct costs | (609,513) | (299,209) | (310,304) |
| General and administrative | (2,353,152) | (2,101,361) | (251,791) |
| **Total operating expenses** | (4,343,418) | (2,796,145) | (1,547,273) |
| **Operating (expense) income** | (3,568,623) | (2,165,370) | (1,403,253) |
| **Non-operating expenses** | | | |
| Financing (expense) income | (266,716) | 1,763,069 | (2,029,785) |
| **Net Loss** | (3,835,339) | (402,301) | (3,433,038) |

*Product revenue and gross margin*

The Company recorded revenue from product sales in the year ended July 31, 2014 of $854,468 as compared to $864,798 for the same period last year. Gross profit on product sales for the year was $418,062 compared to $429,389 in the same period last year. The slight decrease in gross profit margin was due to higher sales in low margin markets whereas product sales in higher margin markets have been stable and unchanged. Current year gross profit was in line with management expectations.

*Service revenue and gross margin*

The Company recorded revenue from service sales in the year ended July 31, 2014 of $1,673,711 as compared to $1,136,666 for the same period last year. The Company earned revenue and gross margin on two research contracts with the United States military. The current year margin on services was in line with management expectations.

*Operating expenses*

Total operating expenses increased by $1,547,272, from $2,796,145 for the year ended July 31, 2013 to $4,343,417 for the year ended July 31, 2014.

- Research and development expenses for the year ended July 31, 2014 were $294,425 compared to $133,304 for the year ended July 31, 2013. Actual research expenses in July 31, 2014 for the year were $1,910,445 (July 31, 2013 – $1,211,546), which was offset by reimbursements of research costs of $299,042 (July 31, 2013 – $142,962) and allocation of $1,316,978 to cost of sales (July 31, 2013 – $935,280). The comparative increase in research costs was directly attributable to greater activity related to the United States military contracts and new product developments.
- Sales and marketing expenses for the year ended July 31, 2014 were $1,086,328 compared to $262,271 for the same period last year as the Company launched its Miriad product line (February 2014). In addition, preparations have been undertaken for new product launches in 2015. The expansion of the Sales and Marketing department has been in line with the management's vision to re-focus its resources on its sales activities.
- Other direct costs for the year ended July 31, 2014 were $609,513, compared to $299,209 for the same period last year. This increase was due to higher costs on the ongoing preparation for the FDA and WHO registrations.
- General and administrative expenses were $2,353,152 for the year ended July 31, 2014, compared to $2,101,361 for the same period in 2013. The increase in administrative expense was attributed to increased regulatory and professional fees related to the ongoing FDA and WHO registrations.

*Non-operating income and expenses*

Total other losses were $266,716 in the year ended July 31, 2014, compared to a gain of $1,763,069 during the same period in 2013.

- Financing expenses, including interest expense, were $266,716 for the year ended July 31, 2014 versus a gain of $1,763,069 in the same period last year. The gain in the previous year was due to re-negotiation on lower interest rates which created a book gain for the Company. The current finance expenses are in line with management's expectations.
- The Company decreased its current liabilities by $568,045 from $4,853,960 for the year ended July 31, 2013 to $4,285,915 for the year ended July 31, 2014.
- An additional decrease in non-current liabilities from $1,177,407 in the year ended July 31, 2013 to $4,246,078 in the year ended July 31, 2014 has been achieved through debt repayments.

**Geographic information**

The Company organizes and records the sales and distribution of its products and services based on major geographical territories around the world. The table below provides the three month and annual geographic breakdown of revenue.

| | Product and service revenue | | Product and service revenue | |
|---|---|---|---|---|
| | For the three months ended | | For the year ended | |
| | 31-Jul-14 | 31-Jul-13 | 31-Jul-14 | 31-Jul-13 |
| | $ | $ | $ | $ |
| North America | 748,373 | 575,389 | 2,206,708 | 1,655,557 |
| Latin America and the Caribbean | 60,344 | 19,243 | 142,225 | 92,274 |
| Europe | 13,996 | 1,483 | 19,045 | 10,039 |
| Asia Pacific | 75,267 | - | 160,201 | 240,617 |
| Middle East | - | - | - | 2,977 |
| **Total revenue** | **897,980** | **596,115** | **2,528,179** | **2,001,464** |

**Liquidity and capital resources**

*Cash and working capital*

The Company had a cash reserve of $162,458 on July 31, 2014, as compared to $20,942 on July 31, 2013. The Company's net working capital position as of July 31, 2014 was a deficit of $2.8 million compared to the July 31, 2013 working capital deficit of $4.0 million. The Company has incurred losses and negative cash flows on a cumulative basis since inception. For the year ended July 31, 2014, the Company incurred a net loss from operating activities of approximately $3.6 million and negative cash flow of $4.5 million, compared to a net loss from operations of $2.2 million and negative cash flow from operations of $2.1 million for the same period in 2013. In October 2014, subsequent to year-end, the Company successfully raised an additional investment of $1.1 million to fund the required operating activities.

*Operating activities*

MedMira generated negative cash flows from operations of $4.5 million for the year ended July 31, 2014, compared to negative cash flows of $2.1 million for the year ended July 31, 2013. The change in cash flow from operations was due to greater payments made to suppliers in the current period compared to last year.

*Financing activities*

Net cash inflows from financing activities was $4,821,494 for the year ended July 31, 2014, compared to $58,493 for the same period in 2013. The higher cash inflow in 2014 was the due to the $6.1 million investment from OnSite Lab.

*Investing activities*

Cash outflow from investments decreased to $96,288 during the year ended July 31, 2014, compared to $366,986 for the same period in 2013. The decrease in investing cash outflow was the result of investments in facility upgrades completed in 2013.

**Debt**

As at July 31, 2014, the Company had loans payable with a carrying value of $6.2 million compared to $6.9 million at July 31, 2013. The decrease in the carrying value of loans payable from July 31, 2013 to July 31, 2014 is due to a fair value adjustment to the carrying amount of the loans and the repayment of principal. The Company's loans have an average payment term of 6 years.

Further discussions on liquidity and capital resources can be found in the Liquidity Risk section of this document, under Need for Additional Capital in the Risk and Uncertainties section in this document and in Notes 2 and 11 of the Company's July 31, 2014 condensed interim consolidated financial statements.

**Equity/Shares**

The Company is authorized to issue an unlimited number of common shares without nominal par value. During fiscal year 2014 the company issued 122,100,000 common shares. The number of issued and outstanding common shares on July 31, 2014 was 514,364,320. The Company is also authorized to issue an unlimited number of Series A preferred shares redeemable at $0.001 per share after March 31, 2010, convertible into an equal number of common shares upon the Company meeting certain milestones. There were 5,000,000 Series A preferred shares issued and outstanding on July 31, 2014.

The Company had 5,990,000 outstanding stock options on July 31, 2014. The outstanding stock options have a weighted average exercise price of $0.10 per share and a weighted average remaining term of 1 year. The number of outstanding warrants on July 31, 2014 was 312,100,000. The outstanding warrants have a weighted average exercise price of $0.10 per share.

**Off balance sheet arrangements**

The Company was not party to any off balance sheet arrangements as of July 31, 2014.

**Financial instruments – fair value**

The Company recognizes financial instruments based on classification. Depending on the financial instruments' classification, changes in subsequent measurements are recognized in net loss or other comprehensive loss. The Company has implemented the following classifications:

*Financial assets*

- Cash and bank balances: Classified as loans and receivables and recorded at amortized cost using the effective interest method.
- Trade and other receivables: After initial fair value measurement, trade and other receivables are measured at amortized cost using the effective interest method.

*Financial liabilities*

- Total bank indebtedness long-term debt, accounts payable and accrued liabilities: After initial fair value measurement, these financial liabilities are measured at amortized cost using the effective interest method.

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

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

**Financial instruments – risk factors**

MedMira has exposure to the following risks from its financial instruments: liquidity risk, credit risk, currency risk, and interest rate risk. Senior management monitors risk levels and reviews risk management activities as necessary.

*Liquidity risk*

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

The Company has incurred losses and negative cash flows from operations on a cumulative basis since inception. For the year ended July 31, 2014, the Company realized a net loss of approximately $3.8 million (July 31, 2013 – net loss $0.4 million), consisting of a net loss from operations of $3.6 million (July 31, 2013 – $2.2 million), a valuation gain on re-measurement of royalty provision of $0.5 million (July 31, 2013 – $nil) and other non-operating losses of $0.7 million (July 31, 2013 – gain of $1.8 million). Negative cash flows from operations were approximately $4.5 million (July 31, 2013 – $2.1 million). As at July 31, 2014, the Company had an accumulated deficit of approximately $74.8 million (July 31, 2013 – $71.0 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 current portion of loans of approximately $2.2 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.

*Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The company mitigates this risk by requiring a 50% down payment on most orders at the time of purchase, and the remaining 50% prior to shipment. The Company derives approximately 85% (July 31, 2013—62%) of its revenue from two (July 31, 2013—two) main customers and, for these customers, assesses the recoverability of each account on a regular basis. As of July 31, 2014, 92% of the accounts receivable balance is due from three customers (July 31, 2014—85% due from two customers) and no other customers account for more than 10% of the accounts receivable balances as at July 31, 2014.

*Currency risk*

MedMira receives most of its revenues in foreign currencies and incurs expenses in US and Canadian currencies. As a result, the Company is subject to uncertainty as foreign exchange rates fluctuate. The exchange fluctuations from year to year have accounted for a significant portion of the company's exchange gain and loss. Most sales are in USD, however, they are recorded at the exchange rate prevailing on or near the transaction date and collected in a timely manner.

The Company also experiences currency exposure resulting from balance sheet fluctuations of US-denominated cash, accounts receivable, accounts payable and US-denominated promissory notes.

MedMira mitigates this currency risk by maintaining a balance of USD currency which is used to pay down US-denominated liabilities and replenishes the balance through US-denominated revenues.

*Interest rate risk*

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

**Related party transactions**

The following transactions occurred with related parties during the year ended July 31, 2014:

- A short-term loan totalling $478,920 bearing 5% interest was received from Onsite Lab. During the year, $1,998 in interest was accrued against this loan (2013 - $523,000 and $3,460 in interest).
- Short-term loans totalling $119,730 bearing 5% interest were received from a director. During the year, $5,892 in interest was accrued against these loans (2013 - $106,973 and $805 in interest).
- Director fees totalling $24,367 were incurred (2013 - $16,250).
- Consulting fees totalling $26,138 were incurred (2013 - $82,233).

  The following balances with related parties were outstanding at July 31, 2014:

  - Accounts payable totalling $8,292 was due to directors (2013 – $37,244).
  - A short-term loan totalling $480,918 was due to OnSite Lab Holding AG (2013 – $526,460).
  - A short-term loan totalling $125,622 was due to a director (2013 – $107,778).
  - A royalty provision was owed to OnSite Lab Holding AG of $260,000 (2013 – $739,817).

**Summary Compensation Table – Officers**

| Name and Principal Position | Period | Paid Compensation ($) | Accrued Compensation ($) | Share- and Option-based Awards* ($) | All other compensation ($)[2] | Total Compensation ($) |
|---|---|---|---|---|---|---|
| Hermes Chan CEO | Fiscal 2014 | 188,000 | - | - | 52,769[1] | 240,769 |
| Sing Chan COO | Fiscal 2014 | 132,000 | - | - | 36,501[2] | 168,501 |
| Daniel Frid Former CFO | Fiscal 2014 | 124,200[3] | - | - | - | 124,200 |
| Jelle Kuypers Former CFO | Fiscal 2014 | 168,800 | - | 34,665 | - | 203,465 |

**Note:**

1) Hermes Chan, back pay of $52,769
2) Sing Chan, back pay of $36,501
3) Daniel Frid received $70,200 in severance compensation

*The Company makes certain estimates and assumptions when calculating the fair value of option-based awards. The Company uses an option-pricing model which includes significant assumptions including estimates of the expected volatility, expected life, expected dividend rate and expected risk-free rate of return. Changes in these assumptions may result in a material change to the amounts recorded for the issuance of stock options.

**Summary Compensation Table – Directors**

| Name Designation Position(s) | Period | Paid Compensation ($) | Accrued Compensation ($) | Share- and Option-based Awards ($)* | All other compensation ($) | Total Compensation ($) |
|---|---|---|---|---|---|---|
| Hermes Chan Director | Fiscal 2014 | - | - | 40,838 | - | 40,838 |
| Romano Robusto Director/Audit Committee Chair Member of Nomination and Compensation Committee | Fiscal 2014 | 3,750 | 5,276 | 33,038 | | 42,064 |
| Markus Meile Former Director Director Business Development | Fiscal 2014 | 31,618 | 43,507 | 30,052 | - | 105,177[1] |
| Michael Sidler Director | Fiscal 2014 | - | | 12,133 | | 12,133 |
| Marvyn Robar Director/Chairman of the Board/Member of Audit and Nomination & Compensation Committee | Fiscal 2014 | - | 2,945 | - | - | 2,945 |
| Colin MacGillivray Director/Nomination & Compensation Committee Chair/Member of Audit Committee | Fiscal 2014 | - | 2,411 | - | - | 2,411 |
| Dr. Shou Ching-Tang Former Director | Fiscal 2014 | 3,110 | 3,438 | 28,318 | - | 34,866 |

[1] *Updated subsequent to the Fiscal Year End 2014 filings to correct a typographical error.*

*The Company makes certain estimates and assumptions when calculating the fair value of option-based awards. The Company uses an option-pricing model which includes significant assumptions including estimates of the expected volatility, expected life, expected dividend rate and expected risk-free rate of return. Changes in these assumptions may result in a material change to the amounts recorded for the issuance of stock options.

## Subsequent events

In October 2014, the Company completed a $1.1 million equity investment from a new, arm's length investor from Asia. Under the terms of the deal, the investor acquired 22,000,000 equity units at $0.05 per unit. Each equity unit consists of one common share and one common share purchase warrant and is subject to a four month hold period which expires on January 31, 2015. Each full warrant entitles the investor to purchase one common share of MedMira at $0.10 per share exercisable over four years.

## Internal control systems and disclosure controls

To ensure the integrity and objectivity of the data, management maintains a system of internal controls comprising of written policies, procedures and a program of internal reviews which provides reasonable assurance that transactions are recorded and executed in accordance with its authorization that assets are properly safeguarded and that reliable financial records are maintained.

Management is currently updating existing standardized processes to improve internal controls and reduce compliance costs. The updated controls will help improve timeliness and accuracy of financial records as well as continue to ensure that the Company's assets are properly safeguarded.

Disclosure controls and procedures within MedMira have been designed to provide reasonable assurance that all relevant information is identified to the Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Management, under the supervision of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting and based on this evaluation, has concluded that internal control over financial reporting was effective as of July 31, 2014.

Due to inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Audit Committee of the Board of Directors of MedMira reviewed this MD&A, and the interim financial statements and MedMira's Board of Directors approved these documents prior to release.

## Risk and uncertainties

The Company's base of activity has expanded to manufacturing products for distribution in international markets, making it difficult to accurately predict future operating results. Actual future results may differ significantly in any forward-looking statements. Currently, the Company is not making sufficient sales to be self-sustaining. As a result, the Company's financial condition, business and operations, and intellectual property are exposed to a variety of risk factors. These risks include, but are not limited to, the following:

**Risks and uncertainties related to the Company's financial condition**

*Need for additional capital*

Cash generated from operations is insufficient to satisfy working capital and capital expenditure requirements, and the Company is operating with a substantial working capital deficit. The Company will need to secure additional financing in the near term in order to continue as a going concern which may include the sale of additional equity or debt securities or obtaining additional credit facilities. In recent quarters, the Company has relied on temporary funding advanced from key investors. There can be no assurance that this source of funding will continue to be available on acceptable terms, and additional capital may not be available on satisfactory terms, or at all. Management is pursuing other financing alternatives to fund the Company's operations so it can continue as a going-concern.

The Company intends to continue to explore opportunities to enter into supply agreements, joint venture relationships, and other special purpose vehicles with third parties from time to time in order to continue to commercialize its patent pending technology and other intellectual property. Such arrangements may include the issuance of equity or debt

securities of the Company, subject to compliance with the applicable requirements of the Canadian securities regulatory authorities and the TSX-V.

Any additional equity financing may result in the dilution of shareholders, and debt financing, if available, may include restrictive covenants. MedMira's future liquidity and capital funding requirements will depend on numerous factors including:

- the extent to which new products and products under development are successfully developed, gain market acceptance and become and remain competitive;
- the costs and timing of further expansion of sales, marketing and manufacturing activities and facility's needs;
- the timing and results of clinical studies and regulatory actions regarding potential products; and
- the costs and timing associated with business development activities, including potential licensing of technologies patented by others.

Continued operations will be contingent on generating sufficient revenues or raising additional capital or debt financing. There is no assurance that these initiatives will be successful.

*Fluctuations in revenue*

The Company's quarterly and annual revenues may fluctuate due to several factors, including seasonal variations in demand, competitive pressure on average selling prices, customer order patterns, the rate of acceptance of the Company's products, product delays or production inefficiencies, regulatory uncertainties or delays, costs and timing associated with business development activities, including potential licensing of technologies, international market conditions and variations in the timing and volume of distributor purchases. The healthcare industry traditionally is not impacted by seasonal demand. The impact of one or a combination of several of these factors could have a significant adverse effect on the operations of the Company. In addition, changes in existing collaborative relationships, as well as the establishment of new relationships, product licensing and other financing relationships, could materially impact the Company's financial position and results from operations.

*Effects of inflation and foreign currency fluctuations*

A significant portion of the Company's revenue and expenses are in U.S. dollars, and therefore subject to fluctuations in exchange rates. There is a risk that significant fluctuations in exchange rates may impact the Company's ability to sell its products and, thereby, have a material adverse impact on the Company's results of operations.

*Possible volatility of share price*

The stock market has from time to time experienced significant price and volume fluctuations that may be unrelated to the operating performance of the Company. In addition, the market price of the Company's common shares, like the share prices of many publicly traded biotechnology companies, has been highly volatile. Announcement of technology innovations or new commercial products by the Company or its competitors, developments or disputes concerning patent or proprietary rights, publicity regarding actual or potential medical results relating to products under development by the Company or its competitors, regulatory developments in both the U.S. and foreign countries, public concern as to the safety of biotechnology products and economic and other external factors, as well as period to period fluctuations in financial results may have a significant impact on the market price of the Company's common shares. It is likely that in some future quarter the Company's operating results will be below the expectations of the public market analysts and investors. In such event, the price of the Company's common shares would likely be materially adversely affected.

**Risks and uncertainties related to the Company's business and operations**

*Lack of market acceptance*

MedMira's ability to market its diagnostic products will, in part, depend on its or its partners' ability to convince users that these products represent viable and efficacious diagnostic tests. There can be no assurance that MedMira will be successful in this regard.

*Competition*

The *in vitro* diagnostics market in which the Company participates is highly complex and competitive. It is comprised of both large healthcare companies that have substantially greater financial, scientific, and other resources than MedMira and a variety of international companies producing diagnostic products of varying quality. In the developed regions of the world with strong healthcare infrastructures, the *in vitro* diagnostics market for serious and emerging infectious diseases such as HIV and Hepatitis C has been focused on diagnostic tests using instrument based platforms designed for clinical laboratories. Diagnostic products designed for use in non-laboratory settings at the point-of-care or for use in laboratories or public health clinics using non-instrument based platforms for the screening and diagnosis of infectious diseases are becoming more mainstream in both the developed and developing regions of the world. Competition in this sector of the market is intense and is expected to increase. Many of the companies have substantially greater resources available for development, marketing and distribution of these products than does MedMira.

*Significant development effort required*

Products currently under development by MedMira require additional development, testing and investment prior to any final commercialization. There can be no assurance that these products or any future products will be successfully developed, prove to be safe and effective in clinical trials, receive applicable regulatory approvals, be capable of being produced in commercial quantities at reasonable costs or be successfully marketed. The long-term success of MedMira must be considered in light of the expenses, difficulties and delays frequently encountered in connection with the development of new technology and the competitive and highly regulated environment in which MedMira operates.

*Uncertainties in sales cycles in target markets*

MedMira markets and distributes its products to both developed and developing regions of the world. Sales cycles in developed regions of the world are somewhat conventional, however, timing of registrations and other activities surrounding the sale of product into a specific market are unpredictable and highly dependent on third party and government organizations to complete certain processes before a sales transaction can take place. In developing regions of the world where MedMira and its strategic partners are working to close deals, the sales cycle timing is highly uncertain given a number of factors including political and economic turmoil, as well as bureaucratic processes necessary to do business in these regions.

*High degree of regulation*

MedMira operates in a highly regulated industry and is subject to the authority and approvals of certain regulatory agencies, including Health Canada, the FDA, the CFDA, CE Mark and applicable health authorities in other countries, with regard to the development, testing, manufacture, marketing and sale of its products. The process of obtaining such approvals can be costly and time consuming, and there can be no assurance that regulatory approvals will be obtained or maintained. Any failure to obtain (or significant delay in obtaining) or maintain Health Canada, FDA, Notified Body or CFDA approvals (or, to a lesser extent, approval of applicable health authorities in other countries) for MedMira's new or existing products could materially adversely affect MedMira's ability to market its products successfully and could therefore have a material adverse effect on the business of MedMira.

*Ability to retain and attract key management and other experienced personnel*

Since its inception, the Company has been, and continues to be, dependent in its ability to attract and maintain key scientific and commercial personnel upon whom the Company relies for its product innovations and commercialization programs. Loss of key personnel individually or as a group could have significant adverse impact on the Company's immediate and future achievement of operating results.

*Limited sales and marketing resources and reliance on key distributors to market and sell the Company's product*

Any revenues received by the Company will be dependent on the efforts of third parties and there can be no assurance that such efforts will be successful. Failure to establish sustainable and successful sales and marketing programs with effective distributor support programs may have a material adverse effect on the Company.

Commercialization of the Company's products is expensive and time consuming. In the United States, a relationship has been established with My Care Solution to support the logistics and distribution of the Company's products. The Company will rely on the joint efforts of My Care Solution and distributors Cardinal Health, a Fortune 100 company, and VWR International to distribute MedMira's *Reveal*® G3 Rapid HIV-1 Antibody Test product line.

Outside the United States, the Company pursues collaborative arrangements with established pharmaceutical and distribution companies for marketing, distribution, and sale of its products.

In China, MedMira has formed a strategic partnership with Triplex to market and distribute the Company's rapid HIV test within the assigned territory. This strategic partnership also encompasses the assembly and packaging of final product components.

If any of the Company's distribution agreements are terminated and the Company is unable to enter into alternative agreements, or if the Company elects to distribute new products directly, additional investment in sales and marketing resources would be required which would increase future selling, general and administrative expenses. The Company has limited experience in direct sales, marketing and distribution of its products. A failure of the Company to successfully market its products would have a material and adverse effect on the Company.

*Manufacturing capabilities and scale-up*

The Company must manufacture its products in compliance with regulatory requirements, in sufficient quantities and on a timely basis, while maintaining product quality and acceptable manufacturing costs. If it is unable to manufacture or contract for such capabilities on acceptable terms for its products under development, MedMira's plans for commercialization could be materially adversely affected.

MedMira's manufacturing facilities are, or will be, subject to periodic regulatory inspections by the FDA, CE, CFDA and other regulatory agencies and these facilities are subject to Quality System Regulations requirements of the FDA and other standards organizations. MedMira may not satisfy such regulatory or standards requirements, and any failure to do so would have a material adverse effect on the Company.

In addition, production and scale-up of manufacturing for new products may require the development and implementation of new manufacturing technologies and expertise. Manufacturing and quality control problems may arise as the Company attempts to scale-up manufacturing and such scale-up may not be achieved in a timely manner or at commercially reasonable cost, or at all.

*Rapidly changing technology*

The *in vitro* diagnostic testing field as a whole is characterized by rapidly advancing technology that could render MedMira's products obsolete at any time and thereby adversely affect the financial condition and future prospects of the Company.

*Uncertainties regarding healthcare reimbursement and reform*

The future revenues and profitability of diagnostic companies as well as the availability of capital may be affected by the continuing efforts of government and third party payers to contain or reduce costs of healthcare through various means. For example, in certain foreign markets, pricing or profitability is subject to government control. In the US, there has been, and the Company expects that there will continue to be, a number of federal and state proposals to implement similar government controls. While the Company cannot predict whether any such legislative or regulatory proposals will be adopted, the announcement or adoption of such proposals could have a material adverse effect on the Company's results of operations.

*Product liability*

MedMira may be subject to claims of personal injury and could become liable to clinical laboratories, hospitals and patients for injuries resulting from the use of its products. MedMira could suffer financial loss due to defects in its products and such financial loss together with litigation expenses could have a material adverse effect on its operations. MedMira has obtained product liability insurance to protect against possible losses of this nature. However, no assurance can be given that such insurance will be adequate to cover all claims or that MedMira will be able to maintain such insurance at a reasonable cost.

**Risks and uncertainties related to the Company's intellectual property**

*No assurance of patent protection*

MedMira has filed patent applications in the United States, Canada, China, and other foreign countries relating to various aspects of its rapid diagnostic platform, processes, reagents, and equipment. Although it is management's belief that the patents for which the Company applied may be issued, there can be no such assurance, nor can MedMira assure that competitors will not develop functionally similar or superior diagnostic testing devices. Moreover, there is a question as to the extent to which biotechnology discoveries and related products and processes can effectively be protected by patents. The law regarding the breadth or scope of biotechnology patents is new and evolving. No assurance can be given that, if a patent issued to MedMira is challenged, it will be held valid and enforceable or will be found to have a scope sufficiently broad to cover competitors' products or processes. The cost of enforcing MedMira's patent right, if any, in lawsuits that it may bring against infringers may be significant and could limit MedMira's operations.

*Possible patent infringement*

The extent to which biotechnology discoveries and related products and processes can be effectively protected by patents and be enforceable is uncertain and subject to interpretation by the courts. The technologies, products, and processes of MedMira may be subject to claims of infringement on the patents of others and, if such claims are successful, could result in the requirement to access such technology by license agreement. There can be no assurance that such licenses would be available on commercially acceptable terms. If MedMira is required to acquire rights to valid and enforceable patents but cannot do so at reasonable cost, MedMira's ability to manufacture or market its products would be materially adversely affected. The cost of MedMira's defence against infringement charges by other patent holders may be significant and could limit MedMira's operations.

# MedMira Inc.

Consolidated Financial Statements
July 31, 2014 and 2013

**November 28, 2014**

**Management's responsibility for financial reporting**

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

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

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the 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 are appointed by the shareholders to conduct an audit in accordance with Canadian generally accepted auditing standards and their report follows.

(signed) *Hermes Chan*

Chief Executive Officer

(signed) Markus Meile

Chief Financial Officer

Deloitte.

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**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of MedMira Inc.

We have audited the accompanying consolidated financial statements of MedMira Inc. (MedMira or the Company), which comprise the consolidated statements of financial position as at July 31, 2014 and July 31, 2013, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and 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 International Financial Reporting Standards, 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. as at July 31, 2014 and July 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of Matter**
Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that the Company incurred a net loss of $3,835,339, during the year ended July 31, 2014, and as of that date, the Company's current liabilities exceeded its current assets by $2,802,073 with an accumulated deficit of $74,795,741. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Chartered Accountants
November 28, 2014
Halifax, Nova Scotia, Canada

**Consolidated statements of financial position**
**As at July 31, 2014 and July 31, 2013**

*In Canadian dollars*

| | Notes | 31-Jul-14 $ | 31-Jul-13 $ |
|---|---|---|---|
| **Assets** | | | |
| *Current assets* | | | |
| Cash | | 162,458 | 20,942 |
| Trade and other receivables | | 778,345 | 320,253 |
| Prepaid expenses | | 48,270 | 70,103 |
| Current tax assets | | 193,000 | 205,489 |
| Inventories | 5 | 301,770 | 205,000 |
| Total current assets | | 1,483,843 | 821,787 |
| *Non-current assets* | | | |
| Property, plant and equipment | 6 | 358,082 | 345,056 |
| Intangible assets | 7 | 2 | 2 |
| Total non-current assets | | 358,084 | 345,058 |
| **Total assets** | | 1,841,927 | 1,166,845 |
| **Liabilities** | | | |
| *Current liabilities* | | | |
| Current portion of debt | 10 | 2,234,870 | 2,190,635 |
| Accounts payable and accrued liabilities | | 1,847,946 | 2,560,003 |
| Deferred revenue | | 203,100 | 103,322 |
| Total current liabilities | | 4,285,916 | 4,853,960 |
| *Non-current liabilities* | | | |
| Provision for royalty | 12 | 260,000 | 739,817 |
| Long term portion of debt | 10 | 3,986,078 | 4,683,668 |
| Total non-current liabilities | | 4,246,078 | 5,423,485 |
| **Total liabilities** | | 8,531,994 | 10,277,445 |
| **Equity** | | | |
| Share capital | 8 | 59,018,425 | 55,661,183 |
| Warrant reserve | 8 | 7,207,647 | 4,493,647 |
| Stock based compensation reserve | 8 | 1,283,832 | 1,099,202 |
| Equity reserve | | 595,770 | 595,770 |
| Accumulated deficit | | (74,795,741) | (70,960,402) |
| **Total shareholders' deficiency** | | (6,690,067) | (9,110,600) |
| **Total liabilities and equity** | | 1,841,927 | 1,166,845 |

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

**Approved on behalf of the Board of Directors**

(signed) *Hermes Chan*, Director

(signed) *Romano Robusto*, Director

**Consolidated statements of operations and comprehensive loss**
**For the years ended July 31, 2014 and July 31, 2013**

*In Canadian dollars*

| | Notes | 31-Jul-14 $ | 31-Jul-13 $ |
|---|---|---|---|
| ***Product*** | | | |
| Product sales | 4 | 843,568 | 829,438 |
| Royalties | 4 | 10,900 | 35,360 |
| Product cost of sales | 5 | (436,406) | (435,409) |
| **Gross margin on product** | | 418,062 | 429,389 |
| ***Services*** | | | |
| Service sales | 4 | 1,673,711 | 1,136,666 |
| Service cost of sales | 14 | (1,316,978) | (935,280) |
| **Gross margin on services** | | 356,733 | 201,386 |
| ***Operating expenses*** | | | |
| Research and development | 14 | (294,425) | (133,304) |
| Sales and marketing | | (1,086,328) | (262,271) |
| Other direct costs | | (609,513) | (299,209) |
| General and administrative | | (2,353,152) | (2,101,361) |
| **Total operating expenses** | | (4,343,418) | (2,796,145) |
| **Operating loss** | | (3,568,623) | (2,165,370) |
| ***Non-operating income (expenses)*** | | | |
| Financing (expense) income | 19 | (266,716) | 1,763,069 |
| **Net and comprehensive loss** | | (3,835,339) | (402,301) |
| Basic loss per share | 9 | (0.007) | (0.001) |
| Diluted loss per share | 9 | (0.007) | (0.001) |

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

## Consolidated statements of changes in equity

*In Canadian dollars*

| | Share capital | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common shares | Preferred shares | Warrant reserve | Stock based compensation reserve | Equity reserve | Accumulated deficit | Shareholders' deficiency |
| **Balance at July 31, 2012** | **55,658,683** | **2,500** | **4,493,647** | **1,099,202** | **595,770** | **(70,558,101)** | **(8,708,299)** |
| Net and comprehensive loss | - | - | - | - | - | (402,301) | (402,301) |
| **Balance at July 31, 2013** | **55,658,683** | **2,500** | **4,493,647** | **1,099,202** | **595,770** | **(70,960,402)** | **(9,110,600)** |
| Net and comprehensive loss | - | - | - | - | - | **(3,835,339)** | **(3,835,339)** |
| Issuance of common shares for cash | **3,097,536** | - | **2,479,113** | - | - | - | **5,576,649** |
| Issuance of common shares for debt | **293,464** | - | **234,887** | - | - | - | **528,351** |
| Share issuance costs | **(33,758)** | - | - | - | - | - | **(33,758)** |
| Issuance of stock options | - | - | - | **184,630** | - | - | **184,630** |
| **Balance at July 31, 2014** | **59,015,925** | **2,500** | **7,207,647** | **1,283,832** | **595,770** | **(74,795,741)** | **(6,690,067)** |

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

## Consolidated statements of cash flows
## For the years ended July 31, 2014 and July 31, 2013

*In Canadian dollars*

| | Notes | 31-Jul-14 $ | 31-Jul-13 $ |
|---|---|---|---|
| **Cash from operating activities** | | | |
| Cash receipts from customers | | 2,169,862 | 1,876,677 |
| Cash paid to suppliers and employees | | (6,707,398) | (3,964,514) |
| **Net cash from operating activities** | | (4,537,536) | (2,087,837) |
| | | | |
| **Cash from investing activities** | | | |
| Payment to acquire property, plant and equipment | 6 | (96,288) | (366,986) |
| **Net cash from investing activities** | | (96,288) | (366,986) |
| | | | |
| **Cash from financing activities** | | | |
| Cash proceeds from share issuance | | 5,542,891 | - |
| Cash proceeds from interest | | 14,175 | 4,991 |
| Cash proceeds from new debt | | 878,467 | 1,182,330 |
| Cash payment on existing debt | | (1,569,623) | (721,009) |
| Cash payment of interest | | (44,416) | (407,819) |
| **Net cash from financing activities** | | 4,821,494 | 58,493 |
| | | | |
| Net increase (decrease) in cash | | 187,671 | (2,396,330) |
| Cash at the beginning of the year | | 20,942 | 2,416,809 |
| Effects of exchange on the foreign currency cash balances | | (46,155) | 463 |
| **Cash at the end of the year** | | 162,458 | 20,942 |

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

## 1. Reporting entity

Nature of operations

MedMira Inc. (MedMira or the Company) is a biotechnology company headquartered in Canada. The address of the Company's registered office is 155 Chain Lake Drive, Suite 1, Halifax, Nova Scotia, B3S 1B3. OnSite Lab Holdings AG owns the majority of MedMira's shares and is the controlling shareholder. The consolidated financial statements of the Company as at and for the years ended July 31, 2014 and 2013, comprise the Company and its subsidiaries. MedMira, through its subsidiaries, is engaged in the business of research, development and manufacturing of rapid diagnostics and technologies. The Company invests in research in order to maintain and expand its position in the global diagnostics market. MedMira's research is focused on specific areas of the broader diagnostics market, namely the rapid, point-of-care, and *in vitro* sectors.

## 2. Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements were authorized for issue by the Board of Directors on November 28, 2014.

b. Going-concern

The accompanying consolidated financial statements have been prepared on the basis of IFRS applicable to a going-concern, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations. However, certain adverse conditions and events cast significant doubt upon the validity of this assumption.

The Company has incurred losses and negative cash flows from operations on a cumulative basis since inception. For the year ended July 31, 2014, the Company realized a net loss of approximately $3.8 million (July 31, 2013 – $0.4 million), consisting of a net loss from operations of approximately $3.6 million (July 31, 2013 – $2.2 million), and other non-operating losses of approximately $0.3 million (July 31, 2013 – profit of approximately $1.8 million). Negative cash flows from operations were approximately $4.5 million (July 31, 2013 – $2.1 million). As at July 31, 2014, the Company had an accumulated deficit of approximately $75 million (July 31, 2013 – $71.0 million) and a negative working capital position of $2.8 million (July 31, 2013 – $4.0 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 current portion of loans of approximately $2.2 million. These circumstances cast 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. Additional details on financing subsequent to July 31, 2014 are provided in note 20.

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 statement of financial position classifications that would be necessary were the going-concern assumption not appropriate. These adjustments could be material.

c. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

d. Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries. All financial information is presented in Canadian dollars unless explicitly stated.

e. Use of estimates and judgements

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

- Amounts recorded for depreciation, impairment and reversals of impairment of property, equipment and intangible assets 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 consolidated financial statements;
- Contingencies that are accrued when it is probable that a liability for past events exists and the liability can be reasonably estimated. In determining whether a liability exists, the Company is required to make judgements as to the probability of future events occurring;
- The allocation of proceeds between common shares and warrants, determined by valuation of warrants which includes assumptions regarding the volatility and risk free rate;
- The fair value calculation of promissory notes, convertible debt, and long-term debt, which includes assumptions of the market rate and expected cash flows;
- The royalty provision, which includes judgements about the expectation and timing of future sales, and estimates of discount rate, price and cost of production;
- The fair value calculation of stock-based compensation, including assumptions regarding the volatility and risk free rate;
- Determination of operating segments.
- The Company makes certain estimates and assumptions when calculating the fair values of stock options and warrants granted. The Company uses an option pricing model, which includes significant assumptions

In Canadian dollars

including estimate of expected volatility, expected life, expected dividend rate and expected risk-free rate of return. Changes in these assumptions may result in a material change to the expense recorded for the issuance of stock options and warrants.

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

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and to the Company's subsidiaries.

The Company and its significant subsidiaries are shown below.

| | Country of incorporation | Ownership interest | |
|---|---|---|---|
| | | % | % |
| | | **31-Jul-14** | **31-Jul-13** |
| MedMira Inc. | Canada | 100 | 100 |
| MedMira Laboratories Inc. | Canada | 100 | 100 |
| Maple Biosciences Inc. | Canada | 100 | 100 |
| MedMira International AG | Switzerland | 100 | - |

a. Basis of consolidation

*Subsidiaries*

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align with the policies adopted by the Company.

*Transactions eliminated on consolidation*

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

b. Foreign currency transactions

Transactions in foreign currencies are translated to Canadian dollars, the functional currency of the Company and its subsidiaries, at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the

beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in the foreign currency translated at the exchange rate at the end of the reporting period.

c. Financial instruments

*Financial assets*

The Company initially recognizes loans, receivables, and deposits on the date of origination. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies loans and receivables as non-derivative financial assets. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash is comprised of cash balances and bank overdrafts that are repayable on demand and form an integral part of the Company's cash management for the purpose of the statement of cash flows.

*Financial liabilities*

The Company initially recognizes debt securities issued and subordinated liabilities on the date of origination. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following other liabilities: long term debt, provision for royalty and accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

*Share capital*

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred shares

Preferred share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Preferred share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

*Stock purchase warrants*

The fair value of these warrants is determined at the time the services are received by the Company and the expense is recognized in the statement of operations and comprehensive loss. The fair value of the warrants is the fair value of the services received where this can be estimated reliably by comparable services by independent parties. In such circumstances where the fair value of the services received cannot be estimated reliably, the fair value is measured indirectly by reference to the fair value of the equity instrument granted, measured at the date the entity receives the relevant services. For warrants issued for cash or to settle debt, the Company determines the fair value of the warrants using the Black-Scholes option pricing model. All such warrants are classified in a warrant reserve within equity.

*d.* Property, plant and equipment

*Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes any expenditure that is directly attributable to the acquisition of the asset. Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

*Subsequent costs*

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

*Depreciation*

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future

economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

| | | |
|---|---|---|
| – | office equipment and furniture | 5 years |
| – | leasehold improvements | lower of 7 years and length of lease |
| – | manufacturing equipment | 5 years |
| – | laboratory equipment | 5 years |

Depreciation methods, useful lives, and residual values are reviewed at each financial year end and adjusted if appropriate.

e. Intangible assets

*Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. A development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after August 1, 2010. Any other development expenditure is recognized in profit or loss as incurred.

A capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

*Other intangible assets*

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

*Subsequent expenditure*

A subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. Any other expenditure, including an expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

*Amortization*

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Intellectual properties/product technology | 10 – 20 years |

f. Leased assets

Leases with terms in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the future minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Company's statement of financial position.

g. Inventories

Raw materials inventory consists of chemicals, plastic components and packaging materials. Work in process inventory (WIP) includes partially assembled tests, and any materials that have been modified, but not yet converted to finished products. Finished product inventory includes completed diagnostics tests in a state ready for sale. The Company does not carry inventory that would be considered long-term.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventory cost includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in process, cost includes an appropriate share of production overhead based on normal operating capacity.

h. Impairment

*Financial assets (including receivables)*

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as

a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

*Long-lived assets*

The carrying amounts of the Company's long-lived assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

i. Employee benefits

*Short-term employee benefits*

Short-term employee benefit obligations such as vacation and healthcare benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

*Share-based payment transactions*

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. Under the Company's current option plan, options vest at the date of issuance; therefore, the full value of options is recorded as an increase in equity at the date of issuance.

j. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

*Onerous contracts*

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

k. Revenue

*Goods sold*

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Down payments are recognized as deferred revenue until such time as the revenue associated with the sales order meets the criteria for revenue recognition. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of rapid diagnostics, transfer typically occurs when the product is shipped from the Company's warehouse; however, for some international shipments, transfer may occur when goods are received.

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit. If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item.

*Services*

The Company's service revenue consists primarily of research and development contracts with the US Military. Revenue from services rendered is recognized in profit or loss as allowable costs eligible for reimbursement are incurred, as this is the point at which revenue can be measured reliably, it is possible that the economic benefits associated with the transaction will flow to the Company and the cost incurred for the transaction can be measured reliably.

*Royalties and licence fees*

Revenue from royalties and licences is recognized when the terms of the royalty or licence agreement are met, payment is reasonably assured, and payment can be reliably measured. Licences subject to attaining milestones are recognized as milestones are reached. Non-refundable up-front license fees are recognized when no uncertainty about collection exists. It is recognized on a basis that reflects the timing, nature and value of the benefits provided.

*Deferred revenue*

All deferred revenue is classified as current and consists of customer advances for product that has not yet been shipped or the conditions required to account for payments as revenue have not yet been met.

l. Government grants

Government grants are recognized initially as deferred revenue at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognized in profit or loss as a reduction in expense on a systematic basis in the same periods in which the expenses are recognized.

The Company also receives government loans with below market interest rates. These loans are classified as government grants. The benefit from the grant is determined based on the difference between the amount received and the fair value of the loan and is recognized in profit or loss as a reduction in expense on a systematic basis in the same periods in which the expenses are recognized.

m. Finance income and finance costs

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

n. Deferred income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes 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. Deferred 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 deferred income tax assets and liabilities of a change in tax rates is recognized in operations in the year in which the change occurs. Deferred tax assets are recognized for the carry forward of unused tax losses to the extent that it is probably that future taxable profit will be available against which the unused tax losses can be utilized

o. Application of new and revised standards

The following standards are effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Corporation has adopted these standards as of August 1, 2013 and has determined that they do not have a material impact on the Company's financial results.

IFRS 10, "Consolidated Financial Statements": The IASB issued IFRS 10, "Consolidated Financial Statements", effective for annual periods beginning on or after January 1, 2013. IFRS 10 replaces portions of IAS 27, "Consolidated and Separate Financial Statements", that addresses consolidation, and supersedes Standing Interpretations Committee (SIC) SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of

determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended to reflect the issuance of IFRS 10 and retains guidance only for separate financial statements.

IFRS 11, "Joint Arrangements", effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interest in Joint Ventures and SIC-13, Jointly Controlled Entities - Non-monetary Contributions by Venturers.

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

IFRS 13, "Fair Value Measurement", effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, defines fair value, set out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value.

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

IAS 1, "Presentation of Financial Statements", has been amended effective for annual period beginning on or after July 1, 2012. The revised standards requires an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately.

p. New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, were not yet effective for the year ended July 31, 2014, and have not been applied in preparing these consolidated financial statements. None of these new standards or amendments is expected to have a significant effect on the financial results of the Company.

*Accounting standards issued but not yet applied:*

IFRS 9, "Financial Instruments": IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. The IASB has issued an amendment to IFRS 9 Financial Instruments ("IFRS 9"), which changes the effective date of IFRS 9 (2009) and IFRS 9 (2011), so that IFRS 9 is required to be applied for annual periods beginning on or after January 1, 2018, with early application permitted. This amendment was released in connection with IFRS 7 Financial Instruments:

In Canadian dollars

Disclosures – Transition Disclosures ("IFRS 7") which outlines that, with the amendments to IFRS 9, entities applying IFRS 9 do not need to restate prior periods but are required to apply modified disclosures. The Company continues to assess the impact of IFRS 9 on its consolidated financial statements.

In July 2014, the IASB issued a complete and final version of IFRS 9, which replaces the current standard on financial instruments. IFRS 9 sets out requirements for the classification and measurement of financial assets and financial liabilities, for the impairment of financial assets, and for general hedge accounting. IFRS 9 also introduces a new impairment model for financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses rather than incurred losses as applied under the current standard. The effective date for this standard is for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of IFRS 9 on its consolidated financial statements.

In May 2014, the IASB issued a new standard, IFRS 15, which replaces the current revenue recognition standards and interpretations. IFRS 15 provides a single comprehensive model to use when accounting for revenue arising from contracts with customers. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The new model applies to all contracts with customers except those that are within the scope of other IFRS standards such as leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements

IFRIC 21 was issued by the IASB in May 2013 and provides guidance on accounting for levies in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.The Company has not yet evaluated the impact of adoption of this standard on its consolidated financial statements.

## 4. Revenue

| | 31-Jul-14 | 31-Jul-13 |
|---|---|---|
| | $ | $ |
| Product sales | 843,568 | 829,438 |
| Royalties | 10,900 | 35,360 |
| Service revenue | 1,673,711 | 1,136,666 |
| **Total revenue** | 2,528,179 | 2,001,464 |

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

In Canadian dollars

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

| | 31-Jul-14<br>$ | 31-Jul-13<br>$ |
|---|---|---|
| North America | 2,206,708 | 1,655,557 |
| Latin America and the Caribbean | 142,225 | 92,274 |
| Europe | 19,045 | 10,039 |
| Asia Pacific | 160,201 | 240,617 |
| Middle East | - | 2,977 |
| **Total revenue** | 2,528,179 | 2,001,464 |

## 5. Inventories

As at July 31, 2014, there were no valuation allowances against inventory (July 31, 2013 – $nil).

During the year ended July 31, 2014, inventory valued at $328,003 was expensed as a cost of goods sold (July 31, 2013 – $338,594).

| | 31-Jul-14<br>$ | 31-Jul-13<br>$ |
|---|---|---|
| Raw materials and consumables | 248,584 | 133,034 |
| Work in process | 45,908 | 65,975 |
| Finished goods | 7,278 | 5,991 |
| **Total inventories** | 301,770 | 205,000 |

In Canadian dollars

## 6. Property, plant and equipment

During the years ended July 31, 2014 and 2013, the Company did not identify any indicators of impairment. The Company did not make any commitment to acquire property, plant and equipment during the year ended July 31, 2014 (July 31, 2013 – $nil).

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

| | Leasehold improvements $ | Laboratory equipment $ | Manufacturing equipment $ | Office equipment and furniture $ | Total $ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at July 31, 2012** | **561,076** | **23,931** | **174,394** | **186,402** | **945,803** |
| Additions | 259,195 | 15,755 | - | 92,040 | 366,990 |
| **Balance at July 31, 2013** | **820,271** | **39,686** | **174,394** | **278,442** | **1,312,793** |
| Additions | - | 11,275 | 34,185 | 63,673 | 109,133 |
| Disposals | (6,137) | - | - | **(8,215)** | (14,352) |
| **Balance at July 31, 2014** | **814,134** | **50,961** | **208,579** | **333,900** | **1,407,574** |
| **Accumulated depreciation and impairment losses** | | | | | |
| **Balance at July 31, 2012** | **558,275** | **23,931** | **170,529** | **174,190** | **926,925** |
| Depreciation expense for the year | 26,862 | 1,572 | 1,651 | 10,727 | 40,812 |
| **Balance at July 31, 2013** | **585,137** | **25,503** | **172,180** | **184,917** | **967,737** |
| Depreciation expense for the year | 52,657 | 3,735 | 4,859 | 25,078 | 86,329 |
| Disposals | (3,069) | - | - | (1,506) | (4,575) |
| **Balance at July 31, 2014** | **634,724** | **29,238** | **177,039** | **208,489** | **1,049,491** |
| **Carrying amounts** | | | | | |
| At July 31, 2012 | 2,801 | - | 3,865 | 12,212 | 18,878 |
| At July 31, 2013 | 235,134 | 14,182 | 2,214 | 93,525 | 345,056 |
| At July 31, 2014 | 179,409 | 21,722 | 31,540 | 125,411 | 358,083 |

In Canadian dollars

## 7. Intangible assets

| | Intellectual properties $ | Product technology $ | Total $ |
|---|---|---|---|
| **Cost or deemed cost** | | | |
| Balance at July 31, 2012 | 2,584,899 | 258,137 | 2,843,036 |
| Balance at July 31, 2013 | 2,584,899 | 258,137 | 2,843,036 |
| Balance at July 31, 2014 | 2,584,899 | 258,137 | 2,843,036 |
| **Accumulated amortization and accumulated impairment losses** | | | |
| Balance at July 31, 2012 | 2,584,898 | 258,136 | 2,843,034 |
| Balance at July 31, 2013 | 2,584,898 | 258,136 | 2,843,034 |
| Balance at July 31, 2014 | 2,584,898 | 258,136 | 2,843,034 |
| **Carrying amounts** | | | |
| At July 31, 2012 | 1 | 1 | 2 |
| At July 31, 2013 | 1 | 1 | 2 |
| At July 31, 2014 | 1 | 1 | 2 |

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

During 2006, the Company acquired intellectual properties, in the form of patents and technology with a value of $2,102,569 related to the acquisition of Maple Biosciences Inc. and the BAG-1 technology. During 2008, management reduced its research and development efforts related to these intangible assets and recorded an impairment charge to write-down these assets to a nominal value. Accumulated impairment charges at July 31, 2014 total $1,693,046 (July 31, 2013 – $1,693,046). There is no indication that this impairment has reversed.

## 8. Capital and other components of equity

a. Authorized

The Company is authorized to issue an unlimited number of Series A preferred shares, non-voting, non-participating, redeemable at the Company's option 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.

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value.

In Canadian dollars

b. Share capital issued

| | Number of | | Value of | | |
|---|---|---|---|---|---|
| | Common shares | Preferred shares | Common shares $ | Preferred shares $ | Total share capital $ |
| **Balance at July 31, 2012** | **392,264,320** | **5,000,000** | **55,658,683** | **2,500** | **55,661,183** |
| **Balance at July 31, 2013** | **392,264,320** | **5,000,000** | **55,658,683** | **2,500** | **55,661,183** |
| Issued for cash | **111,532,973** | - | **3,097,536** | - | **3,097,536** |
| Issue to repay debt | **10,567,027** | - | **293,464** | - | **293,464** |
| Share issuance costs | - | - | **(33,758)** | - | **(33,758)** |
| **Balance at July 31, 2014** | **514,364,320** | **5,000,000** | **59,015,925** | **2,500** | **59,018,425** |

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

The Series A preferred shares had a stated capital of $2,500 at July 31, 2014 (July 31, 2013 – $2,500).

In Canadian dollars

c. Warrants

| | Number of warrants | Warrant reserve $ |
|---|---|---|
| **Balance at July 31, 2012** | **236,119,500** | **4,493,647** |
| Expired warrants | (40,000,000) | - |
| **Balance at July 31, 2013** | **196,119,500** | **4,493,647** |
| Issued for cash | 111,532,973 | 2,479,113 |
| Issued to repay debt | 10,567,027 | 234,887 |
| Expired warrants | (6,119,500) | - |
| **Balance at July 31, 2014** | **312,100,000** | **7,207,647** |

The total warrants outstanding at July 31, 2014 are shown below.

| Issued | Number | Exercise price $ | Expiry date |
|---|---|---|---|
| December 8, 2010 | 20,000,000 | 0.10 | December 8, 2014 |
| July 18, 2011 | 30,000,000 | 0.10 | July 18, 2015 |
| January 31, 2012 | 20,000,000 | 0.10 | January 31, 2016 |
| June 11, 2012 | 120,000,000 | 0.10 | June 11, 2016 |
| September 30, 2013 | 122,100,000 | 0.10 | September 30, 2017 |
| | 312,100,000 | | |

d. Stock based compensation

The Company has established a stock option plan for its employees, officers, and directors. All options vest immediately upon issue and the Company is authorized to issue a maximum of 13,000,000 options annually upon approval by shareholders. Options that have been issued and remain outstanding are exercisable into an equivalent of 5,990,000 common shares (July 31, 2013 – 4,530,000) at an exercise price of $0.10. The options expire between October 13, 2014 and March 2, 2017. During the year ended July 31, 2014, 2,850,000 options were issued (July 31, 2013 – nil). All options outstanding at July 31, 2014 were exercisable.

The total options outstanding from July 31, 2012 to July 31, 2014 are shown below.

| | Number | Weighted average exercise price $ | Equity reserve $ |
|---|---|---|---|
| Options outstanding July 31, 2012 | 5,840,000 | 0.12 | 1,099,202 |
| Options expired/forfeited | (1,310,000) | 0.34 | - |
| Options outstanding July 31, 2013 | 4,530,000 | 0.100 | 1,099,202 |
| Options issued | 2,850,000 | 0.100 | 184,630 |
| Options expired/forfeited | (1,390,000) | 0.100 | - |
| Options outstanding July 31, 2014 | 5,990,000 | 0.100 | 1,283,832 |

In Canadian dollars

Fair value of share options granted in the year

Options were priced using the Black Scholes option pricing model using the following assumptions:

| | Series 1 | Series 2 |
|---|---|---|
| Grant date share price | $0.095 | $0.095 |
| Exercise price | $0.10 | $0.10 |
| Expected volatility (based on historical volatility over the past three years) | 127% | 127% |
| Option life | 2 years | 3 years |
| Dividend yield | $0.00 | $0.00 |
| Risk-free interest rate | 2% | 2% |

The weighted average fair value of the options granted during the year ended July 31, 2014 was $0.07 (2013 – nil). The amount of compensation cost recognized in the statement of operations and comprehensive loss was $35,982.

The following table summarizes information about options outstanding and exercisable at July 31, 2014.

| Range of exercise prices | Number outstanding and exercisable | Weighted average exercise price per share | Weighted average remaining contractual life (years) |
|---|---|---|---|
| 0.10 | 5,990,000 | 0.10 | 0.99 |

## 9. Loss per share

| | 31-Jul-14 $ | 31-Jul-13 $ |
|---|---|---|
| Net loss attributable to common shareholders | (3,835,339) | (402,301) |
| **Diluted loss** | **(3,835,339)** | **(402,301)** |
| **Issued common shares** | 514,364,320 | 392,264,320 |
| Weighted average number of common shares | 514,364,320 | 392,264,320 |
| Weighted average number of warrants | - | - |
| Weighted average number of options | - | - |
| **Weighted average number of diluted shares** | **514,364,320** | **392,264,320** |
| Basic loss per share | (0.007) | (0.001) |
| Diluted loss per share | (0.007) | (0.001) |

The diluted weighted average number of common shares outstanding is the same as the basic weighted average number of common shares outstanding for the year ended July 31, 2014, as the Company had a net loss and the exercise of potentially dilutive instruments would be anti-dilutive.

In Canadian dollars

## 10. Loans and borrowings

a. Loans

| | 31-Jul-14 | | 31-Jul-13 | |
|---|---|---|---|---|
| | Carrying value | Contract value | Carrying value | Contract value |
| | $ | $ | $ | $ |
| Short term loans | 605,469 | 605,470 | 714,191 | 714,191 |
| Loan 1 | 1,054,167 | 1,054,167 | 919,380 | 1,150,000 |
| Loan 2 | 1,110,034 | 1,300,000 | 1,223,342 | 1,500,000 |
| Loan 3 | 23,660 | 26,000 | 33,201 | 39,000 |
| Loan 4 | - | - | 5,758 | 5,136 |
| ACOA loans | 924,712 | 1,163,191 | 1,081,163 | 1,453,999 |
| Nova Scotia government loan 1 | 2,441,946 | 3,016,000 | 2,843,099 | 3,480,000 |
| Nova Scotia government loan 2 | 60,960 | 97,390 | 54,169 | 97,390 |
| **Total loan principal** | **6,220,948** | **7,262,218** | **6,874,303** | **8,439,716** |
| | | | | |
| Long term portion of principal | 3,986,078 | | 4,683,668 | |
| Current portion payable of principal | 2,234,870 | | 2,190,635 | |

The required annual principal repayments on loans and borrowings are as follows:

| | |
|---|---|
| 2015 | $2,234,870 |
| 2016 | 1,621,600 |
| 2017 | 1,655,600 |
| 2018 | 1,750,147 |
| Less: unamortized imputed interest | (1,041,269) |
| Carrying value | $6,220,948 |

*Short term loans*

The Company has a two short terms loans with related parties. These loans are utilised by the Company for short term working capital requirements. Loans are payable on demand with interest rates ranging from 3% to 5%. The loans were not in default at July 31, 2014.

*Loan 1*

Loan established October 31, 2012, bearing 5% interest with monthly interest only payments until November 30, 2013, followed by monthly principal payments and accrued interest for five additional years ending November 30, 2018. The loan is secured by interest on intellectual property and on the step-up technology. The loan was in default as of July 31, 2014 and thus has been classified as a current liability.

*Loan 2*

Loan established July 31, 2012, bearing 5% interest with monthly interest only payments until July 31, 2013, followed by equal monthly principal payments for five additional years ending July 31, 2018. The loan was not in default at July 31, 2014.

*Loan 3*

Loan established July 31, 2012, bearing 5% interest with monthly principal payments of $1,000, in addition to accrued monthly interest ending September 30, 2016. The loan was not in default at July 31, 2014.

*Loan 4*

Loan established August 24, 2011, bearing no interest payable in equal monthly payments of US$5,000. The loan was fully repaid in 2014.

*Atlantic Canada Opportunities Agency (ACOA) loans*

Loans were renegotiated October 30, 2012, bearing no interest with monthly principal payments of $3,747 until July 31, 2013, followed by equal monthly principal payments of $24,234 for five additional years ending July 31, 2018. The loan was renegotiated in July 2014, bearing no interest with a monthly principal payment of $24,234 in August 2014 followed by 40 monthly payments of $27,800 starting on February 1, 2015 and one monthly payment of $26,975 at the end of the loan. The loan is secured by all present and after acquired personal property, excepting consumer goods. The loan was not in default at July 31, 2014.

*Nova Scotia government loan 1*

The loan was renegotiated September 14, 2012, bearing 3% interest with monthly interest only payments until July 31, 2013, followed by equal monthly principal payments for five additional years ending July 31, 2018. The loan was renegotiated in July 2014 to be repaid in 1 monthly payment of $41,000 on September 1, 2015 and 25 monthly payments of $85,000 commencing on October 1, 2015. The loan is secured by first interest on intellectual property and on the Maple Bio sensor technology. The loan was not in default at July 31, 2014.

*Nova Scotia government loan 2*

Loan established September 14, 2012, bearing no interest with the balance due by August 31, 2018. The loan is secured by first interest on intellectual property and on the Maple Bio sensor technology. The loan was not in default at July 31, 2014.

b. Renegotiation of debt

During the year ended July 31, 2013, management renegotiated some of the outstanding loans which resulted in substantially different terms from the original agreements. These were treated as an extinguishment of the original liability and the recognition of a new liability. These debt arrangements were valued using a rate of approximately 11.8%, representing a reasonable exit price for the liabilities. This resulted in a gain on renegotiated debt of $2,027,442.

In Canadian dollars

## 11. Capital management and financial risks

a. Capital management

The Company's objectives when managing capital are to provide an adequate return to shareholders, safeguard its assets, maintain a competitive cost structure and continue as a going-concern in order to pursue the development and sale of its products. To maximize ongoing development and growth effort, the Company did not pay out dividends during the year ended July 31, 2014 (July 31, 2013 – $nil). The Company is not anticipating paying out dividends during the year ended July 31, 2015.

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

| | 31-Jul-14 | 31-Jul-13 |
|---|---|---|
| | $ | $ |
| Total debt | 6,220,948 | 6,874,303 |
| Less: Cash | (162,458) | (20,942) |
| **Net debt** | **6,058,490** | **6,853,361** |
| Shareholders' deficiency | (6,690,067) | (9,110,600) |
| **Total capital** | **(631,577)** | **(2,257,239)** |

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

b. Categories of financial instruments and fair value

| | 31-Jul-14 | | 31-Jul-13 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| | $ | $ | $ | $ |
| **Financial assets** | | | | |
| *Amortized cost* | | | | |
| Cash | 162,458 | 162,458 | 20,942 | 20,942 |
| Trade and other receivables | 778,345 | 778,345 | 320,253 | 320,253 |
| **Financial liabilities** | | | | |
| *Amortized cost* | | | | |
| Accounts payable and accrued liabilities | 1,847,946 | 1,847,946 | 2,560,003 | 2,560,003 |
| Current portion of debt | 2,234,870 | 2,234,870 | 2,190,635 | 2,190,635 |
| Long term portion of debt | 3,986,078 | 3,986,078 | 4,683,668 | 4,683,668 |

In Canadian dollars

c. Foreign currency risk

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

| | 31-Jul-14<br>US$ | 31-Jul-13<br>US$ |
|---|---|---|
| Cash | 20,840 | 1,239 |
| Trade and other receivables | 462,009 | 315,347 |
| Prepaid expense | 3,450 | 22,257 |
| Accounts payable and accrued liabilities | 584,333 | 161,066 |
| Debt | - | 5,000 |

A one cent change in the US dollar exchange rate would result in approximately a $2,900 (2013 – $1,000) impact on the statement of financial position and consolidated statement of operations.

d. Interest rate risk

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

e. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company mitigates this risk by requiring a 50% down payment on most orders at the time of purchase, and the remaining 50% prior to shipment. The receivables balance of $778,345 consists of trade receivables from sale of the Company's products and receivables on research initiatives. Historically, there have been few collection issues and the Company does not believe it is subject to any significant concentration of credit risk.

f. Liquidity risk

Liquidity risk represents the possibility that the Company may not be able to gather sufficient cash resources, when required and under reasonable conditions, to meet its financial obligations. As at July 31, 2014, the Company does not have sufficient cash to meet all of its continuing liabilities.

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

In Canadian dollars

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

| For the year ended July 31, 2014 | Total | Less than 1 year | 1 to 3 years | 4 to 5 years | After 5 years |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Loans | 7,262,218 | 2,234,870 | 5,027,348 | | - |
| Accounts payable and accrued liabilities | 1,847,946 | 1,847,946 | - | - | - |
| **Total debt** | **9,110,164** | **4,082,816** | **5,027,348** | **-** | **-** |

| For the year ended July 31, 2013 | Total | Less than 1 year | 1 to 3 years | 4 to 5 years | After 5 years |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Loans | 8,439,716 | 2,190,635 | 3,057,616 | 3,133,966 | 57,499 |
| Accounts payable and accrued liabilities | 2,560,003 | 2,560,003 | - | - | - |
| **Total debt** | **10,999,719** | **4,750,638** | **3,057,616** | **3,133,966** | **57,499** |

The payments noted above do not include interest payments.

g. Fair value of financial instruments

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

## 12. Royalty provision

The Company entered into a promissory note with a significant shareholder on January 10, 2011 in the amount of $260,000, which stipulated that if the debt was not repaid by January 31, 2011, that the Company would be obligated to pay a 15% royalty on all future US sales of the Hepatitis B- Anti-Core test product (the "Royalty Provision"). Management's best estimate of the Royalty Provision was determined using certain assumptions including: the likelihood and timing of completion of the research and development of the product, the likelihood of obtaining regulatory approval, the demand for the product at the time of completion, the price the Company will be able to sell the product for, and the cost of manufacturing the product.

In 2013, Management estimated its Royalty Provision to be $739,817 based on a five year projected cash flow of future sales for the period 2014 to 2018 which assumed that there would be a viable working product in late 2013. Due to delays in the registration and trial processes experienced in fiscal 2014 the sales did not materialize as expected, impacting the Company's investment in the project and timeline. Given the uncertainties surrounding the future cash flows associated with Hepatitis B- Anti-Core test, Management has adjusted their best estimate of the Royalty Provision to the original contractual value of the promissory note of $260,000.

In Canadian dollars

| | Provision for Royalty $ |
|---|---|
| **Balance at July 31, 2012** | **401,443** |
| Fair value remeasurment | 245,458 |
| Accretion | 92,916 |
| **Balance at July 31, 2013** | **739,817** |
| Adjustment | (479,817) |
| **Balance at July 31, 2014** | **260,000** |

## 13. Related parties

The following transactions occurred with related parties during the year ended July 31, 2014:

- A short term loan totalling $478,920 bearing 5% interest was received from Onsite Lab Holding AG. During the year $1,998 in interest was accrued against this loan (2013 - $523,000 and $3,460 in interest).
- Short term loans totalling $119,730 bearing 5% interest were received from a director. During the year, $5,892 in interest was accrued against these loans (2013 - $106,973 and $805 in interest).
- Director fees totalling $24,367 were incurred (2013 - $16,250).
- Consulting fees totalling $26,138 were incurred (2013 - $82,233).

The following balances with related parties were outstanding at July 31, 2014:

- Accounts payable totalling $8,292 was due to directors (2013 – $37,244).
- A short term loan totalling $480,918 was due to OnSite Lab Holding AG (2013 – $526,460).
- A short term loan totalling $125,622 was due to a director (2013 – $107,778).
- A royalty provision was owed to OnSite Lab Holding AG of $260,000 (2013 – $739,817).

The remuneration of directors and other members of key management personnel during the year is shown below.

| | 31-Jul-14 $ | 31-Jul-13 $ |
|---|---|---|
| Short-term benefits including salary | 234,475 | 331,838 |
| Share-based payments | 36,892 | - |
| **Total remuneration** | **271,367** | **331,838** |

## 14. Research and development

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

In addition to grants, the Company receives revenue related to a contract with the US Army. Research expenses related to the US Army contract are recognized in service cost of sales when the revenue is earned. During the year ended July 31, 2014, $1,316,978 of the research costs incurred were recognized in service cost of sales (July 31, 2013 – $935,280).

In Canadian dollars

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

| | 31-Jul-14<br>$ | 31-Jul-13<br>$ |
|---|---|---|
| Research and development expenses | 1,910,445 | 1,211,546 |
| Less: research and development expenses allocated to cost of sales | 1,316,978 | 935,280 |
| Less: reimbursed research and development expenses | 299,042 | 142,962 |
| **Net research and development expense** | **294,425** | **133,304** |

## 15. Income taxes

a. Reconciliation of total tax expense

The effective rate on the Company's loss before income tax differs from the expected amount that would arise using the combined statutory income tax rates. A reconciliation of the difference is shown below.

| | 31-Jul-14<br>$ | 31-Jul-13<br>$ |
|---|---|---|
| Loss before income tax | (3,835,339) | (402,301) |
| Income tax rate | 31.0% | 31.0% |
| Income tax recovery at the combined statutory income tax rate | (1,188,955) | (124,713) |
| Non-taxable portion of other (gains) and losses | - | (855,170) |
| Non-deduction expense accretion | 97,789 | - |
| Non-deductible stock-based compensation | 11,154 | 13,132 |
| Non-deductible interest | 14,196 | 302,518 |
| Non-recognition of deferred tax assets due to unused tax losses and deductible temporary differences | 635,900 | 351,806 |
| Excess amortization over capital cost allowance | 26,762 | 12,651 |
| Scientific research and development expenditures | 310,835 | 266,224 |
| Other | 42,739 | 33,552 |
| **Income tax recovery** | **(49,580)** | **-** |

In Canadian dollars

b. Unrecognized deductible temporary differences, unused tax losses and unused tax credits

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are listed below.

| | 31-Jul-14<br>$ | 31-Jul-13<br>$ |
|---|---|---|
| Non-capital losses | 30,564,742 | 27,021,708 |
| Scientific research and development costs | 5,477,784 | 4,737,969 |
| Investment tax credits | 1,687,524 | 1,496,588 |
| Share issuance costs | 26,400 | 48,455 |
| Variable liability | 260,000 | 479,817 |
| Unrealized foreign exchange | 18,925 | - |
| Cumulative eligible capital | 281,645 | 281,645 |
| Property and equipment | 1,988,015 | 1,901,686 |
| **Total** | **40,305,034** | **35,967,868** |

The Company has available $30,564,742 in non-capital losses that can be used to reduce taxable income and that expire between the years ended July 31, 2015 and July 31, 2034. The Company also has available $1,687,524 in investment tax credits that can be used to reduce taxes payable and that expire between the years ended July 31, 2019 and July 31, 2034.

At July 31, 2014, the Company has no unrecognized deferred tax liability (July 31, 2013 – $nil) for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries.

In Canadian dollars

## 16. Expenses by nature

The following table provides the Company's expenses listed by the nature of the expense.

| | 31-Jul-14<br>$ | 31-Jul-13<br>$ |
|---|---|---|
| Investment income | 14,175 | 4,991 |
| Change in inventory | (211,054) | (285,376) |
| Employee benefits | (2,530,415) | (1,802,091) |
| Depreciation | (83,262) | (40,809) |
| Distribution | (98,688) | (59,090) |
| Facility | (464,893) | (430,298) |
| Professional services | (845,862) | (327,930) |
| Lab supplies | (250,391) | (431,272) |
| Other expenses | (1,529,546) | (617,449) |
| Exchange gains (losses) | (82,691) | 47,832 |
| Finance costs | (760,708) | (959,945) |
| Gain on settlement of debt | - | 715,689 |
| Gain on fair value of debt | - | 2,027,442 |
| Gain/loss of royalty provision | 479,817 | (245,458) |
| | **(6,363,518)** | **(2,403,764)** |

## 17. Operating segments

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

## 18. Lease commitment

The Company has a ten year lease commitment for it office location at 155 Chain Lake Drive in Halifax, Nova Scotia. The commitment for the next five years, including an estimate of operational costs based on current operational costs is provided in the table below.

| | Lease commitment<br>$ |
|---|---|
| For the year ending July 31, 2015 | 236,422 |
| For the year ending July 31, 2016 | 236,422 |
| For the year ending July 31, 2017 | 247,516 |
| For the year ending July 31, 2018 | 248,524 |
| For the year ending July 31, 2019 | 248,524 |
| Thereafter | 1,063,216 |

In Canadian dollars

## 19. Financing

A breakdown of the income (expenses) allocated to the financing line on the consolidated statements of operations and comprehensive income is provided in the table below.

| | 31-Jul-14 | 31-Jul-13 |
|---|---|---|
| | $ | $ |
| Investment Income | 14,175 | 4,991 |
| Finance costs | (760,708) | (739,595) |
| Gain on settlement of debt | - | 715,689 |
| Gain/(loss) on fair value remeasurement of debt | - | 2,027,442 |
| Gain/(loss) on remeasurement of royalty provision | 479,817 | (245,458) |
| **Total financing income (expense)** | **(266,716)** | **1,763,069** |

## 20. Subsequent events

In September 2014, the Company completed a $1.1 million equity investment with a new arm's length investor. Under the terms of the deal, the new investor acquired 22,000,000 equity units at $0.05 per unit. Each equity unit consists of one common share and one common share purchase warrant. Each full warrant entitles the investor to purchase one common share of MedMira at $0.10 per share for a four year period. The common shares and the warrants are subject to a four month hold period that expires four months from the day of share issuance.

# Investor Information

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Shares of MedMira Inc. trade on the TSX Venture Exchange
Stock Symbol: MIR
On NASDAQ, MedMira Inc. information can be found under the symbol:
MMIRF in the "Other OTC" category.

*Annual General Meeting*

MedMira Global Headquarters
Suite 1, 155 Chain Lake Drive
Halifax, Nova Scotia, B3S 1B3

10 am, Friday, January 30, 2015

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Mr. Markus Meile, Chief Financial Officer
Mr. Sing Chan, Chief Operating Officer
Ms. Robyn Cook, Chief Corporate Officer

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Mr. Hermes Chan
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