# MedMira Inc.

Condensed Interim Consolidated Financial Statements
For the three and six months ended January 31, 2016 and January 31, 2015
(Unaudited – Prepared by Management)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ending January 31, 2016

March 24, 2016

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

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

(signed) *Hermes Chan*

Chief Executive Officer

(signed) *Markus Meile*

Chief Financial Officer

## Unaudited consolidated statements of financial position
## As at January 31, 2016 and July 31, 2015

*In Canadian dollars*

| | *Notes* | 31-Jan-16<br>$ | 31-Jul-15<br>$ |
|---|---|---|---|
| **Assets** | | | |
| *Current assets* | | | |
| Cash | | 1,632,848 | 262,392 |
| Trade and other receivables | | 1,419,906 | 769,698 |
| Prepaid expenses | | 124,926 | 38,627 |
| Current tax assets | | 149,000 | 149,000 |
| Inventories | 4 | 321,095 | 299,928 |
| Total current assets | | 3,647,775 | 1,519,645 |
| *Non-current assets* | | | |
| Property, plant and equipment | | 241,914 | 264,005 |
| Intangible assets | | 2 | 2 |
| Total non-current assets | | 241,916 | 264,007 |
| **Total assets** | | 3,889,691 | 1,783,652 |
| **Liabilities** | | | |
| *Current liabilities* | | | |
| Current portion of debt | 7 | 2,656,959 | 4,720,878 |
| Accounts payable and accrued liabilities | | 2,047,855 | 2,265,005 |
| Deferred revenue | | 18,177 | 7,311 |
| Total current liabilities | | 4,722,991 | 6,993,194 |
| *Non-current liabilities* | | | |
| Provision for royalty | | 260,000 | 260,000 |
| Long term portion of debt | 7 | 3,492,613 | 2,234,825 |
| Total non-current liabilities | | 3,752,613 | 2,494,825 |
| **Total liabilities** | | 8,475,604 | 9,488,019 |
| **Equity** | | | |
| Share capital | 5 | 63,421,802 | 60,211,178 |
| Warrant reserve | 5 | 9,966,770 | 8,202,394 |
| Stock based compensation reserve | 5 | 1,337,206 | 1,311,597 |
| Equity reserve | | 595,770 | 595,770 |
| Accumulated deficit | | (79,907,461) | (78,025,306) |
| **Total shareholders' deficiency** | | (4,585,913) | (7,704,367) |
| **Total liabilities and equity** | | 3,889,691 | 1,783,652 |

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

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

(signed) *Hermes Chan*, Director

(signed) *Romano Robusto*, Director

**Unaudited consolidated statements of operations and comprehensive (loss) income**
**For the six months ended January 31, 2016 and January 31, 2015**

*In Canadian dollars*

| | Notes | for the three months ended 31-Jan-16 | 31-Jan-15 | for the six months ended 31-Jan-16 | 31-Jan-15 |
|---|---|---|---|---|---|
| | | $ | $ | $ | |
| ***Product*** | | | | | |
| Product sales | 3 | 190,118 | 438,063 | 508,970 | 673,822 |
| Royalties | 3 | - | | - | (3,387) |
| Product cost of sales | | (70,503) | (169,325) | (145,628) | (292,419) |
| **Gross margin on product** | | 119,615 | 268,738 | 363,342 | 378,016 |
| ***Services*** | | | | | |
| Service sales | 3 | 1,180,037 | 284,439 | 2,474,729 | 573,245 |
| Service cost of sales | | (1,063,632) | (233,517) | (2,016,265) | (437,751) |
| **Gross margin on services** | | 116,405 | 50,922 | 458,464 | 135,494 |
| ***Operating expenses*** | | | | | |
| Research and development | 10 | (164,282) | (411,493) | (744,413) | (671,937) |
| Sales and marketing | | (206,676) | (88,971) | (377,902) | (221,467) |
| Other direct costs | | (200,261) | (156,988) | (368,013) | (276,890) |
| General and administrative | | (480,237) | (603,174) | (856,849) | (1,029,260) |
| **Total operating expenses** | | (1,051,456) | (1,260,626) | (2,347,177) | (2,199,554) |
| **Operating loss** | | (815,436) | (940,966) | (1,525,371) | (1,686,044) |
| ***Non-operating income (expenses)*** | | | | | |
| Financing | | (166,303) | (95,747) | (356,784) | (393,168) |
| **Net (loss) income** | | (981,739) | (1,036,713) | (1,882,155) | (2,079,212) |
| Basic (loss) earnings per share | 6 | (0.001) | (0.002) | (0.002) | (0.004) |
| Diluted (loss) earnings per share | 6 | (0.001) | (0.002) | (0.002) | (0.004) |

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

## Unaudited consolidated statements of changes in equity attributable to equity holders of the Company

*In Canadian dollars*

| | | Share capital | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Notes* | Common shares | Preferred shares | Warrant reserve | Option reserve | Equity reserve | Accumulated deficit | Shareholders' deficiency |
| **Balance at July 31, 2014** | | **59,015,925** | **2,500** | **7,207,647** | **1,283,832** | **595,770** | **(74,795,741)** | **(6,690,067)** |
| Net and comprehensive income | | - | - | - | - | - | (2,079,212) | (2,079,212) |
| Issuance of common shares and warrants for cash | | 639,408 | - | 460,592 | - | - | - | 1,100,000 |
| Issuances of common shares and warrants for debt | | | - | | - | - | - | - |
| Share issuance costs | | (6,250) | - | - | - | - | - | (6,250) |
| **Balance at January 31, 2015** | | **59,649,083** | **2,500** | **7,668,239** | **1,283,832** | **595,770** | **(76,874,953)** | **(7,675,529)** |
| Net and comprehensive loss | | - | - | - | - | - | (1,150,353) | (1,150,353) |
| Issuance of common shares and warrants for cash | | 565,845 | - | 534,155 | - | - | - | 1,100,000 |
| Issuance of common shares and warrants for debt | | - | - | - | - | - | - | - |
| Share issuance costs | | (6,250) | - | - | - | - | - | (6,250) |
| Issuance of stock options | | - | - | - | 27,765 | - | - | 27,765 |
| **Balance at July 31, 2015** | | **60,208,678** | **2,500** | **8,202,394** | **1,311,597** | **595,770** | **(78,025,306)** | **(7,704,367)** |
| Net and comprehensive loss | | - | - | - | - | - | (1,882,155) | (1,882,155) |
| Issuance of common shares and warrants for cash | | 3,235,624 | - | 1,764,376 | - | - | - | 5,000,000 |
| Share issuance costs | | (25,000) | - | - | - | - | - | (25,000) |
| Issuance of stock options | | - | - | - | 25,609 | | | 25,609 |
| **Balance at January 31, 2016** | | 63,419,302 | 2,500 | 9,966,770 | 1,337,206 | 595,770 | (79,907,461) | (4,585,913) |

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

**Unaudited consolidated statements of cash flows**
**For the six months ended January 31, 2016 and January 31, 2015**
*In Canadian dollars*

| | 31-Jan-16 | 31-Jan-15 |
|---|---|---|
| | $ | $ |
| **Cash flow from operating activities** | | |
| Loss for the three month period | (1,882,155) | (2,079,212) |
| Adjustments for | | |
| Depreciation | 49,341 | 45,216 |
| Stock based compensation expense | 25,609 | |
| Accretion expense | 189,939 | 242,874 |
| | (1,617,266) | (1,791,122) |
| Movements in working capital: | | |
| (Increaese)/decrease in trade and other receivables | (650,208) | 577,253 |
| (Increase)/decrease in inventories | (21,167) | (53,070) |
| (Increase)/decrease in prepaids | (86,299) | (1,516) |
| (Increase)/decrease in trade and other payables | (217,150) | 21,658 |
| (Increase)/decrease in deferred revenue | 10,867 | (51,187) |
| Net cash generated by operating activities | (2,581,223) | (1,297,984) |
| **Cash flows from investing activities** | | |
| Payment to acquire property, plant and equipment | (27,250) | - |
| Net cash from investing activities | (27,250) | - |
| **Cash flow from financing activities** | | |
| Proceeds from the issuance of common shares | 5,000,000 | 1,100,000 |
| Payments for share issue costs | (25,000) | (6,250) |
| Proceeds from borrowings | 1,184,935 | 220,247 |
| Repayment of borrowing | (2,181,006) | (51,704) |
| Net cash from financing activities | 3,978,929 | 1,262,293 |
| Net increase in cash and cash equivalents | 1,370,456 | (35,691) |
| Cash and cash equivalents at the beginning of the period | 262,392 | 162,458 |
| Cash at the end of the period | 1,632,848 | 126,767 |

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

## 1. Reporting entity

Nature of operations

MedMira Inc. (MedMira or the Company) is a biotechnology company headquartered in Canada. The address of the Company's registered office is 155 Chain Lake Drive, Suite 1, Halifax, Nova Scotia, B3S 1B3. OnSite Lab Holdings AG (OnSite) owns the majority of MedMira's shares and is the controlling shareholder. 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. Significant accounting policies

a. Basis of presentation

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, using the same basis of measurement and presentation and the same accounting policies as described in notes 2 and 3 to the Company's audited consolidated financial statements as at and for the year ended July 31, 2015, except as noted below. The condensed interim consolidated financial statements should be read in conjunction with those audited consolidated financial statements.

The condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries which are shown below.

| | **Country of incorporation** | **Ownership interest** | |
|---|---|---|---|
| | | % | % |
| | | **January 31, 2016** | **July 31, 2015** |
| MedMira Inc. | Canada | 100 | 100 |
| MedMira Laboratories Inc. | Canada | 100 | 100 |
| Maple Biosciences Inc. | Canada | 100 | 100 |
| MedMira International AG | Switzerland | 100 | 100 |
| MedMira (US) Inc. | United States of America | 100 | 100 |

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

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on March 24, 2016.

b. Going-concern

The condensed interim consolidated financial statements have been prepared on a going-concern basis, 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 six months months ended January 31, 2016, the Company realized a net loss of approximately $1.9 million (January 31, 2015 – net loss of $2.1 million), consisting of a net loss from operations of $1.5 million (January 31, 2015 - net loss $1.7 million), and other non-operating expenses of $0.4 million (January 31, 2015 – loss of $0.4 million). Negative cash flows from operations were approximately $2.6 (January 31, 2015 – $1.3 million). As at January 31, 2016, the Company had an accumulated deficit of approximately $79.9 million (July 31, 2015 – $78.0 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 $2.7 million. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going-concern.

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

The Company is subject to risks associated with early stage companies, including but not limited to, dependence on key individuals, competition from substitute services and larger companies, and the requirement for the continued successful development and marketing of its products and services. The Company's ability to continue as a going-concern is dependent upon its ability to generate positive cash flow from operations and secure additional financing. These financial statements do not reflect the adjustments to carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going-concern assumption not appropriate. These adjustments could be material.

c. Future changes in accounting policies

The following standards and amendments to standards are effective for annual periods beginning on or after January 1, 2015 or later, with earlier adoption permitted.

*Disclosure Initiative (Amendments to IAS 1)* - On December 18, 2014, the IASB issued *Disclosure Initiative (Amendments to IAS 1*) as part of its major initiative to improve presentation and disclosure in financial reports. The amendments to IAS 1 relate to (i) materiality; (ii) order of the notes; (iii) subtotals; (iv) accounting policies; and (v) disaggregation and are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The standard is effective for annual periods beginning on or after January 1, 2016. Earlier adoption is permitted.

*IFRS 9 - Financial Instruments* - A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement has been issued and is effective for annual periods beginning on or after January 1, 2018. The standard contains requirements in the following areas: classification and measurement, impairment, hedge accounting and derecognition. This new standard supersedes all prior versions of IFRS 9.

*IFRS 11 - Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11). The standard is effective on or after January 1, 2016 and has been amended to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in *IFRS 3 Business Combinations*) to: apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11 and disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not re-measured).

In Canadian dollars

*IFRS 15 - Revenue from Contracts with Customers.* This standard is effective from fiscal years beginning on or after January 1, 2018 and provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. This standard has been tentatively deferred until January 1, 2018.

*IAS 16 - Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments to IAS 16). The amendments are effective for annual periods beginning January 1, 2016 and clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment.

The Company is currently evaluating the potential impact, if any, of these standards.

## 3. Revenue

| | for the three months ended | | for the six months ended | |
|---|---|---|---|---|
| | **31-Jan-16** | **31-Jan-15** | **31-Jan-16** | **31-Jan-15** |
| | | | $ | $ |
| Product sales | 190,118 | 438,063 | 508,970 | 673,822 |
| Service revenue | 1,180,037 | 284,439 | 2,474,729 | 573,245 |
| Royalties and licence | - | | - | (3,387) |
| **Total revenue** | 1,370,155 | 722,502 | 2,983,699 | 1,243,680 |

Service revenue is generated from research work on a contract with the U.S. military. The costs associated with research conducted to earn this revenue have been recognized as a service cost of sales.

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

| | for the three months ended | | for the three months ended | |
|---|---|---|---|---|
| | **31-Jan-16** | **31-Jan-15** | **31-Jan-16** | **31-Jan-15** |
| | | | $ | $ |
| North America | 1,300,918 | 468,730 | 2,828,733 | 908,397 |
| Latin America and the Caribbean | 58,332 | 81,052 | 123,611 | 129,848 |
| Asia Pacific | 6,125 | 159,022 | 9,786 | 191,737 |
| Europe | 4,780 | 2,500 | 21,569 | 2,500 |
| Middle East | - | 11,198 | | 11,198 |
| **Total revenue** | 1,370,155 | 722,502 | 2,983,699 | 1,243,680 |

In Canadian dollars

## 4. Inventories

As at January 31, 2016, there were no valuation allowances against inventory (July 31, 2015 – $nil).

During the six months ended January 31, 2016, inventory valued at $113,287 was expensed as a cost of goods sold (January 31, 2015 – $240,002).

| | 31-Jan-16 | 31-Jan-15 |
|---|---|---|
| | $ | $ |
| Raw materials and consumables | 241,352 | 306,358 |
| Work in process | 66,410 | 28,093 |
| Finished goods | 13,333 | 20,389 |
| **Total inventories** | 321,095 | 354,840 |

## 5. 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.

b. Share capital issued

| | Number of | | Value of | | |
|---|---|---|---|---|---|
| | Common shares | Preferred shares | Common shares | Preferred shares | Total share capital |
| | | | $ | $ | $ |
| **Balance at July 31, 2015** | **558,364,320** | **5,000,000** | **60,208,678** | **2,500** | **60,211,178** |
| Issued for cash | 100,000,000 | - | 3,235,624 | - | 3,235,624 |
| Share issuance costs | - | - | (25,000) | - | (25,000) |
| **Balance at January 31, 2016** | **658,364,320** | **5,000,000** | **63,419,302** | **2,500** | **63,421,802** |

The total common shares issued and outstanding include 4,064,464 common shares held in escrow scheduled to be released when the Company obtains positive operating cash flow. The Company closed a CAD $5.0 million equity investment with its controlling shareholder OnSite Lab. Under the terms of the deal, the investor acquired 100,000,000 equity units at $0.05 per unit that were issued for cash.

The Series A preferred shares had a stated capital of $2,500 at January 31, 2016 (July 31, 2015 – $2,500).

In Canadian dollars

c. Warrants

| | Number of warrants | Warrant reserve $ |
|---|---|---|
| **Balance at July 31, 2015** | **306,100,000** | **8,202,394** |
| Issued for cash | 100,000,000 | 1,764,376 |
| Expired | (20,000,000) | |
| **Balance at January 31, 2016** | **386,100,000** | **9,966,770** |

As part of the equity investment with OnSite Lab in September 2015, 100,000,000 warrants were issued in exchange for cash.

The total warrants outstanding at January 31, 2016, 2015 are shown below.

| Issued | Number | Exercise price $ | Expiry date |
|---|---|---|---|
| June 11, 2012 | 120,000,000 | 0.10 | June 11, 2016 |
| September 30, 2013 | 122,100,000 | 0.10 | September 30, 2017 |
| October 2, 2014 | 22,000,000 | 0.10 | October 2, 2018 |
| March 27, 2015 | 22,000,000 | 0.10 | March 27, 2019 |
| September 8, 2015 | 100,000,000 | 0.10 | September 8, 2019 |
| | 386,100,000 | | |

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 3,276,042 common shares (July 31, 2015 – 2,921,875) at an exercise price of $0.10. The options expire between March 2, 2016 and January 7, 2019. All options outstanding at January 31, 2016 were exercisable.

| | Number | Weighted average exercise price $ | Equity Reserve $ |
|---|---|---|---|
| **Options Outstanding July 31, 2015** | **2,921,875** | **0.10** | **1,311,597** |
| Options expired/forfeit | (425,000) | 0.10 | - |
| Options granted | 779,167 | 0.10 | 25,609 |
| **Options outstanding January 31, 2016** | 3,276,042 | | 1,337,206 |

In Canadian dollars

The following table summarizes information about options outstanding and exercisable at January 31, 2016.

| Range of exercise prices | Number outstanding and exercisable | Weighted average exercise price per share | Weighted average remaining contractual life (years) |
|---|---|---|---|
| 0.10 | 3,276,042 | 0.10 | 1.47 |

## 6. Earnings (loss) per share

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | 31-Jan-16 | 31-Jan-15 | 31-Jan-16 | 31-Jan-15 |
| | | | $ | $ |
| Net income (loss) attributable to common shareholders | (981,739) | (1,036,713) | (1,882,155) | (2,079,212) |
| Issued common shares | 658,364,320 | 536,364,320 | 658,364,320 | 536,364,320 |
| Weighted average number of common shares | 658,364,320 | 536,364,320 | 658,364,320 | 536,364,320 |
| Basic earnings (loss) per share | (0.001) | (0.002) | (0.002) | (0.004) |
| Diluted earnings (loss) per share | (0.001) | (0.002) | (0.002) | (0.004) |

Basic and diluted (loss) earnings per share are the same for the three months ended January 31, 2016 and January 31, 2015 as the exercise of potentially dilutive instruments would be anti-dilutive.

In Canadian dollars

## 7. Loans and borrowings

| | 31-Jan-16 | | 31-Jul-15 | |
|---|---|---|---|---|
| | Carrying value | Contract value | Carrying value | Contract value |
| | $ | $ | $ | $ |
| Short term loans | 241,671 | 241,671 | 1,045,111 | 1,045,111 |
| Loan 1 | 1,054,167 | 1,054,167 | 1,054,167 | 1,054,167 |
| Loan 2 | 1,300,000 | 1,300,000 | 1,300,000 | 1,300,000 |
| Loan 3 | 6,864 | 7,000 | 12,398 | 13,000 |
| Loan 4 | 50,521 | 50,521 | 78,291 | 78,291 |
| ACOA loans | 662,598 | 758,158 | 748,105 | 917,019 |
| Nova Scotia Government loan 1 | 2,761,082 | 3,016,000 | 2,649,096 | 3,016,000 |
| Nova Scotia Government loan 2 | 72,669 | 97,390 | 68,535 | 97,390 |
| **Total loan principal** | **6,149,572** | **6,524,907** | **6,955,703** | **7,520,978** |
| | | | | |
| Long term portion of principal | 3,492,613 | | 2,234,825 | |
| Current portion payable of principal | 2,656,959 | | 4,720,878 | |

*Short term loans*

The Company has one short term loans with related parties. The loan is utilised by the Company for short term working capital requirements, and is payable on demand with an interest rate of 5%. The loan was not in default as of January 31, 2016.

*Trade invoice financing facility*

During 2015, the Company enterd into a trade invoice financing facility whereby the Company may offer insured accounts receivable having payment terms not longer than 60 days in an aggregate amount not greater than USD $1,000,000 to the bank for purchase at a discount. As the Company has not transferred the significant risks and rewards relating to the receivables, it has not derecognized the accounts receivable and has recorded the facility in short term loans. As at January 31, 2016, there is no balance outstanding on the facility (July 31, 2015 - $287,543).

*Loan 1*

Loan established October 31, 2012, bearing 5% interest with monthly interest only payments until November 30, 2013, followed by equal 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 January 31, 2016 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. During the six months, the loan was renegotiated. Monthly interest payments are due until April 30, 2016, followed by equal monthly principal payments and accrued interest for four additional years ending July 31, 2020. The loan was not in default at January 31, 2016.

*Loan 3*

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

*Atlantic Canada Opportunities Agency (ACOA) loan*

Loan established October 31, 2012, bearing no interest with monthly principal repayments 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 payment of $27,800 starting on February 1, 2015 and one monthy 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 January 31, 2016.

*Nova Scotia Government loan 1*

Loan established September 14, 2012, bearing 3% interest with monthly interest only payments until September 30, 2013, followed by equal monthly principal payments for five additional years ending August 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. During the current fiscal year the loan was renegotiated. The current payment terms are thirteen monthly principal payments of $120,000 starting on September 1, 2016, followed by ten monthly principal payments of $135,000 starting on October 1, 2017 and one monthly principal payment of $106,000 on August 1, 2018. The new interest rate is the Province of Nova Scotia five year cost of funds, plus five hundred basis points. The company is also required to pay the Province 2% of combined gross revenue on an annual basis for any year the company exceeds $5.5 million in revenue. The loan was not in default at January 31, 2016.

*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 BioSciences Inc. sensor technology. The company is currently in the process of renegotiating the repayment terms. The loan was not in default at January 31, 2016.

## 8. Financial instruments

a. Foreign currency risk

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

In Canadian dollars

| | 31-Jan-16 | 31-Jul-15 |
|---|---|---|
| | US$ | US$ |
| Cash and cash equivalents | 155,084 | 123,380 |
| Trade and other receivables | 1,323,507 | 511,960 |
| Prepaid expense | 35,936 | 2,756 |
| Accounts payable and accrued liabilities | 874,893 | 848,602 |
| Deferred revenue | 12,910 | 196,458 |

A one cent change in the U.S. dollar exchange rate would result in approximately a $24,023 (July 31, 2015 – $16,862) impact on the balance sheet and consolidated statement of income.

b. 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 January 31, 2016, the Company does not have sufficient cash to meet all of its continual liabilities.

The Company also continues to have an ongoing need for substantial capital resources to research and develop, commercialize and manufacture its products and technologies. The Company is not yet generating a sufficient 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 guarantee that the Company will have sufficient capital to fund its ongoing operations, develop or commercialize its products without future financing.

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

| For the period ended January 31, 2016 | Total | Less than 1 year | 1 to 3 years | 4 to 5 years |
|---|---|---|---|---|
| | $ | | $ | $ |
| Loans | 6,149,572 | 2,656,959 | 3,192,613 | 300,000 |
| Accounts payable and accrued liabilities | 2,047,855 | 2,047,855 | - | - |
| **Total debt** | **8,197,427** | **4,704,814** | **3,192,613 #** | **300,000** |

| For the year ended July 31, 2015 | Total | Less than 1 year | 1 to 3 years | 4 to 5 years |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Loans | 6,955,703 | 4,720,878 | 2,234,825 | - |
| Accounts payable and accrued liabilities | 2,265,005 | 2,265,005 | - | - |
| **Total debt** | **9,220,708** | **6,985,883 #** | **2,234,825 #** | **-** |

The payments noted above do not include interest payments.

In Canadian dollars

## 9. Related parties

The following transactions were recorded with related parties during the six months ended January 31, 2016:

- A direct investment of $5,000,000 from OnSite Lab (July 31, 2015 - $1,100,000)
- Director fees totalling $5,000 were incurred (July 31, 2015 - $13,750)
- Short term loan totalling $350,000 bearing interest at 5% was repaid to Andurja (July 31, 2015 - $0)
- Short term loan totalling $180,000 bearing interest at 5% was repaid to OnSite Lab (July 31, 2015 - $0)
- Short term loan totalling $26,000 bearing interest at 5% was repaid to the Chief Operating Officer (July 31, 2015 - $0)
- Long term loan totalling $27,770 bearning interest at 5% was repaid to an employee (July 31, 2015 - $0)

The following balances with related parties were outstanding at January 31, 2016:

- A short term loan totalling $241,671 was due to the Chief Financial Officer (July 31, 2015 – $229,585).
- Accounts payable totalling $11,820 was due to an officer (July 31, 2015 - $193,629).
- Accounts payable totalling $5,000 was due to directors (July 31, 2015 - $10,543).
- A royalty provision was owed to OnSite of $260,000 (July 31, 2015 – $260,000).
- A long term loan totalling $50,583 was due to an employee (July 31, 2015 - $78,291).

## 10. 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 military. Research expenses related to the US military contract are recognized in service cost of sales when the revenue is earned. During the six months ended January 31, 2016, $2,016,265 of the research costs incurred were recognized in service cost of sales (January 31, 2015 – $233,517).

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

| | for the three months ended | | for the six months ended | |
|---|---|---|---|---|
| | **31-Jan-16** | **31-Jan-15** | **31-Jan-16** | **31-Jan-15** |
| | **$** | **$** | **$** | **$** |
| Research and development (R&D) expenses | 1,227,914 | 645,010 | 2,760,678 | 1,109,688 |
| Less: R&D allocated to cost of sales | 1,063,632 | 233,517 | 2,016,265 | 437,751 |
| **Net research and development expense** | **164,282** | **411,493** | **744,413** | **671,937** |

In Canadian dollars

**Expenses by nature**

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

| | for the three months ended | | for the six months ended | |
|---|---|---|---|---|
| | 31-Jan-16 | 31-Jan-15 | 31-Jan-16 | 31-Jan-15 |
| | $ | $ | $ | $ |
| Investment income | 245 | 167 | 366 | 136 |
| Change in inventory | (43,849) | (152,699) | (114,043) | (210,228) |
| Employee benefits | (624,143) | (521,375) | (1,163,329) | (1,113,225) |
| Depreciation | (25,044) | (22,476) | (49,341) | (45,216) |
| Distribution | (23,494) | (40,298) | (49,606) | (62,457) |
| Facility | (110,743) | (124,342) | (205,182) | (212,828) |
| Professional services | (1,074,882) | (384,385) | (2,251,309) | (459,112) |
| Lab supplies | (45,989) | (48,571) | (103,672) | (86,294) |
| Other expenses | (186,346) | (190,793) | (512,071) | (580,808) |
| Exchange gains (losses) | (51,101) | (167,895) | (60,517) | (159,558) |
| Finance costs | (166,548) | (106,548) | (357,150) | (393,302) |
| | **(2,351,894)** | **(1,759,215)** | **(4,865,854)** | **(3,322,892)** |