

# **Medwell Capital Corp.**

Interim Consolidated Financial Statements  
(Unaudited)  
**June 30, 2011**

**Medwell Capital Corp.**  
Interim Consolidated Balance Sheets  
(Unaudited)

(expressed in thousands of Canadian dollars)

	<b>June 30, 2011 \$ (Unaudited)</b>	<b>December 31, 2010 \$</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	17,237	24,959
Investments (note 4)	10,992	12,507
Short-term investments	2,167	2,552
Accounts receivable	316	377
Prepaid expenses and other current assets	390	255
	<u>31,102</u>	<u>40,650</u>
<b>Property and equipment</b>	<u>67</u>	<u>84</u>
	<u>31,169</u>	<u>40,734</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 5)	939	516
Liabilities of discontinued operation (note 6)	110	849
	<u>1,049</u>	<u>1,365</u>
<b>Share capital</b> (note 7)	175,714	175,714
<b>Contributed surplus</b>	12,638	12,319
<b>Accumulated deficit</b>	<u>(158,232)</u>	<u>(148,664)</u>
	<u>30,120</u>	<u>39,369</u>
	<u>31,169</u>	<u>40,734</u>

*(The accompanying notes are an integral part of these unaudited interim consolidated financial statements.)*

# Medwell Capital Corp.

## Interim Consolidated Statements of Shareholders' Equity (Unaudited)

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(expressed in thousands of Canadian dollars and shares)

	<u>Common shares issued and outstanding</u>		<u>Contributed surplus</u> \$	<u>Accumulated deficit</u> \$	<u>Total shareholders' equity</u> \$
	<u>Number</u> #	<u>Amount</u> \$			
<b>Balance – December 31, 2009</b>	91,009	175,714	10,937	(138,800)	47,851
Stock options granted	-	-	1,382	-	1,382
Loss for the year	-	-	-	(9,864)	(9,864)
<b>Balance – December 31, 2010</b>	91,009	175,714	12,319	(148,664)	39,369
Stock options granted	-	-	319	-	319
Loss for the period	-	-	-	(9,568)	(9,568)
<b>Balance – June 30, 2011</b>	91,009	175,714	12,638	(158,232)	30,120

*(The accompanying notes are an integral part of these unaudited interim consolidated financial statements.)*

# Medwell Capital Corp.

## Interim Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

(expressed in thousands of Canadian dollars, except share and per share amounts)

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Revenue</b>				
Unrealized (loss) gain on investments	(4,302)	1,580	(3,069)	(6,980)
Realized gain (loss) on investments	79	-	(5)	-
Contract services	882	500	420	250
Interest	106	85	50	53
	<u>(3,235)</u>	<u>2,165</u>	<u>(2,604)</u>	<u>(6,677)</u>
<b>Expenses</b>				
Operating, general and administrative (note 5)	5,885	3,135	4,106	1,594
Stock-based compensation (note 7)	319	1,382	-	950
Amortization of property and equipment	22	75	10	37
Loss on disposal of property and equipment	3	-	-	-
Foreign exchange (gain) loss	104	(73)	26	(238)
	<u>6,333</u>	<u>4,519</u>	<u>4,142</u>	<u>2,343</u>
Loss from continuing operations	(9,568)	(2,354)	(6,746)	(9,020)
(Loss) income from discontinued operation (note 6)	-	(239)	-	144
<b>Loss and comprehensive loss</b>	<u>(9,568)</u>	<u>(2,593)</u>	<u>(6,746)</u>	<u>(8,876)</u>
<b>Basic and diluted loss per common share – continuing operations</b> (note 8)	(0.11)	(0.02)	(0.07)	(0.11)
<b>Basic and diluted (loss) income per common share – discontinued operation</b> (note 8)	-	(0.01)	-	0.01
<b>Basic and diluted loss per common share</b>	(0.11)	(0.03)	(0.07)	(0.10)
<b>Basic weighted average number of common shares outstanding</b> (note 8)	91,009	91,009	91,009	91,009
<b>Diluted weighted average number of common shares outstanding</b> (note 8)	91,009	91,009	91,009	91,009

(The accompanying notes are an integral part of these unaudited interim consolidated financial statements.)

# Medwell Capital Corp.

## Interim Consolidated Statements of Cash Flows

(Unaudited)

(expressed in thousands of Canadian dollars)

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net (loss) income from continuing operations	(9,568)	(2,354)	(6,746)	(9,020)
Items not involving cash				
Unrealized loss (gain) on investments	4,302	(1,580)	3,069	6,980
Realized (gain) loss on investments	(79)	-	5	-
Stock-based compensation (note 7)	319	1,382	-	950
Amortization of property and equipment	22	75	10	37
Loss on disposal of property and equipment	3	-	-	-
	<u>(5,001)</u>	<u>(2,477)</u>	<u>(3,662)</u>	<u>(1,053)</u>
Net change in non-cash working capital items (note 10)	450	(871)	593	(433)
	<u>(4,551)</u>	<u>(3,348)</u>	<u>(3,069)</u>	<u>(1,486)</u>
<b>Investing activities</b>				
Purchase of investments	(2,861)	(12,504)	-	(504)
Proceeds from disposal of investments	152	-	-	-
Net proceeds from (purchase of) short-term investments	385	(6)	(1,674)	(3)
Purchase of property and equipment	(8)	(6)	(2)	(4)
	<u>(2,332)</u>	<u>(12,516)</u>	<u>(1,676)</u>	<u>(511)</u>
<b>Foreign exchange (loss) gain on cash and cash equivalents held in foreign currency</b>	(100)	250	(22)	70
<b>Cash used in continuing operations</b>	(6,983)	(15,614)	(4,767)	(1,927)
<b>Cash used in discontinued operation (note 6)</b>	(739)	(4,106)	(619)	(1,029)
<b>Decrease in cash and cash equivalents</b>	(7,722)	(19,720)	(5,386)	(2,956)
<b>Cash and cash equivalents – Beginning of period</b>	24,959	48,774	22,623	32,010
<b>Cash and cash equivalents – End of period</b>	<u>17,237</u>	<u>29,054</u>	<u>17,237</u>	<u>29,054</u>
<b>Cash and cash equivalents consists of</b>				
Bank accounts	1,357	1,256	1,357	1,256
Interest bearing deposits and securities	15,880	27,798	15,880	27,798
	<u>17,237</u>	<u>29,054</u>	<u>17,237</u>	<u>29,054</u>
<b>Supplemental cash flow information</b>				
Income taxes paid	\$ -	\$ -	\$ -	\$ -
Interest paid	-	-	-	-

(The accompanying notes are an integral part of these unaudited interim consolidated financial statements.)

# Medwell Capital Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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(expressed in thousands of Canadian dollars)

### 1 Nature of business

Medwell Capital Corp. (the “Corporation” or “Medwell”) was continued to the province of Alberta under the Business Corporations Act (Alberta). The Corporation’s shares are traded on the TSX Venture Exchange (the “TSXV”) under the symbol “MWC”. Medwell is an investment, financial advisory and merchant banking firm which directly invests in and advises companies on strategy, financing, mergers & acquisitions (“M&A”), licensing transactions and technology development. Medwell’s investments are primarily in the healthcare sector and comprise investments in equity, debt and convertible securities, which are acquired for both long-term capital appreciation and shorter-term gains.

### 2 Basis of presentation

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for interim financial statements and include the accounts of Medwell Capital Corp. and its wholly owned subsidiaries, Medwell Securities Inc., BioMS Technology Corp., BioMS Technology US Corp., BioMS Technology International Ltd. and 1556365 Alberta Ltd. (all referred to jointly as the “Corporation” or “Medwell”). The accounting policies used in the preparation of these unaudited interim consolidated financial statements are consistent with the accounting policies used in the Corporation’s year-end audited consolidated financial statements of December 31, 2010. However, these unaudited interim consolidated financial statements do not include all information and footnote disclosures required under Canadian GAAP for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2010. All inter-company balances and transactions have been eliminated on consolidation. Certain of the comparative figures have been reclassified to conform to the current year’s presentation.

### 3 Future accounting pronouncements

#### Convergence to International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board (“AcSB”) announced on January 12, 2011, that companies considered an investment company under the guidelines as set out in CICA Accounting Guideline 18 will be provided with an extension to the previously announced one-year deferral to the transition to IFRS. For fiscal years commencing on or after January 1, 2013, the Corporation will report its financial results under IFRS as issued by the International Accounting Standards Board (“IASB”). The Corporation is required to prepare its first financial statements that are compliant with IFRS for the interim period ended March 31, 2013, with comparatives.

As a result of this announcement, the Corporation is assessing the impact that IFRS will have on its financial statements and is developing a plan to convert its consolidated financial statements to IFRS.

# Medwell Capital Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

(expressed in thousands of Canadian dollars)

### 4 Investments

Investee	Common shares	Preferred shares	Whole common share purchase warrants	Total cost of investment \$	Fair value at June 30, 2011 \$
Spectral Diagnostics Inc. (a)	36,149,501	-	15,200,000	13,606	9,091
Bioniche Life Sciences	172,414	-	-	250	148
Novation Pharmaceuticals Inc.	-	-	-	250	250
Mimetogen Pharmaceuticals Inc.	-	1,120,000	-	1,120	1,120
Canadian Overseas Petroleum Ltd.	500,000	-	250,000	250	248
Stonegate Agricom Ltd.	75,000	-	125,000	93	135
				<u>15,569</u>	<u>10,992</u>

- a) On June 28, 2011, the Corporation and Spectral Diagnostics Inc. (“Spectral”) announced that the companies have entered into an arrangement agreement (the “Arrangement”) whereby, pursuant to a plan of arrangement, Medwell will acquire a further 33,333,333 Spectral common shares (the “Spectral Shares”) for \$10 million, at a subscription price of \$0.30 per share. Pursuant to the Arrangement, Medwell will distribute 54,282,834 of the Spectral Shares to its shareholders. For each Medwell common share held, the Medwell shareholder will receive approximately six-tenths (6/10ths) of a Spectral Share. Following the completion of the Arrangement, Medwell will hold approximately 15,200,000 Spectral Shares, representing approximately 13.4% of the issued and outstanding Spectral Shares (calculated on a non-diluted basis), and will also hold 15,200,000 Spectral warrants, which are exercisable at \$0.60 and expire on March 2, 2014.

In connection with the Arrangement, Kevin Giese will be appointed as Chairman of the Board of Directors of Spectral after closing of the transaction. For so long as Medwell owns in aggregate not less than 10% of the issued and outstanding Spectral Shares (calculated on a non-diluted basis), Medwell will continue to be entitled to specify two of the board nominees of the Board of Directors of Spectral. The Corporation and Spectral have two directors in common, Laine Woollard and Kevin Giese.

The Arrangement was approved by Medwell shareholders and disinterested Spectral shareholders at special meetings held Friday, August 26, 2011. On August 29, 2011 the Arrangement received court approval, the approval of the Toronto Stock Exchange and the TSXV. The Arrangement is now scheduled to close on September 9, 2011, which is also the record date for the Distribution. Medwell’s voting Class “A” shares will commence trading on the TSX Venture Exchange on an ex-dividend basis at the opening of trading on September 7, 2011. The completion of the Arrangement is subject to other customary closing conditions.

### 5 Accounts payable and accrued liabilities

Effective June 30, 2011, Medwell incurred \$2.4 million in severance and termination payments to reduce its headcount as part of its overall efforts to reduce expenditures. These amounts have been recorded in the three and six months ended June 30, 2011, in operating, general and administration expenses.

# Medwell Capital Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

(expressed in thousands of Canadian dollars)

### 6 Discontinued operation – Dirucotide clinical trials

On July 27, 2009, the Corporation announced the results of MAESTRO–01, a pivotal Phase II/III clinical trial in Canada and Western Europe, evaluating the safety and efficacy of dirucotide for the treatment of secondary progressive multiple sclerosis (“SPMS”). The results showed that the drug did not meet the primary or secondary endpoints in the trial. The Corporation discontinued the other dirucotide clinical trials, MAESTRO-02 and MAESTRO-03, and completed final collection of data and records. On September 2, 2009, the exclusive license and collaboration agreement between Medwell and Eli Lilly and Company was terminated with the effect that all commercial rights to dirucotide have been returned to Medwell. Such rights are recorded at \$NIL in these financial statements. All milestones related to the payments received during the licence and collaboration agreement were achieved with no further service obligations required. The Corporation intends to divest of all of its interest in Dirucotide through an endowment to an organization that would include all drug product, licenses and patents, appropriate books and records with a remaining one-time payment of \$110,000. This amount is recorded in accounts payable and accrued liabilities of discontinued operations. The following table summarizes the balance sheets as of June 30, 2011 and December 31, 2010, and statements of operations and cash flows for the six months and three months ended June 30, 2011 and 2010, of the discontinued operation included in the consolidated financial statements.

			<b>June 30, 2011</b>	<b>December 31, 2010</b>
			\$	\$
<b><u>Balance Sheets</u></b>				
Liabilities			<u>110</u>	<u>849</u>
<b><u>Statements of Operations</u></b>				
		<b>Six-month period ended</b>	<b>Three-month period ended</b>	
		<b>June 30</b>	<b>June 30</b>	
		<b>2011</b>	<b>2011</b>	<b>2010</b>
Revenue earned from collaboration partner	-	-	-	-
Less: Research and development expenses	-	(495)	-	(225)
	-	(495)	-	(225)
General and administrative expenses	-	(154)	-	(47)
Foreign exchange gain	-	10	-	16
Scientific Research and Development Tax Credit	-	400	-	400
Net (loss) income from discontinued operations	-	(239)	-	144
<b><u>Statements of Cash Flows</u></b>				
Cash flow used in operating activities	(739)	(4,106)	(619)	(1,029)

# Medwell Capital Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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(expressed in thousands of Canadian dollars)

### 6 Discontinue operations – Dirucotide trial (continued)

During the three and six months ended June 30, 2010, certain amounts related to the compassionate access and research program for dirucotide were reclassified from operating, general and administrative expenses from continuing operations to general and administrative expense for discontinued operations. For the three months ended June 30, 2010, \$487,000 was reclassified and for the six months ended June 30, 2010, \$647,000 was reclassified.

### 7 Share capital

#### Authorized and issued

The Corporation is authorized to issue an unlimited number of:

- Classes A and B voting, common shares,
- Classes C and D non-voting, common shares, and
- Classes E, F, G, H and I non-voting, redeemable, retractable, preferred shares

The Corporation had 91,008,923 Class A common shares issued and outstanding as at June 30, 2011 and December 31, 2010.

#### Incentive stock option plan

The Corporation's incentive stock option plan permits the grant of stock options to employees, directors, officers and consultants of the Corporation. The Board of Directors designates eligible participants to be included under the plan and designates the number of options and share price of the options, subject to applicable securities laws and stock exchange regulations. At June 30, 2011, under this plan, 12,000,000 common shares were reserved for stock options.

At June 30, 2011, the outstanding stock options include an additional 798,750 options which were granted prior to the establishment of the stock option plan, of which 11,250 of these options have been cancelled. The exercise price of the options is determined by the Board of Directors, but cannot be lower than the market price on the last trading day preceding the grant date.

	<b>Number of options #</b>	<b>2011 Weighted average exercise price \$</b>
Outstanding – January 1	8,097,625	0.480
Granted	2,637,500	0.295
Cancelled	(118,500)	0.500
Outstanding – June 30	<u>10,616,625</u>	<u>0.360</u>
Exercisable – June 30	<u>10,609,125</u>	<u>0.360</u>

# Medwell Capital Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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(expressed in thousands of Canadian dollars)

### 7 Share capital (continued)

The Corporation is following the fair value based method of accounting for stock options. Compensation expense of \$nil and \$0.3 million has been recorded for the three and six-months ended June 30, 2011 (2010 – \$1.0 and \$1.4 million).

#### Stock-based compensation expense

The Black-Scholes option valuation model used by the Corporation to determine fair values was developed for use in estimating the fair value of freely traded options that are fully transferable and have no vesting restrictions. This model requires the use of assumptions, including future stock price volatility and expected time until exercise. The following weighted average assumptions were used to estimate the fair value of the options granted during the three and six months ended June 30, 2011 and 2010:

	2011	2010
Volatility	43.08%	56.23%
Risk-free interest rate	2.53%	2.42%
Expected life of the options	60 months	60 months
Dividend yield	0.0%	0.0%
Exercise price	\$0.295	\$0.480
Closing market price on date of grant	\$0.300	\$0.340
Fair value per common share option	\$0.120	\$0.130

The Corporation considers historical volatility of its common shares and those of similar companies in estimating its future stock price volatility. The risk-free interest rate for the expected life of the options was based on the yield available on government benchmark bonds with an approximate equivalent remaining term at the time of the grant. The expected time until exercise is based upon the contractual term, taking into account expected employee exercise and expected post-vesting employment termination behaviour. Forfeitures are recognized in the period they arise.

#### Warrants

At June 30, 2011, there were NIL (June 30, 2010 – 3,980,628) warrants issued and outstanding with a weighted average subscription price at June 30, 2010 of \$4.00. The expiry dates of warrants outstanding at June 30, 2010, ranged from November 2, 2010 to December 4, 2010.

# Medwell Capital Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

(expressed in thousands of Canadian dollars)

### 8 Net (loss) income per common share

Basic net (loss) per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted net (loss) income per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. In determining diluted net (loss) income from continuing operations, net income from discontinued operations and net (loss) income per common share, the weighted average number of common shares outstanding is adjusted for stock options and warrants eligible for exercise where the average market price of common shares for the three and six months ended June 30, 2011, exceeds the exercise price. At June 30, 2011, no stock options or warrants required adjustment to calculate fully diluted net (loss) income amounts. Common shares that could potentially dilute basic net loss from continuing operations, net income (loss) from discontinued operations and net (loss) income per common share in the future that could be issued from the exercise of stock options or warrants, were not included in the computation of the diluted loss per common share for the three and six months ended June 30, 2011, because to do so would be anti-dilutive. The numerator and denominator used in the calculation of historical basic and diluted net (loss) income amounts per common share are as follows:

	For the six-month period ended June 30,		For the three-month period ended June 30,	
	2011	2010	2011	2010
Numerator				
Loss from continuing operations (000's)	\$ (9,568)	\$ (2,354)	\$ (6,746)	\$ (9,020)
Denominator for loss from continuing operations per common share-basic				
Weighted average common shares outstanding (000's)	# 91,009	# 91,009	# 91,009	# 91,009
Loss from continuing operations per common share-basic	\$ (0.11)	\$ (0.02)	\$ (0.07)	\$ (0.11)
Numerator				
(Loss) net income from discontinued operations (000's)	\$ -	\$ (239)	\$ -	\$ 144
Denominator for net income from discontinued operations per common share-basic				
Weighted average common shares outstanding (000's)	# 91,009	# 91,009	# 91,009	# 91,009
(Loss) net income from discontinued operations per common share-basic	\$ -	\$ (0.01)	\$ -	\$ 0.01
Numerator				
(Loss) net income (000's)	\$ (9,568)	\$ (2,593)	\$ (6,746)	\$ (8,876)
Denominator for (loss) net income per common share-basic				
Weighted average common shares outstanding (000's)	91,009	91,009	91,009	91,009
Net income (loss) per common share-basic	\$ (0.11)	\$ (0.03)	\$ (0.07)	\$ (0.10)

# Medwell Capital Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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(expressed in thousands of Canadian dollars)

### 9 Financial instruments

Financial instruments of the Corporation consist of cash and cash equivalents, investments, short-term investments, accounts receivable, accounts payable and accrued liabilities.

#### Fair value of financial instruments

The Corporation has determined the fair value of its financial instruments as follows:

- i. The carrying values of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities in the consolidated balance sheets approximate their fair values due to the short-term nature of these instruments.
- ii. Investments are carried at fair value in accordance with the Corporation's accounting policies.

The total amount of the change in fair value of the Corporation's financial instruments and the total amount of unrecognized gains and losses on its financial instruments are reflected in the accompanying consolidated statements of operations. The following table presents the Corporation's financial instruments, measured at fair value on the consolidated balance sheet as at June 30, 2011.

	Level 1	Level 2	Level 3	
	Quoted market price	Valuation technique - observable market inputs	Valuation technique – non observable market inputs	Total
(expressed in thousands of Canadian dollars)				
<b>Assets</b>				
Investments at fair value	\$9,187	\$435	\$ 1,370	\$10,992

#### Concentration risk

The Corporation is subject to concentration risk due to the nature of the Corporation's operations as an investment company and the number of investments held in the portfolio. The Corporation invests primarily in healthcare companies and their related technologies. As a result, the investment portfolio is directly exposed to the risks associated with companies operating in this industry sector.

As at June 30, 2011, the fair value of the Corporation's investment portfolio consisted of six investments of which one investment represented over 83% of the portfolio value.

# Medwell Capital Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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(expressed in thousands of Canadian dollars)

### 10 Net change in non-cash working capital items

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
Accounts receivable	61	(190)	103	60
Prepaid expenses and other current assets	(135)	(232)	(265)	(235)
Accounts payable and accrued liabilities	524	(449)	755	(258)
	<u>450</u>	<u>(871)</u>	<u>593</u>	<u>(433)</u>

### 11 Guarantees

On April 30, 2010, certain employees, officers and directors of the Corporation purchased 7,245,000 Class A common shares as part of the University of Alberta disposition of shares. In connection with the purchase, the Corporation provided guarantees to a financial institution on behalf of the employees, officers and directors for loans that totalled \$2,086,000 used to purchase the common shares acquired. The shares have been pledged as security along with personal covenants in connection with the guarantees provided.

During the three and six months ended June 30, 2011, \$520,800 (2010 - \$NIL) in loans have been repaid. The total amount of loans outstanding at June 30, 2011, is \$1,560,200 (2010 - \$2,086,000).

### 12 Segment Information

The Corporation operates in one business segment with all of its operations and all of its long lived assets located in Canada.