

Medwell Capital Corp.
(formerly BioMS Medical Corp.)

Consolidated Financial Statements
December 31, 2010 and 2009

February 10, 2011

Independent Auditor's Report

To the Shareholders of Medwell Capital Corp.

We have audited the accompanying consolidated financial statements of Medwell Capital Corp., and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of shareholders' equity, operations and comprehensive loss and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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



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

Opinion

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

(Signed) “PricewaterhouseCoopers LLP”

Chartered Accountants

Medwell Capital Corp.
(formerly BioMS Medical Corp.)
Consolidated Balance Sheets
As at December 31, 2010 and 2009

(expressed in thousands of Canadian dollars)

	2010	2009
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	24,959	48,774
Investments (note 6)	12,507	-
Short-term investments (note 9)	2,552	2,662
Accounts receivable	377	5
Prepaid expenses and other current assets	255	82
Assets of discontinued operation (note 7)	-	800
	<u>40,650</u>	<u>52,323</u>
Property and equipment (note 8)	<u>84</u>	<u>350</u>
	<u>40,734</u>	<u>52,673</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	516	346
Liabilities of discontinued operation (note 7)	849	4,476
	<u>1,365</u>	<u>4,822</u>
Guarantees (note 9)		
Commitments and Contingencies (notes 10 and 11)		
Shareholders' equity		
Share capital (note 12)	175,714	175,714
Contributed surplus (note 12)	12,319	10,937
Accumulated deficit	<u>(148,664)</u>	<u>(138,800)</u>
	<u>39,369</u>	<u>47,851</u>
	<u>40,734</u>	<u>52,673</u>

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

Approved by the Board of Directors

(Signed) "W. D. Grace"

Director

(Signed) "Laine Woollard"

Director

Medwell Capital Corp.
(formerly BioMS Medical Corp.)
Consolidated Statements of Shareholders' Equity

(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>			
Balance – December 31, 2008	91,009	175,714	8,839	(141,669)	42,884
Stock options granted	-	-	2,098	-	2,098
Net income for the year	-	-	-	2,869	2,869
Balance – December 31, 2009	91,009	175,714	10,937	(138,800)	47,851
Stock options granted	-	-	1,382	-	1,382
Net loss for the year	-	-	-	(9,864)	(9,864)
Balance –December 31, 2010	91,009	175,714	12,319	(148,664)	39,369

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

Medwell Capital Corp.

(formerly BioMS Medical Corp.)

Consolidated Statements of Operations and Comprehensive Income (Loss)

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

	Years ended December 31,	
	2010	2009
	\$	\$
Revenue		
Unrealized loss on investments	(275)	-
Realized gain on investments	39	-
Contract services	1,185	-
Interest	234	333
	<u>1,183</u>	<u>333</u>
Expenses		
Operating, general and administrative	7,833	7,070
Stock-based compensation (note 12)	1,382	1,845
Amortization of property and equipment	126	164
Loss on disposal of property and equipment	173	8
Foreign exchange loss	249	79
	<u>9,763</u>	<u>9,166</u>
Net loss from continuing operations	(8,580)	(8,833)
Net (loss) income from discontinued operation (note 7)	(1,284)	11,702
	<u>(9,864)</u>	<u>2,869</u>
Net (loss) income and comprehensive (loss) income		
	<u>(9,864)</u>	<u>2,869</u>
Basic and diluted net loss per common share – continuing operations (note 13)	(0.09)	(0.09)
Basic and diluted net (loss) net income per common share – discontinued operation (note 13)	(0.01)	0.12
Basic and diluted net (loss) income per common share	(0.10)	0.03
Basic and diluted weighted average number of common shares outstanding (note 13)	91,009	91,009

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

Medwell Capital Corp.
(formerly BioMS Medical Corp.)
Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)

	Years ended December 31,	
	2010	2009
	\$	\$
Cash provided by (used in)		
Operating activities		
Net loss from continuing operations	(8,580)	(8,833)
Items not involving cash		
Unrealized loss on investments	275	-
Realized gain on investments	(12)	-
Stock-based compensation (note 12)	1,382	1,845
Amortization of property and equipment	126	164
Loss on disposal of property and equipment	173	8
	<u>(6,636)</u>	<u>(6,816)</u>
Net change in non-cash working capital items (note 18)	(197)	179
	<u>(6,833)</u>	<u>(6,637)</u>
Investing activities		
Purchase of investments	(12,814)	-
Proceeds from disposal of investments	32	-
Net proceeds (purchase) of short-term investments	110	(48)
Purchase of property and equipment	(33)	(7)
	<u>(12,705)</u>	<u>(55)</u>
Foreign exchange loss on cash and cash equivalents held in foreign currency	<u>(177)</u>	<u>(134)</u>
Cash used in continuing operations	(19,715)	(6,826)
Cash used in discontinued operation (note 7)	<u>(4,100)</u>	<u>(32,226)</u>
Decrease in cash and cash equivalents	(23,815)	(39,052)
Cash and cash equivalents – Beginning of year	<u>48,774</u>	<u>87,826</u>
Cash and cash equivalents – End of year	<u>24,959</u>	<u>48,774</u>
Cash and cash equivalents consists of		
Bank accounts	3,348	14,855
Interest bearing deposits and securities	21,611	33,919
	<u>24,959</u>	<u>48,774</u>
Supplemental cash flow information		
Income taxes paid	\$ -	\$ -
Interest paid	-	-

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

Medwell Capital Corp.

(formerly BioMS Medical Corp.)

Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of Canadian dollars)

1 Nature of business

Medwell Capital Corp. (the “Corporation” or “Medwell”) changed its name from BioMS Medical Corp. on July 6, 2010 and continued in Alberta under the Business Corporations Act. 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 will invest in equity, debt and convertible securities, which are acquired for both long-term capital appreciation and shorter-term gains.

2 Basis of presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) 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”). 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 Changes in or adoption of accounting policies

During the year, the Corporation changed its strategy as described in note 1. The Corporation is considered an investment company under the guidelines set out in CICA Accounting Guideline 18, Investment Companies and has therefore adopted the following policies related to accounting for investments.

a) Investments

At the end of each financial reporting period, the Corporation’s management estimates the fair value of its investments based on the criteria below and records such valuations in the consolidated financial statements.

(i) Public Investments

Investments in publicly traded companies listed on an active stock exchange are recorded at fair value based upon the closing bid price at the balance sheet date. If an active market does not exist, the investments are recorded at fair value using a valuation technique based upon management’s estimates which consider reliable, observable market inputs.

The amounts at which investments in publicly traded companies could be disposed of may differ from fair value as a result of a number of factors including, but not limited to, premiums paid for large blocks of shares or discounts due to a lack of liquidity.

Medwell Capital Corp.

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Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of Canadian dollars)

3 Changes in or adoption accounting policies (continued)

a) Investments (continued)

(ii) Private Investments

Investments in private companies are initially recorded at cost, being the fair value at the time of acquisition. At each reporting period thereafter, the fair value of an investment may, depending upon the circumstances, be adjusted by applying one or more of the valuation policies described below.

Determining the fair value of the Corporation's investments in private companies is subject to certain limitations; which can include, the lack of available and/or reliable financial information. Application of the valuation policies described below may involve uncertainties and determinations based on management's judgment and any value estimated from the techniques applied may not be realized.

In addition to the events described below, the Corporation will take into account general market conditions when determining if an adjustment to the fair value of an investment in a private company is warranted at the end of each reporting period. Absent the occurrence of any of these events, or any significant change in general market conditions, the fair value of the investment is left unchanged.

The fair value of an investment in a private company may be adjusted upward if:

- 1) There has been a significant subsequent equity financing provided by outside investors at a valuation above the current fair value of the investee company. In these instances, the fair value of the investment is adjusted to the value at which that financing took place; or
- 2) There have been significant corporate, political, operating or economic events affecting the investee company that, in management's opinion, have a positive impact on the investee company's prospects and, therefore, its fair value.

In the circumstances where general market conditions so warrant, an adjustment to the fair value of an investment will be based on management's judgment and any value estimated may not be realized.

The fair value of an investment in a private company may be adjusted downward if:

- 1) There has been a significant subsequent equity financing provided by outside investors, at a valuation below the current fair value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place; or
- 2) The investee company is placed into receivership or bankruptcy; or
- 3) Based on financial information received from the investee company it is apparent to the Corporation that the investee company is unlikely to be able to continue as a going concern; or
- 4) There have been significant corporate, political, operating or economic events affecting the investee company that, in management's opinion, have a negative impact on the investee company's prospects and, therefore, its fair value.

Medwell Capital Corp.

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Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of Canadian dollars)

3 Changes in or adoption accounting policies (continued)

a) Investments (continued)

(ii) Private Investments (continued)

The adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized and may differ from values that might be determined if a ready market existed.

The amount at which an investment in a private company could be disposed of may differ from its carrying value due to the availability and/or reliability of information available to, and determinations reached by, management. Any fair value estimated by the application of these techniques may not be realized.

Warrants and options not traded on a recognized securities exchange are recorded at fair value using a valuation technique that considers the exercise price, the closing bid price of the underlying shares, time value adjustment, volatility and liquidity. The fair value of any warrants or options that the Corporation holds in a private company is calculated each reporting period using the Black-Scholes pricing model.

Transaction costs incurred in the purchase and sale of investments, such as brokerage commissions, are recorded as an expense in the consolidated statements of operations. Purchases and sales of securities are accounted for on a trade-date basis.

The Corporation also incurs costs to investigate certain early stage projects and other potential investment opportunities to determine whether an investment will be made. These costs are expensed as incurred.

b) Business Combinations (CICA Handbook Section 1582)

In January 2009, the CICA issued new Handbook Section 1582, Business Combinations, replacing Handbook Section 1581, Business Combinations. This new Section establishes the standards for the accounting of business combinations and provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), Business Combinations.

This Section provides that all assets and liabilities of an acquired business, obligations for contingent consideration and contingencies will be recorded at fair value at the acquisition date. Acquisition-related costs will be expensed as incurred and restructuring charges will be expensed in the periods after the acquisition date. This Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Corporation adopted this section early as permitted. This Section did not have an effect on the Corporation's consolidated financial statements.

Medwell Capital Corp.

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Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of Canadian dollars)

4 Future accounting pronouncements

- a) Consolidated Financial Statements (CICA Handbook Section 1601) and Non-controlling Interests (CICA Handbook Section 1602)

In January 2009, the CICA issued new two new CICA standards, Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests, which together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), Consolidated and Separate Financial Statements. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The adoption of these new Sections will not have a material effect on the consolidated financial statements.

- b) Convergence to International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board (“AcSB”) announced on October 1, 2010 that companies considered an investment company under the guidelines as set out in CICA Accounting Guideline 18 will be provided with a one-year deferral to the transition to IFRS. For fiscal years commencing on or after January 1, 2012, 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, 2012 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.

5 Summary of significant accounting policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and bank term deposits with a maturity of three months or less when purchased.

Medwell Capital Corp.

(formerly BioMS Medical Corp.)

Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of Canadian dollars)

5 Summary of significant accounting policies (continued)

Short-term investments

Short-term investments include bankers' acceptances and term deposits with an original maturity of greater than three months and less than twelve months. Investments are carried at fair value with gains and losses related to periodical revaluation recorded in income or loss from operations.

Property and equipment

Property and equipment are recorded at cost less amortization. Property and equipment are amortized over the estimated useful life of the specific asset using the straight-line method at the following annual rates:

Computer equipment	20%
Furniture and office equipment	20%
Leasehold improvements	Lease term

The Corporation evaluates the carrying value of property and equipment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An impairment loss is recognized in the period in which it is determined that the carrying amount of the asset may not be recoverable. An impairment loss is calculated as the amount by which the carrying amount of the asset exceeds its estimated fair value.

Revenue recognition

Security transactions are recorded on a trade-date basis. Realized gains and losses on the disposal of investments and unrealized gains and losses in the fair value of investments, are reflected in the consolidated statements of operations and are calculated on an average cost basis. All transaction costs associated with the acquisition and disposition of investments are expensed to the consolidated statements of operations as incurred.

Interest is recorded on an accrual basis when reasonable assurance exists regarding measurement and collectability.

Revenue for corporate and advisory services is recognized when persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable and collection is reasonably assured.

Royalty revenues, if earned in the future, would be recognized as earned on an accrual basis in accordance with the terms of the contractual agreements.

Medwell Capital Corp.

(formerly BioMS Medical Corp.)

Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of Canadian dollars)

5 Summary of significant accounting policies (continued)

Income taxes

The Corporation accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Foreign currency translation

Revenue and expense transactions denominated in foreign currencies are translated into Canadian dollars at the average exchange rates in effect at the time of such transactions. Foreign currency denominated monetary assets and liabilities are translated at current rates at the balance sheet date. Gains or losses resulting from these translation adjustments are included in the net income or loss from operations.

Non-monetary transactions

Transactions in which shares, or other non-cash consideration, are exchanged for assets or services are valued at the fair value of the assets or services involved in accordance with Section 3831, “Non-monetary Transactions”, of the Canadian Institute of Chartered Accountants Handbook (“CICA Handbook”).

Stock-based compensation

Awards of stock options are accounted for in accordance with the fair value method of accounting for stock-based compensation and result in compensation expense and contributed surplus. The fair value is measured at the date the options are granted using the Black-Scholes model. Any consideration paid on the exercise of stock options is credited to share capital.

Net income (loss) per common share

Net income (loss) per common share is calculated by dividing the net income (loss) by the weighted average number of common shares outstanding throughout the year.

Diluted net income (loss) per common share is calculated using the treasury stock method, which assumes that the cash that would be received on the exercise of stock options or warrants, and any unrecognized stock-based compensation is applied to purchase shares at the average price during the year. The difference between the common shares issued on the exercise of the stock options or warrants and the number of common shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding. Anti-dilutive stock options and warrants are not considered in computing diluted earnings per common share.

Medwell Capital Corp.
(formerly BioMS Medical Corp.)
Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of Canadian dollars)

5 Summary of significant accounting policies (continued)

Financial instruments

Financial instruments of a company are classified into one of five categories: “Held-for-trading”, “Held-to-maturity”, “Loans and receivables”, “Available-for-sale” financial assets and “Other financial liabilities”. All financial instruments are measured at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and accounting for changes in the value of these instruments will depend on their initial classification as follows: a) “Held-for-trading” financial assets are measured at fair value with changes in fair value recognized in the statement of operations, and b) “Available-for-sale” financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the change in value is realized or the instrument is derecognized or permanently impaired.

The Corporation has classified its cash and cash equivalents as “Held-for-trading”. The accounting method for the Corporation’s investments under AcG-18 is consistent with a classification as “Held-for-trading”, as investments are accounted for at fair value with changes in fair value recognized in the statement of operations. Accounts receivable are classified as “Loans and receivables” and are measured at fair value upon initial recognition and subsequent measured at amortized cost with a measurement reduction for an allowance for doubtful accounts or a provision for impairment.

6 Investments

Investee	Common shares	Whole common share purchase warrants	Total cost of investment \$	Fair value at December 31, 2010 \$
Spectral Diagnostics Inc.	29,700,000	14,700,000	11,870	11,146
Bioniche Life Sciences	172,414	-	250	257
Novation Pharmaceuticals Inc.	-	-	250	250
Canadian Overseas Petroleum Ltd.	500,000	250,000	250	497
Stonegate Agricom Ltd.	150,000	125,000	162	357
			12,782	12,507

Medwell Capital Corp.

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Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of Canadian dollars)

6 Investments (continued)

- a) On December 17, 2009 the Corporation announced its participation in a syndicated investment financing (the "Financing") in Spectral Diagnostics Inc. ("Spectral"), a company traded on the Toronto Stock Exchange ("TSX") under the symbol SDI. The Financing, related terms and agreements were approved by the shareholders of Spectral on February 26, 2010. Under the terms of the financing Medwell acquired 30,000,000 units (the "Units") of Spectral at a price of \$0.40 per Unit. Each Unit consists of one common share of Spectral and one half of one common share purchase warrant ("Warrant") entitling the holder thereof to acquire one common share for each of two warrants of Spectral at a price of \$0.60 per common share for a period of four years from closing of the Financing. The investment made by Medwell represented approximately 39.6% of the issued and outstanding common shares of Spectral. On a fully diluted basis, the investment represents approximately 40.55% of the potential voting securities of Spectral. In connection with the Financing, Medwell and Spectral have also entered into a three year \$3 million services agreement whereby Medwell will provide clinical, regulatory and capital marketing consulting services to Spectral over the term of the contract. The Corporation and Spectral have two directors in common.
- b) On December 15, 2010 the Corporation completed its participation in the Prospectus Offering (the "Offering") of Bioniche Life Sciences Inc. ("Bioniche") a company traded on the TSX under symbol BNC. Under the terms of the Offering, Medwell acquired 172,414 common shares of Bioniche at a price of \$1.45 per common share. Bioniche Life Sciences Inc. is a research-based, technology-driven Canadian biopharmaceutical company focused on the discovery, development, manufacturing, and marketing of proprietary products for human and animal health markets worldwide. The fully-integrated company employs 217 skilled personnel and has three operating divisions: Human Health, Animal Health, and Food Safety. The company's primary goal is to develop proprietary cancer therapies supported by revenues from marketed products in human and animal health.
- c) On June 11, 2010, the Corporation purchased an unsecured convertible debenture in Novation Pharmaceuticals Inc. ("Novation"), a private company, in the amount of \$250,000. The debenture matures on June 10, 2012 and simple interest accrues on the outstanding principal amount at 6% per annum. The convertible debenture contains an embedded derivative which cannot be separated from its host contract. In this case it is required that the convertible debenture be classified as held for trading and carried at fair value which management has determined is equal to its original cost as at December 31, 2010. The Corporation and Novation have one director in common who beneficially owns approximately 17% of the issued and outstanding shares of Novation.
- d) On April 23, 2010 the Corporation completed its participation in the Initial Public Offering ("IPO") of Stonegate Agricom Ltd. ("Stonegate"). Under the terms of the IPO, Medwell acquired 250,000 units of Stonegate at a price of \$1.00 per Unit. Each Unit consists of one common share of Stonegate and one half of one common share purchase warrant (each whole common share purchase warrant, "Warrant") entitling the holder to acquire one common share of Stonegate at a price of \$1.50 per common share for a period of three years following the closing of the IPO. The common shares of Stonegate began trading on the TSX under symbol ST and the warrants under the symbol ST.WT on April 28, 2010.

Medwell Capital Corp.
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Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of Canadian dollars)

6 Investments (continued)

- e) On November 29, 2010 the Corporation completed its participation in the Prospectus Offering of Canadian Overseas Petroleum Ltd. ("COPL"). Under the terms of the Offering, Medwell acquired 500,000 units of COPL at a price of \$0.50 per Unit. Each Unit consists of one common share of COPL and one-half of one common share purchase warrant, each whole warrant entitling the holder to acquire one common share of COPL at a price of \$0.65 per common share for a period of three years following the closing of the Offering. The common shares of COPL began trading on the TSXV under symbol XOP.R on December 1, 2010.

7 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 Lilly 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 and a one-time payment of \$750,000. This amount is recorded in the accounts payable and accrued liabilities. The following table summarizes the balance sheets as of December 31, 2010 and 2009, statements of operations and comprehensive income (loss) and statements of cash flows for the years ended December 31, 2010 and 2009 of the discontinued operation included in the consolidated financial statements.

	2010	2009
	\$	\$
<u>Balance Sheets</u>		
<u>Assets</u>		
Goods and services tax recoverable	-	322
Recoverable expense	-	424
Other prepaid expenses	-	54
	<u>-</u>	<u>800</u>
<u>Liabilities</u>		
Accounts payable and accrued payable	<u>849</u>	<u>4,476</u>

Medwell Capital Corp.
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Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of Canadian dollars)

7 Discontinued operation – Dirucotide clinical trials (continued)

Statements of Operations

	Years ended December 31	
	2010	2009
	\$	\$
	<u> </u>	<u> </u>
Revenue earned from collaboration partner	-	45,605
Less: Research and development expenses	<u>(1,507)</u>	<u>(25,769)</u>
	<u>(1,507)</u>	<u>19,836</u>
General and administrative expenses	(157)	(1,615)
Impairment of licensing costs	-	(5,174)
Amortization of licensing costs	-	(736)
Foreign exchange loss	(20)	(609)
Scientific Research and Development Tax Credit	<u>400</u>	<u>-</u>
	<u>223</u>	<u>(8,134)</u>
Net (loss) income from discontinued operations	<u>(1,284)</u>	<u>11,702</u>

Statements of Cash Flows

Cash flow used in discontinued operations	<u>(4,100)</u>	<u>(32,226)</u>
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8 Property and equipment

	2010		
	Cost	Accumulated amortization	Net
	\$	\$	\$
	<u> </u>	<u> </u>	<u> </u>
Furniture and equipment	76	68	8
Computer equipment	208	146	62
Leasehold improvements	<u>355</u>	<u>341</u>	<u>14</u>
	<u>639</u>	<u>555</u>	<u>84</u>

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(tabular amounts expressed in thousands of Canadian dollars)

8 Property and equipment (continued)

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Furniture and equipment	83	59	24
Computer equipment	215	137	78
Leasehold improvements	631	383	248
	929	579	350

9 Guarantees

On April 30, 2010 certain employees, officers and directors of the Corporation purchased 7,245,000 Class A common shares of the Corporation as part of the disposition of shares by the University of Alberta. In connection with the purchase, the Corporation provided guarantees through a \$2,200,000 Guaranteed Investment Certificate (“GIC”) 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 held by the employees, officers and directors have been pledged as security along with personal covenants in connection with the guarantees provided by the Corporation.

The Corporation has agreements to indemnify its officers and directors for certain events or occurrences while the officer or director is or was serving at the Corporation's request in such capacity. The maximum potential amount of future payments is unlimited. However, the Corporation maintains director and officer liability insurance coverage that limits its exposure and enables the Corporation to recover a portion of any future amounts paid.

The Corporation has license and research agreements with third parties related to its discontinued Dirucotide program (note 7), that include indemnification provisions that are customary in the industry. These guarantees generally require the Corporation to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions.

These indemnification provisions may survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Corporation has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

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10 Commitments

- a) The Corporation has entered into development and supply agreements with third parties to produce and supply a pharmaceutical product. Payment obligations are estimated to be as much as US\$1.0 million in 2011.
- b) In continuing operations, the Corporation periodically enters into long-term contractual arrangements for office facilities and equipment. The following table presents commitments arising from these arrangements over the next five years.

	Total	< 1 year	1 – 3 years	> 3 years
	\$	\$	\$	\$
Lease for office space	489	246	243	-
Equipment lease	39	14	25	-
	528	260	268	-

- c) On October 8, 2010 the Corporation entered into a three (3) year lease agreement terminating on August 30, 2013 for its office space in Toronto, ON.

11 Contingencies

The Corporation may, from time to time, be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. As at December 31, 2010, the Corporation was not subject to any claims or legal proceedings.

12 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 December 31, 2010 and 2009.

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.

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12 Share capital (continued)

On May 9, 2008, the Corporation's shareholders approved an increase in the number of common shares reserved for stock options by 4,000,000 common shares. At December 31, 2010, under this plan, 12,000,000 common shares were reserved for stock options.

On June 25, 2010, the Corporation's disinterested shareholders approved an amendment to consolidate 10,436,500 previously granted stock options on a 0.75:1 ratio and to amend the exercise price to \$0.50. To date 11,116,500 stock options have been granted of which 2,342,875 have been consolidated, 1,358,500 have been cancelled and 105,000 have been exercised. At December 31, 2010, 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. Prior to the 0.75:1 consolidation there were 1,065,000 options granted prior to the establishment plan. 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.

	2010		2009	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding – January 1	10,436,500	3.42	9,181,500	3.31
Granted	1,510,000	0.37	1,350,000	3.60
Cancelled	(1,239,750)	0.50	(95,000)	3.65
Consolidated 0.75 for 1	(2,609,125)	-	-	-
Outstanding –December 31	<u>8,097,625</u>	<u>0.48</u>	<u>10,436,500</u>	<u>3.42</u>
Exercisable – December 31	<u>8,090,125</u>	<u>0.48</u>	<u>10,421,500</u>	<u>3.43</u>

Range of exercise prices

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number of options #	Weighted average exercise price \$	Weighted average remaining contractual life (years)	Number of options #	Weighted average exercise price \$
0.37	1,510,000	0.37	9.04	1,510,000	0.37
0.50	<u>6,587,625</u>	0.50	3.82	<u>6,580,125</u>	0.50
	<u>8,097,625</u>		<u>4.80</u>	<u>8,090,125</u>	<u>0.48</u>

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12 Share capital (continued)

1,165,464 (2009 - 1,482,000) options are issued to independent directors, 3,543,750 (2009 - 4,565,000) options are issued to officers, and 3,388,411 (2009 - 4,389,500) options are issued to other employees and consultants.

Stock-based compensation expense

The Corporation is following the fair value based method of accounting for stock options. Compensation expense of \$1,382,000 has been recorded for the year ended December 31, 2010 (2009 – Continued operations of \$1,845,000; Discontinued Operations of \$253,000).

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 years ended December 31, 2010 and 2009:

	2010	2009
Volatility	56.23%	47.30%
Risk-free interest rate	2.42%	1.90%
Expected life of the options	60 months	60 months
Dividend yield	0.0%	0.0%
Exercise price	\$0.48	\$3.60
Closing market price on date of grant	\$0.34	\$3.60
Fair value per common share option	\$0.13	\$1.56

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.

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12 Share capital (continued)

Warrants

The Corporation has issued warrants as follows:

	2010		2009	
	Number of warrants #	Weighted average subscription price \$	Number of warrants #	Weighted average subscription price \$
Outstanding – January 1	14,234,028	4.00	26,021,528	4.45
Expired	(14,234,028)	4.00	(11,787,500)	5.00
Outstanding – December 31	-	-	14,234,028	4.00

13 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 income (loss) 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 year ended December 31 exceeds the exercise price. At December 31, 2010 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 year ended December 31, 2010 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:

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13 Net (loss) income per common (continued)

	For the years ended December 31,			
	2010		2009	
Numerator				
Net loss from continuing operations (000's)	\$	(8,580)	\$	(8,833)
Denominator for net loss from continuing operations per common share-basic				
Weighted average common shares outstanding (000's)	#	91,009	#	91,009
Net loss from continuing operations per common share-basic	\$	(0.09)	\$	(0.09)
Numerator				
Net income (loss) from discontinued operations (000's)	\$	(1,284)	\$	11,702
Denominator for net income from discontinued operations per common share-basic				
Weighted average common shares outstanding (000's)	#	91,009	#	91,009
Net income (loss) from discontinued operations per common share-basic	\$	(0.01)	\$	0.12
Numerator				
Net (loss) income (000's)	\$	(9,864)	\$	2,869
Denominator for net (loss) income per common share-basic				
Weighted average common shares outstanding (000's)	#	91,009	#	91,009
Net income (loss) per common share-basic	\$	(0.10)	\$	0.03

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14 Income taxes

Future income taxes reflect the net tax affects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Corporation has recognized a valuation allowance for those future tax assets for which it is more likely than not that realization will not occur. Significant components of the Corporation's future tax assets and liabilities as of December 31, 2010 and 2009 are as follows:

	2010	2009
	\$	\$
Future income tax assets		
Research and development expenditures	13,472	13,726
Non-refundable research and development tax credits	15,355	15,309
Non-capital losses	17,071	20,352
Property and equipment and licensing costs	4,990	4,915
Share issue costs	172	538
	<u>51,060</u>	<u>54,840</u>
Less: valuation allowance	<u>(51,060)</u>	<u>(54,840)</u>
Net future income tax asset	<u>-</u>	<u>-</u>

As at December 31, 2010, the Corporation has available non-capital income tax losses in the amount of \$68.3 million (2009 - \$81.4 million) in the aggregate to reduce taxable income in future years. The potential income tax benefit of these losses and the tax credits in the table below has not been reflected in the financial statements at December 31, 2010.

The losses and credits will expire as follows:

	Federal investment tax credits	Research and Development tax credits	Non-capital losses carry- forwards
	\$	\$	\$
2011	354	-	-
2012	567	-	-
2013	1,016	-	-
2014	1,456	-	2,000
2015	2,005	-	2,499
2016	3,673	-	-
2026	-	-	4,948
2027	2,110	-	14,630
2028	2,709	-	6,580
2029	1,465	-	28,389
2030	-	-	9,239
Indefinitely	-	53,889	-
	<u>15,355</u>	<u>53,889</u>	<u>68,285</u>

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14 Income taxes (continued)

As at December 31, 2010, the Corporation has scientific research and experimental development expenditures in the amount of \$53.9 million (2009 – \$54.9 million) available for carry-forward indefinitely to reduce future taxable income. The Corporation has unclaimed investment tax credits of approximately \$15.4 million (2009 – \$15.3 million) available to reduce future income taxes otherwise payable, subject to confirmation by taxation authorities. This estimate is subject to uncertainty and could change by a material amount in the future.

The difference between the computed expected income tax recovery based on a combined federal and provincial tax rate of 28.00% (2009 – 29.00%) and the actual income tax recovery are summarized as follows:

	Years ended December 31,	
	2010	2009
	\$	\$
Loss from continuing operations before income taxes	<u>(8,580)</u>	<u>(8,833)</u>
Expected income tax recovery at statutory income tax rate	<u>2,402</u>	<u>2,561</u>
Adjusted for the following:		
Impact of substantially enacted rates	(215)	(302)
Non-deductible (non-taxable) items	(392)	(535)
Unrecognized benefits of future tax assets	<u>(1,795)</u>	<u>(1,724)</u>
	<u>(2,402)</u>	<u>(2,561)</u>
	<u>-</u>	<u>-</u>

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15 Financial instruments

Financial instruments of the Corporation consist of cash and cash equivalents, investments, short-term investments, accounts receivable, accounts payable and accrued liabilities. The fair value of these instruments approximates their carrying amount due to their immediate or short-term maturity. The Corporation has classified its financial instruments as follows:

	December 31, 2010	December 31, 2009
	\$	\$
<u>Financial assets</u>		
Cash and cash equivalents, held-for-trading, recorded at fair value	24,959	48,774
Investments, held-for-trading, recorded at fair value	12,507	-
Short-term investments, held-for-trading, recorded at fair value	2,552	2,662
Accounts receivable, loans and receivables, recorded at amortized cost	377	5
	<u>40,395</u>	<u>51,441</u>
<u>Financial liabilities</u>		
Accounts payable and accrued liabilities, other liabilities, recorded at amortized cost	1,365	4,822
	<u>1,365</u>	<u>4,822</u>

The Corporation's activities are exposed to a variety of financial risks including, liquidity risk, market risk, currency risk, interest rate risk, credit risk and concentration risk. The Corporation's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Corporation's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance.

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.
- iii. The Corporation does not have any "Other Comprehensive Income (Loss)" components and, as such, comprehensive income (loss) is equal to net income (loss).

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15 Financial instruments (continued)

Fair value of financial instruments (continued)

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. Assumptions made in determining the fair value of the Corporation's financial instruments are discussed in notes 3 a) and b). The following table presents the Corporation's financial instruments, measured at fair value on the consolidated balance sheet as at December 31, 2010.

	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)				
Assets				
Investments at fair value	\$11,267	\$990	\$ 250	\$12,507

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due or to fund the investments and commitments that the Corporation has planned.

The Corporation's exposure to liquidity risk is dependent operating results which may be adversely affected if the Corporation's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Corporation, or if the value of the Corporation's investments declines, resulting in lesser proceeds of disposition and losses upon disposition. The Corporation generates cash flow primarily from its financing activities and proceeds from the disposition of its investments, in addition to interest and dividend income earned on its investments. Medwell may invest in securities of private companies or "junior" issuers, which can at times be relatively illiquid, and if the Corporation decides to dispose of securities of a particular issuer it may not be able to do so at the time at favourable prices, or at all.

Overall, the Corporation has sufficient cash and cash equivalents to fund its obligations as they become due under normal operating conditions, such that absent overall market disruptions or extreme circumstances, liquidity risk can be minimized.

The Corporation manages its liquidity risk through the management of its capital structure, cash flows and the availability and sourcing of financing. The Board of Directors and/or the Audit Committee reviews and approves the Corporations operating and capital budgets, as well as any material transactions out of the ordinary course of business.

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15 Financial instruments (continued)

Liquidity risk (continued)

The following are the contractual maturities of financial liabilities as of December 31, 2010:

(expressed in thousands of Canadian dollars)	Carrying amount \$	< 1 year \$	1 to 3 years \$	> 3 years \$
Accounts payable and accrued liabilities	1,365	1,365	-	-
Lease for office space	-	246	243	-
Equipment lease	-	14	25	-
	1,365	1,625	268	-

Market risk

Market risk is the risk that the fair value of, or future cash flows from, the Corporation's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Corporation is exposed to market risk in trading its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices. The Corporation's investments are primarily concentrated in the healthcare sector, which results in exposure to higher volatility than broader market investments and indexes. The Corporation's investments are accounted for at estimated fair values and are sensitive to changes in market bid prices, such that changes in market prices result in a proportionate change in the carrying value of the Corporation's investments. A 10% change in the fair values of the Corporation's investments at December 31, 2010 would have a \$1.3 million impact on net loss. The Corporation also has set thresholds on purchases of investments over which the approval of the Board of Directors is required.

Currency risk

The Corporation is exposed to financial risk related to fluctuations in foreign currency exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The transaction amounts are not significant and there are no material foreign currency commitments. The currency risk is therefore manageable and not significant. The Corporation currently does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates received on its cash and cash equivalents and short-term investments.

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15 Financial instruments (continued)

Interest rate risk (continued)

The impact of interest rate fluctuations will vary as the amount of cash and cash equivalents and short-term investments the Corporation holds changes. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk.

The Corporation manages its interest rate risk by attempting to maximize the interest income earned on funds on deposit while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Corporation's investment policy limits the investing of excess funds to liquid, short-term bank acceptances and/or GIC with maturities of less than 1 year; however the average term to maturity will be approximately 90 days.

Based on the net exposures as at December 31, 2010, and assuming that all other variables remain constant, a 1% appreciation or deterioration of the interest rate would result in a decrease/increase of \$395,000 in the Corporation's net loss for the period ended December 31, 2010.

Accounts payable and accrued liabilities bear no interest.

Credit risk

Credit risk is the risk of a financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially expose the Corporation to significant concentrations of credit risk consist principally of cash, cash equivalents, short-term investments, accounts receivable and convertible debenture.

The Corporation has investment policies to mitigate against the deterioration of principal, to enhance the Corporation's ability to meet its liquidity needs and to optimize yields within those parameters. Additionally the Corporation attempts to reduce the potential of significant concentrations of credit risk by diversifying the placement of the cash, cash equivalents and short-term investments. The Corporation has deposited the cash and cash equivalents and short-term investments with reputable Canadian financial institutions, from which management believes the risk of loss is minimized.

Credit risk from accounts receivable, convertible debenture and loans receivable encompasses the default risk of the customers. Prior to accepting any service engagement or providing any loan, the Corporation assesses future recoverability by examining the entities' financial conditions, properties and assets, business development activities and management. The Corporation manages its exposure to credit risk by reviewing the outstanding balances on an ongoing basis, monitoring the amount attributable to each customer and the length of time taken for amounts to be settled. Where necessary, management takes appropriate action to follow up on those balances considered overdue.

The Corporation is also exposed, in the normal course of business, to credit risk from the sale of its investments and on amounts due from related parties. The maximum exposure to losses arising from accounts receivable is equal to their carrying amounts.

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15 Financial instruments (continued)

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 December 31, 2010, the fair value of the Corporation's investment portfolio consisted of five investments of which one investment represented over 90% of the portfolio value.

16 Capital management

The Corporation's objectives when managing capital are:

To safeguard the Corporation's ability to respond to changes in economic and/or marketplace conditions by maintaining its ability to purchase new investments, support its investments, meet its ongoing operating expenditures and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable level; and

To provide an adequate return to shareholders commensurate with the level of risk associated with an investment Corporation.

The Corporation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. The Corporation maintains or adjusts its capital level to enable it to meet its objectives by:

- a) realizing proceeds from the disposition of its investments;
- b) utilizing leverage in the form of margin (due to brokers); and
- c) raising capital through equity financings.

In the management of capital, the Corporation includes the components of shareholders' equity comprised of share capital, contributed surplus and accumulated deficit to provide capital of \$39,369,000 as at December 31, 2010 (2009 - \$47,851,000).

Since inception, the Corporation has financed its liquidity needs through public offerings and private placements of common shares. The Corporation has also met its liquidity needs through non-dilutive sources such as licensing fees from collaboration partners and interest income.

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16 Capital management (continued)

In order to maintain or adjust the capital structure, the Corporation may adjust the number of shares issued, enter into collaborative and/or licences agreements, enter into mergers and acquisitions, acquire debt or enter into some other form of financing facility.

In order to maximize investment into investments, the Corporation does not pay out dividends.

The Corporation expects its current capital resources will be sufficient to carry its operations.

The Corporation is not subject to any externally imposed capital requirements.

17 Related party transactions

During the years ended December 31, 2010 and 2009, the Corporation paid management services, professional fees, office rent and general administration amounts to companies controlled by directors and officers of the Corporation and to professional firms in which certain directors or officers have interests.

	Years ended December 31,	
	2010	2009
	\$	\$
Office rent	304	382
General administration	62	100
Included in general and administration expenses	<u>366</u>	<u>482</u>

The lease for the office space is at a fixed rate ending December 31, 2013 with early termination available upon six months written notice by either party (Note 12 (c)).

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

18 Net change in non-cash working capital items

	Years ended December 31,	
	2010	2009
	\$	\$
Accounts receivable	<u>(363)</u>	<u>72</u>
Other prepaid expenses	(181)	(4)
Accounts payable and accrued liabilities	<u>347</u>	<u>111</u>
	<u>(197)</u>	<u>179</u>

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19 Segment Information

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