

MICROMEM TECHNOLOGIES INC.

Notice to Reader

The management of Micromem Technologies Inc. is responsible for the preparation of the accompanying interim financial statements. The interim financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

These interim financial statements have not been reviewed by an auditor. These interim financial statements are unaudited and include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

“Joseph Fuda”

(signed) Joseph Fuda, President and CEO

“Dan Amadori”

(signed) Dan Amadori, Chief Financial Officer

MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

Consolidated Balance Sheet

(Expressed in United States dollars)

As at,

| | July 31, 2004 [Unaudited] | October 31, 2003 [Audited] |
|---|------------------------------|-------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 285,272 | \$ 79,233 |
| Term Deposits | 79,366 | 219,930 |
| Deposits and other receivables | 111,680 | 47,207 |
| | 476,318 | 346,370 |
| Capital assets | 2,539 | 3,768 |
| Patents and trademarks | - | - |
| Royalty rights | - | - |
| | 478,857 | 350,138 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 234,458 | 245,700 |
| Shareholders' equity: | | |
| Share capital: | | |
| Authorized: | | |
| 2,000,000 special preference shares, redeemable, voting | | |
| Unlimited common shares without par value | | |
| Issued and outstanding: | | |
| 55,332,187 common shares (2003 - 48,732,187) | 31,879,287 | 31,236,287 |
| Contributed surplus | 578,891 | 578,891 |
| Deficit accumulated during the development stage | (32,213,779) | (31,710,740) |
| | 244,399 | 104,438 |
| | \$ 478,857 | \$ 350,138 |

See accompanying notes to consolidated financial statements.

MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

Consolidated Statements of Operations and Deficit (Expressed in United States dollars)

| For the, | three-month period ended July 31, | | nine-month period ended July 31, | | Period from September 3,1997 to July 31,2004 | |
|---|-----------------------------------|---------------------|----------------------------------|---------------------|--|--|
| | 2004 [unaudited] | 2003 [unaudited] | 2004 [unaudited] | 2003 [unaudited] | 2004 [unaudited] | |
| Revenue: | | | | | | |
| Interest and other income | \$ 450 | 642 | \$ 4,629 | \$ 17,085 | \$ 531,267 | |
| Costs and expenses (income): | | | | | | |
| Administration | 74,971 | 60,587 | 113,576 | 144,927 | 2,105,761 | |
| Professional fees | 98,120 | 25,198 | 121,762 | 70,063 | 2,819,357 | |
| Wages and salaries | 1,233 | 24,729 | 46,658 | 106,475 | 9,384,269 | |
| Research and development | 36,520 | 25,197 | 160,163 | 434,319 | 6,176,445 | |
| Travel and entertainment | 25,347 | 4,052 | 35,092 | 7,510 | 1,025,058 | |
| Amortization of patents and trademarks | - | 9,127 | - | 27,176 | 67,596 | |
| Amortization of capital assets | 130 | 3,136 | 3,990 | 33,741 | 340,121 | |
| Operating Leases | - | - | - | - | 109,412 | |
| Loss on Sale of Investment | - | - | - | - | 54,606 | |
| Write-down of Investment | - | - | - | - | 61,020 | |
| Write-down of Royalty Rights | - | - | - | - | 10,000,000 | |
| Write-down of Patents and Trademark | - | - | - | - | 299,820 | |
| Fees to Related Parties | - | - | - | - | 65,460 | |
| Interest Expense | - | - | - | - | 186,000 | |
| Loss on sale of assets | - | - | - | 58,302 | 75,027 | |
| Unrealized foreign exchange loss (gain) | 3,998 | 13,877 | 26,427 | (57,966) | (44,583) | |
| | 240,319 | 165,903 | 507,668 | 824,547 | 32,725,369 | |
| Loss before Income Taxes | \$ (239,869) | \$ (165,261) | \$ (503,039) | \$ (807,462) | \$ (32,194,102) | |
| Provision for (recovery of) Income Taxes Current | - | - | - | - | 19,677 | |
| Net loss for the period | \$ (239,869) | \$ (165,261) | \$ (503,039) | \$ (807,462) | \$ (32,213,779) | |
| Deficit accumulated during the development stage, beginning of period | (31,973,910) | (30,902,976) | (31,710,740) | (30,260,775) | - | |
| Deficit accumulated during the development stage, end of period | \$ (32,213,779) | \$ (31,068,237) | \$ (32,213,779) | \$ (31,068,237) | \$ (32,213,779) | |
| Loss per share - basic and diluted | \$ (0.004) | \$ (0.004) | \$ (0.009) | \$ (0.017) | \$ (0.738) | |
| Weighted average number of shares | 53,878,383 | 46,700,937 | 53,878,383 | 46,700,937 | 43,630,085 | |

See accompanying notes to consolidated financial statements.

MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

Consolidated Statement of Cash Flows (Expressed in United States dollars)

| For the, | three-month period ended July 31, | | nine-month period ended July 31, | | Period from September 3,1997 to July 31,2004 |
|---|-----------------------------------|---------------------|----------------------------------|---------------------|--|
| | 2004 [unaudited] | 2003 [unaudited] | 2004 [unaudited] | 2003 [unaudited] | |
| Cash flows from operating activities: | | | | | |
| Net loss for the period | \$ (239,869) | \$ (165,261) | \$ (503,039) | \$ (807,462) | \$ (32,213,779) |
| Adjustments to reconcile loss for the period to net cash used in operating activities: | | | | | |
| Amortization of patents and trademarks | - | 9,127 | - | 27,176 | 67,596 |
| Amortization of capital assets | 130 | 3,136 | 3,990 | 33,741 | 525,341 |
| Loss on Sale of Investment | - | - | - | 58,302 | 49,810 |
| Write down of Investment | - | - | - | - | 61,020 |
| Loss on disposal of capital assets | - | - | - | - | 65,460 |
| Write-down of Royalty Rights | - | - | - | - | 10,000,000 |
| Write-down of Patents and Trademark | - | - | - | - | 299,820 |
| Share compensation expense | - | - | - | - | 7,285,696 |
| Non-cash wages and salaries | - | - | - | - | 34,000 |
| Change in non-cash working capital items, | - | - | - | - | - |
| Decrease (increase) in deposits and other receivables | (1,872) | 26,312 | (64,473) | 111,419 | (103,083) |
| Increase (decrease) in accounts payable and accrued liabilities | 37,488 | (69,599) | (11,242) | (149,653) | 128,414 |
| Net cash used in operating activities | (204,123) | (196,285) | (574,764) | (726,477) | (13,799,705) |
| Cash flows from investing activities: | | | | | |
| Capital assets, net | (1,652) | - | (2,761) | 1,962 | (727,798) |
| Proceed on disposal of capital assets | - | - | - | (1,688) | 134,458 |
| Patents and trademarks | - | (1,271) | - | (23,235) | (367,416) |
| Sale of available-for-sale Investment | - | - | - | - | 260,641 |
| Royalty Rights | - | - | - | - | (2,000,000) |
| Term Deposits | (2,464) | - | 140,564 | - | (79,366) |
| Net cash provided by (used in) investing activities | (4,116) | (1,271) | 137,803 | (22,961) | (2,779,481) |
| Cash flows from financing activities: | | | | | |
| Issue of common shares | 365,000 | - | 643,000 | - | 16,283,733 |
| Net Proceeds from Shareholder's Loan | - | - | - | - | 544,891 |
| Loan Proceeds from Avanticorp International Inc. | - | - | - | - | 112,031 |
| Rights issue Costs | - | - | - | - | (76,197) |
| Net cash provided by (used in) financing activities | 365,000 | - | 643,000 | - | 16,864,458 |
| Increase (decrease) in cash and cash equivalents | 156,761 | (197,556) | 206,039 | (749,438) | 285,272 |
| Cash and cash equivalents, beginning of period | 128,511 | 432,057 | 79,233 | 983,939 | - |
| Cash and cash equivalents, end of period | \$ 285,272 | \$ 234,501 | \$ 285,272 | \$ 234,501 | \$ 285,272 |
| Supplemental cash flow information: | | | | | |
| Interest paid | - | - | - | - | 76,987 |
| Income taxes paid | - | - | - | - | 66,722 |

See accompanying notes to consolidated financial statements.

Micromem Technologies Inc.
(A development stage company)

Supplemental Notes to the Consolidated Financial Statements

For the nine months period ended July 31, 2004

1. Going Concern:

The consolidated financial statements have been prepared on the “going concern” basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company has incurred substantial losses in its development stage. It will be necessary to raise additional funds for the continuing development, testing and commercial exploitation of its technologies. The sources of these funds have not yet been identified and there can be no certainty that sources will be available in the future.

The Company’s ability to continue as a going concern is dependent upon completing the development of its technology for a particular application, achieving profitable operations, obtaining additional financing and successfully bringing its technologies to the market. The outcome of these matters cannot be predicted at this time. The consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Company be unable to continue in business.

2. Summary of significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian GAAP and are stated in United States dollars. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2003 and the Management’s Discussion and Analysis for the 9 months ending July 31, 2004. The accounting policies used in the preparation of these interim consolidated financial statements are consistent with the accounting policies used in the company’s year end audited consolidated financial statements of October 31, 2003.