

MICROMEM TECHNOLOGIES INC  
Form 20-F  
March 03, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

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**FORM 20-F**

- £ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)  
OR (g) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
or  
Q ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For The Fiscal Year Ended October 31, 2007  
or  
£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF  
THE SECURITIES EXCHANGE ACT OF 1934  
or  
£ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR  
15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell report

Commission File No. 0-26005

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**MICROMEM TECHNOLOGIES INC.**

(Exact name of Registrant as specified in its charter)

**Ontario, Canada**

(Jurisdiction of incorporation or organization)

**777 Bay Street, Suite 1910,**

**Toronto, Ontario M5G 2E4, Canada**

**Tel: (416) 364-6513**

**Fax: (416) 360-4034**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

**None**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**Common Shares without par value**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

**72,946,167 Common Shares**

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act:

Yes  No

If this report is an annual or transition report, indicate by check mark if the registration is not required to file a report pursuant to section 13 or 15 of the Securities Exchange Act of 1934:

Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerator filer in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes  No

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## PART I

## INTRODUCTION

## Abbreviations

Throughout this document, Micromem Technologies Inc. and/or its affiliates are referred to as "Micromem", the "Company", "we", "us" or "our".

## Forward Looking and Cautionary Statements

This Form 20-F contains certain forward-looking statements. These forward-looking statements are based on current expectations, estimates and projections about the business of our company and the industry in which we operate, our management's beliefs, and assumptions made by our management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks" and "estimates," variations on such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions which are difficult to predict. Our actual results could differ materially from those expressed or forecasted in these forward-looking statements as a result of certain factors, including those set forth under "Item 3 - Key Information Risk Factors" and elsewhere in this Form 20-F.

## ITEM 1.

**IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not Applicable.

## ITEM 2.

**OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable.

## ITEM 3.

**KEY INFORMATION**

A.

**Selected Financial Data**

The following table sets forth our selected consolidated financial data in United States dollars as of and for each of the five fiscal years ended October 31, 2007, 2006, 2005, 2004 and 2003. The selected consolidated financial data has been derived from our audited consolidated financial statements. All information contained in the following table should be read in conjunction with our audited consolidated financial statements and the notes thereto and "Item 5 - Operating and Financial Review and Prospects", included elsewhere in this Form 20-F.

## Selected balance sheet information

	2007	2006	2005	2004	2003
Working capital (deficiency)	(\$1,531,855)	(\$448,923)	(\$74,831)	\$34,685	\$100,670
Capital Assets	-	-	-	2,925	3,768

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Total Assets	329,232	465,440	728,375	474,234	350,138
Capital Stock	37,166,397	36,693,353	34,305,087	32,103,787	31,236,287
Shareholders' equity (deficiency)	(1,531,855)	(448,923)	(74,831)	37,610	104,438

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Selected statement of operations and deficit information

	2007	2006	2005	2004	2003
Interest and other income	\$2,586	\$9,930	\$8,703	\$4,746	\$20,121
Research and development expenses	682,331	389,689	362,141	378,410	490,914
General and administrative expenses	1,862,417	2,448,249	1,951,600	570,684	621,050
Stock compensation expense	269,216	2,058,560	1,721,742	1,379,970	318,000
Write-down of royalty rights	-	-	-	-	-
Write-down of patents and trademarks	-	-	-	-	299,820
Loss (gain) on disposal of assets	-	-	-	-	58,302
Loss from continuing operations	(2,811,378)	(4,058,180)	(4,035,483)	(2,314,298)	(1,767,965)
Loss from discontinued operations	-	-	-	-	-
Loss before income taxes	(2,811,378)	(4,058,180)	(4,035,483)	(2,314,298)	(1,767,965)
Provision for income taxes (recovery)	-	-	-	-	-
Net loss	(2,811,378)	(4,058,180)	(4,035,483)	(2,314,298)	(1,767,965)
Loss per share-basic and diluted	0.04	0.06	0.07	0.04	0.04
Weighted average number of basic and diluted shares	70,685,153	66,709,353	62,155,234	52,958,975	47,061,810
Dividends	-	-	-	-	-

Reconciliation between Canadian GAAP and U.S. GAAP:

Our consolidated financial statements for the period have been prepared in accordance with Canadian GAAP which, in our case, conforms in all material respects with U.S. GAAP.

Currency and Exchange Rates

Our financial statements are all expressed in United States dollars. All other financial data appearing in this Form 20-F are expressed in United States dollars with the exception of certain limited cases when reference is made to instruments denominated in Canadian dollars ("CDN \$").

Transactions that were conducted in Canadian dollars or other foreign currencies have been converted into United States dollars using the average monthly rate of exchange per quarter which rate approximates the rate of exchange prevailing at the date of such transactions. Assets and liabilities denominated in Canadian dollars or other foreign currencies but expressed in this Form 20-F in United States dollars have been converted into United States dollars at the rate of exchange prevailing on the date of the applicable financial statement.

The following table sets forth, for the periods indicated, the high, low, end of period and average for period noon buying rates as published by the Bank of Canada, as expressed in the amount of U.S. Dollars equal to one Canadian dollar.

	2007	2006	2005	2004	2003
High for period	1.1853	0.9134	0.8690	0.8432	0.7738
Low for period	0.9499	0.8349	0.7872	0.7288	0.6350
End of period	0.9499	0.8907	0.8577	0.8319	0.7738
Average for period	1.1003	0.8782	0.8254	0.7717	0.7200

The following table sets forth, for each period indicated, the high and low exchange rates for United States dollars expressed in Canadian dollars on the last day of each month during such period, based on the Noon Buying Rate.

November 2006	December 2006	January 2007	February 2007	March 2007	April 2007
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High	1.1474	1.1653	1.1824	1.1853	1.1811	1.1584
Low	1.1277	1.1417	1.1649	1.1585	1.1529	1.1067

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	May 2007	June 2007	July 2007	August 2007	September 2007	October 2007
High	1.1135	1.0730	1.0686	1.0755	1.0546	1.0004
Low	1.0719	1.0580	1.0372	1.0499	0.9963	0.9535

On February 28, 2008, the noon buying rate for one Canadian dollar, as quoted by the Bank of Canada, was CDN \$.972 = U.S. \$1.00.

B.

Capitalization and Indebtedness

Not Applicable.

C.

Reasons for the Offer and Use of Proceeds

Not Applicable.

D.

Risk Factors

We and our investors face a number of significant risks, which are described below.

Risk Factors Related to Our Business

The financial statements of our company have been prepared on a going concern basis.

We have prepared our financial statements on a "going concern" basis which presumes that we will be able to realize our assets and discharge our liabilities in the normal course of business for the foreseeable future.

We are still in the development stage and have incurred substantial losses to date. We must raise additional funds for the continued development, testing and commercial exploitation of our 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.

At October 31, 2007 we had approximately \$245,000 cash on hand and our current monthly cash expenses were approximately \$150,000. Subsequent to October 31, 2007, through to the date of this report, we have raised an additional \$1,138,727 through the exercise of stock options and through private placement financings.

Our ability to continue as a going concern is dependent upon completing the development of our technology for a particular application, achieving profitable operations, obtaining additional financing and successfully bringing our technologies to the market. The outcome of these matters cannot be predicted at this time. Our 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 we be unable to continue in business.

If the going concern assumption was not appropriate for our financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used.

We currently have no operating revenue.

We have no revenues and there is no certainty that we will generate revenues in the near future. If we fail to enter into license agreements we will have no revenues. If we enter into such agreements the amount of the revenues we receive will depend on the terms we are able to get from each licensee and the ability of each licensee to compete in their particular market.

Our technology is under development.

Our Magnetic Random Access Memory, also referred to herein as MRAM, which is a non-volatile memory technology that uses magnetic, thin film elements on a silicon substrate to store information, is currently under development and is therefore not yet proven to be commercially viable. As such, we are unsure if our development efforts will succeed and, accordingly, significant development work remains to be completed.

In the event our technology is developed, we will face competition when we are ready to sell or license our products. We will be required to introduce our technology into a well-developed market and compete with major corporations who manufacture, sell and license existing memory products such as DRAM, SRAM, EPROM, EEPROM and Flash memory. The market for memory technologies is dominated by major corporations who have established market segments for their memory technologies and products. These corporations have significantly greater financial resources which are required to design, develop, manufacture, market, sell and license their products and technologies. Many of these major corporations have worldwide wafer manufacturing and integrated circuit production facilities.

Our success will be determined by the following factors which have not yet been tested or measured:

- the ability of manufacturers to incorporate the technology into existing manufacturing capabilities without significant retooling and material costs;
- price competitiveness; and
- the differential performance advantages of our memory technology.

After completion of the development of our technology, our ability to compete successfully will depend on elements outside of our control, including the rate at which customers incorporate our technology into their products, the success of such customers in selling those products, our protection of our intellectual property, the number, nature and success of our competitors and their product introductions and general market and economic conditions. In addition, our success will depend on our ability to develop, introduce, and license or sell in a timely manner our technology or products incorporating our technology and to compete effectively on the basis of factors such as speed, density, die size and power consumption.

Our competitors are seeking to develop other magnetic based memory technologies.

MRAM as a market segment is both crowded and competitive. We understand that other companies have research and development efforts under way in connection with non-volatile random access memory, also referred to herein as RAM. Much work is being done in the MRAM research and development at companies such as NVE, Cypress, Freescale, Phillips, Motorola and others. Other research and development efforts at IBM, Hewlett Packard and Nantero are focused on non-magnetic based non-volatile RAM. While these companies may be considered our competitors, their focus is on high-density RAM applications. As we anticipate introducing our product in the less competitive, low-density applications market, we believe our more direct competitors are Honeywell, Naval Research Laboratories, Ramtron and NVE. All of these companies have substantial resources at their disposal.

We may be materially affected by aggressive competition as the memory and data storage industry is highly competitive and customers make their decisions based on a number of competitive factors, including functionality, technology, performance, reliability, system scalability, price, quality, product availability, customer service and brand recognition. We must address each of these factors effectively in order to successfully compete.

Failure to secure continued financing will cause our business to suffer.

Since there is no assurance that revenues will be realized in the near future, we will need additional financing to continue our research and development and to successfully market our technology to potential licensees. While we have had sufficient funds thus far to meet our requirements, there is no assurance we will be able to continue to do so and failure to raise sufficient funds in the future will affect our ability to develop and market our technology.

Because much of our success and value depends on our ownership and use of intellectual property, our failure to protect our property could adversely affect our future growth and success.

Our success will depend on our ability to protect our intellectual property. We rely primarily on patent, copyright,

trademark and trade secret laws, as well as nondisclosure agreements and other methods to protect our proprietary technology and processes. Despite our efforts to do so, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology, develop similar technology independently or design around our patents. Policing unauthorized use of our products is expensive and difficult, and we cannot be certain that the steps we have taken will prevent misappropriation or infringement of our intellectual property.

Intellectual property claims against us, no matter how groundless, could cause our business to suffer.

Our future success and competitive position depend in part on our ability to retain exclusive rights to our technology, including any improvements that may be made on that technology from time to time by us or on our behalf. While our technology is patented or is subject to pending patent applications in the United States and we know of no challenge that has been made either against our technology or our rights to it, and we have no reason to believe that any such challenge might be made or that the grounds for any such challenge exist, if any intellectual property litigation were to be commenced against us, no matter how groundless, the result could be a significant expense to us, adversely affecting further development, licensing and sales, diverting the efforts of our technical and management personnel and, in the event of an adverse outcome, damages and possible restrictions on the further development, licensing and use of our technology.

There is no assurance that any of our pending patent applications will be issued as patents or that any issued patent will not be determined to be invalid at a later date.

We have a history of losses, and we may continue to generate losses in the foreseeable future.

To date, we have been solely a development company. We have not been profitable in any of the last three fiscal years. Unless and until we are able to successfully complete the development of our technology and develop markets for the commercialization of such technology, we may not be able to generate revenues in future periods and we may not be able to attain profitability.

The development of non-volatile random access memory products is a capital intensive business. Therefore, we expect to incur expenses without corresponding revenues at least until we are able to license our technology to third parties. This may result in net operating losses, which will increase continuously until we can generate an acceptable level of revenues, which we may never attain. Further, even if we do achieve operating revenues, there can be no assurance that such revenues will be sufficient to fund continuing operations. Therefore, we cannot predict whether we will ever be able to achieve profitability.

The likelihood of success of our business plan must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with developing and expanding early stage businesses and the competitive environment in which we operate.

We lack manufacturing capacity and will be dependent on third party manufacturers.

Our success will partially depend upon our ability to secure manufacturing of our technology in large quantities and at competitive prices. We have no in-house manufacturing capacity and do not anticipate developing such capacity. To the extent we are successful in completing the development of our technology we will likely be required to rely upon contract manufacturers to produce our products. We may not be able to enter into manufacturing arrangements on terms that are favorable to us. Moreover, there is no assurance that any future manufacturers will have the capability to manufacture our products in sufficient quantities to achieve profitability and within the quality, price, and technical standards required by our customers. In addition, because our technologies use semi-conducting materials other than silicon, there may be a limited number of contract manufacturers capable of producing our products since most are focusing on silicon-based manufacturing. If any future manufacturers should cease doing business with us or experience delays, shortages of supply or excessive demands on their capacity, we may not be able to obtain adequate quantities of product in a timely manner, or at all. Manufacturing new products involves integrating complex designs and processes, coordinating with suppliers for parts and components, and managing manufacturing capacities to accommodate forecasted demand. Failure to obtain sufficient quantities of parts and components, as well as other manufacturing delays or constraints, could adversely affect the timing of new product introductions. Any manufacturing problem or the loss of a contract manufacturer could be disruptive to our operations and result in lost sales.

We will be dependent upon the success of a limited range of products.

The range of products we intend to commercialize is currently limited to applications of non-volatile random access memory technologies and sensors. Reliance on a limited range of products could restrict our ability to respond to adverse business conditions. If we are not successful in developing this specific technology, or if there is not adequate demand for such technology or the market for such technology develops less rapidly than we anticipate, we may not have the capability to shift our resources to the development of alternative products. In such case our business would likely be at a significant disadvantage to other competitors in the field. As a result, the limited range of products we intend to develop could limit our revenues and profitability.

We may not realize income from the licensing of our technologies if our licensees fail to commercialize the products that incorporate these technologies.

In order to generate revenues from our MRAM technology, we will likely need to enter into licensing arrangements with third parties who can integrate our technology into products that will gain acceptance in the market. We have not yet entered into any licensing agreements, and there is no assurance that we will be able to do so on acceptable terms or at all. To the extent we are successful in licensing our technology, in general we will seek upfront payments plus ongoing royalties based on anticipated commercial sales of the products into which our technology is incorporated. Our ability to realize royalties will thus depend upon the successful manufacture and commercialization of such products, which will be primarily within the control of the licensee. There is no assurance that any eventual licensees' products will be technologically viable, nor that such licensees will be successful in marketing and selling such products. In addition, licensees could decide to delay or discontinue the commercialization of products for financial or other business reasons. Even if our licensees succeed in developing products that incorporate our technology, in all likelihood a significant amount of research, development and testing will be required before such products can be introduced to market. Therefore we may not receive royalty income for a substantial period following the commencement of any licensing arrangements. If our licensees are unable to commercialize products on a timely basis, they may lose market share to competing or alternative technologies. Any failure by the companies to which we license our technologies to successfully develop marketable products would have an adverse affect on our future royalty payments and financial condition.

Our supply of future products could be dependent upon relationships with key suppliers.

We will be reliant on third parties to supply the raw materials needed to manufacture our future products. Any reliance on suppliers may involve several risks, including a potential inability to obtain critical materials and reduced control over production costs, delivery schedules, reliability and quality. Any unanticipated disruption to future contract manufacture caused by problems at suppliers could delay shipment of products, increase our cost of goods sold and result in lost sales.

In order to commercialize our future products, we will need to establish a sales and marketing capability.

At present, we do not have any sales or marketing capability since our technology is currently in the development stage. However if we are successful in completing our development efforts, we will need to add marketing and sales personnel who have expertise in the computer technology business. We must also develop the necessary supporting distribution channels. Although we believe we can build the required infrastructure, we may not be successful in doing so if we cannot attract personnel or generate sufficient capital to fund these efforts. Failure to establish a sales force and distribution network would have a material adverse effect on our ability to grow our business.

The rights to certain of our patented technologies are shared with a third party.

Our core technology includes a memory design with the magnetic bit aligned vertically to the substrate, also referred to herein as our VEMRAM technology. We acquired ownership of certain patents and patent applications covering the VEMRAM technology, as well as certain related rights, pursuant to an Asset Purchase Agreement dated as of December 10, 2000 with Estancia Limited, also referred to herein as Estancia. However, under the terms of the Asset Purchase Agreement we have been required to convey back to Estancia a 40% undivided interest in the VEMRAM patents, as well as the right to participate in gross profits and royalties from the license or sale of such patents. This participation right requires us to pay to Estancia 32% of (i) the gross profit, less expenses to be agreed by the parties, for each license of the patents sold or otherwise transferred by us and (ii) all royalties received by us as a result of the license or sale of the patents less reasonable expenses directly related to the obtaining of such royalties.

We will be reliant upon contractual rights to use certain technologies that are material to our business.



Certain technologies material to our business are being developed through collaborative arrangements with the University of Toronto. We have entered into a number of successive Research Collaboration Agreements with the University of Toronto under which research and development programs have been led by a University research team. We have provided funding, equipment and background technology to these projects. Certain Canadian governmental entities are also parties to these agreements and have provided additional funding. The University of Toronto has ownership rights to all intellectual property developed under these programs. We have no ownership rights but have the right to obtain exclusive, world-wide and perpetual sub-licenses from the governmental participants to use such intellectual property; the governmental participants in turn have the right to obtain an exclusive, world-wide license to such technology directly from the University of Toronto.

Our auditors have previously identified significant deficiencies in our internal accounting controls.

We operate as a development stage company and have historically had only limited accounting personnel and resources with which to address our internal control procedures.

In anticipation of the implementation of Rules 13a-15(c) of the Securities Exchange Act of 1934 as amended (the Exchange Act"), also referred to as Section 404 of the Sarbanes-Oxley Act of 2002, we engaged, in 2005, an independent firm of external accountants - a different firm from our independent registered public accounting firm - to complete an in-depth review of our internal accounting procedures and controls. The firm's evaluation was only interim, and did not meet the requirements of Rule 13a-15(c). The independent firm of external accountants made several recommendations which we reviewed and evaluated at that time.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of October 31, 2005. Based on management's evaluation in 2005, our Chief Executive Officer and Chief Financial Officer concluded that, as of October 31, 2005, our disclosure controls and procedures were (1) not effective, in that they were not designed to ensure that material information relating to us is made known to our Chief Executive Officer and Chief Financial Officer by others within our organization, as appropriate to allow timely decisions regarding required disclosures, and (2) not effective, in that they did not ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

When our independent registered public accountants audited our financial statements as of and for the year ended October 31, 2005, they identified significant deficiencies in our disclosure controls and procedures. Significant deficiencies noted were that:

- we lacked certain formalized accounting policies and procedures including written procedures for the monthly, quarterly and annual closing of our financial books and records;
  - our staff was not always subject to timely review and supervision; and
  - security practices over our information technology were not sufficiently robust.

Since 2005 we have been committed to improving and enhancing our disclosure controls and procedures. In connection with the deficiencies described above, we implemented additional controls and procedures commencing in the fourth quarter of 2005 and continuing thereafter. The additional controls and enhanced procedures included:

- development of a system of controls including the upgrading of accounting software and the development of formalized software;
  - monthly analytical reviews by both the Chief Executive Officer and Chief Financial Officer;
  - prompt review of all financial statements and immediate reconciliation of our financial results;
  - our Audit Committee has met formally on a quarterly basis and on an informal basis as required to assess our financial performance and to review the progress management has made in upgrading its accounting procedures and controls;
  - interaction of our Audit Committee with our independent registered public accounting firm in 2007 on reporting and control related matters, and

• requirement that our Chief Technology Officer issue regular (weekly) status reports on her dealings with our research partners at the UofT.

We replaced our previous controller in 2006 with a more experienced individual. Additionally, we engaged an additional experienced person in 2006 to supervise and review the work of our controller and to interact directly with our Chief Financial Officer.

Our CFO has attended professional development courses dealing with SEC related filings. In 2006 our Board of Directors adopted formal disclosure controls and policies and appointed a Chief Information Officer to implement

these policies.

When our independent registered public accountants audited our financial statements as of and for the year-ended October 31, 2007 they identified a reportable condition relating to our operating controls relating to our outsourced research and development efforts at the University of Toronto. They reported that the relationship with the University of Toronto had not been managed in a manner which would prevent unauthorized charges on a timely basis which could result in disputed charges and additional costs.

In July 2007 we formed a Technical Advisory Committee consisting of independent directors and an outside consultant to supervise and to report on our technical developments on a timely basis.

The foregoing remedial measures did not materially increase our expenses. With the implementation of the above controls and procedures, we believe that we have significantly improved our disclosure controls and procedures and that the risks cited in 2005 have been appropriately reduced as a result.

The Company believes that it currently maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed internally is complete, accurate, reliable and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in its various reports are recorded, processed, summarized and reported accurately.

In spite of its evaluation, management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure controls and procedures occur and/or mistakes arise, the Company intends to take the necessary steps to minimize the consequences thereof. If, however, we fail to maintain adequate controls and procedures, we may not meet the demands that are placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act of 2002 and our business could accordingly face repercussions.

### **Risk Areas**

In February 2008 our ex-Chief Technology Officer filed a claim against the Company.

The Company originally hired Dr. Cynthia Kuper as a consultant in mid 2004. The Company entered into an employment agreement with Dr. Kuper in January 2005 for a two year term. Under the terms of the employment agreement, either party could terminate the agreement without cause by providing four months written notice. In late-2006, the Company extended the original agreement, effective January 2007, for an additional two year term.

On November 18, 2007, the Company served Dr. Kuper with the required four months written notice to terminate the employment agreement without cause.

On February 19, 2008, the Company received, via regular mail, a letter from the Occupational Safety and Health Administration ("OSHA") Branch of the U.S. Department of Labour. In the letter, OSHA advised that Dr. Kuper was alleging discriminatory employment practices in violation of Section 806 of the Corporate and Criminal Fraud Accountability Act of 2002, Title VIII of the Sarbanes-Oxley Act of 2002.

In the claim which Dr. Kuper has submitted, she alleges that she discovered that the Company had violated certain rules and regulations of the Securities and Exchange Commission, that the Company had been unlawfully paying excessive compensation to certain executives, directors, officers and employees by engaging in a practice of awarding excess stock options to directors, executives, officers, members of the Board of Directors and employees. Additionally, Dr. Kuper claims to have discovered that the granting of said stock options were intended to artificially inflate the agent's market capitalization and mislead the public as to the true financial state of the respondent.

The Company vigorously denies Dr. Kuper's claims and believes that they are malicious and frivolous. It has referred the matter to the Audit Committee and to the entire Board of Directors for full review and evaluation. The Company has also engaged legal counsel to fully and appropriately deal with these allegations. The Company is also conducting a complete investigation with respect to Dr. Kuper's performance during her tenure as Chief Technology Officer.

The Company and Dr. Kuper, through respective counsel, have agreed to a mediation of this dispute. The mediation date is currently set for Monday, April 21, 2008. There can be no assurance that this dispute will be resolved in mediation. If OSHA ruled against the Company in this matter, the financial and legal repercussions to the Company could be significant.

Risk Factors Related to Our Common Shares

Our stock is subject to the penny stock regulations, which may discourage brokers from effecting transactions in the stock and adversely affect the stock's market price and liquidity.

Our common shares constitute "penny stock" under applicable regulations of the Securities and Exchange Commission. Penny stock is defined as shares of stock that (a) are issued by a company that has less than \$5,000,000 in net tangible assets and has been in business less than three years, by a company that has less than \$2,000,000 in net tangible assets and has been in business for more than three years, or by a company that has average revenues of less than \$6,000,000 for the last three years; (b) have a market price of less than \$5 per share; and (c) are not quoted on the NASDAQ National Stock Market or listed on a U.S. stock exchange. The penny stock regulations impose significant restrictions on brokers who sell penny stock to persons other than established customers and institutional accredited investors. Broker-dealers participating in sales of our stock will be subject to the so called "penny stock" regulations covered by Rule 15g-9 under the Exchange Act. Under the rule, broker-dealers must furnish to all investors in penny stocks a risk disclosure document required by the rule, make a special suitability determination of the purchaser and have received the purchaser's written agreement to the transaction prior to the sale. In order to approve a person's account for a transaction in penny stock, the broker or dealer must (i) obtain information concerning the person's financial situation, investment experience and investment objectives; (ii) reasonably determine, based on the information required by paragraph (i) that the transactions in penny stocks are suitable for the person and that the person has sufficient knowledge and experience in financial matters that the person reasonably may be expected to be capable of evaluating the risks of transactions in penny stock; and (iii) deliver to the person a written statement setting forth the basis on which the broker or dealer made the determination required by paragraph (ii) in this section, stating in a highlighted format that it is unlawful for the broker or dealer to effect a transaction in a penny stock unless the broker or dealer has received, prior to the transaction, a written agreement to the transaction from the person; and stating in a highlighted format immediately preceding the customer signature line that the broker or dealer is required to provide the person with the written statement and the person should not sign and return the written statement to the broker or dealer if it does not accurately reflect the person's financial situation, investment experience and investment objectives, and obtain from the person a manually signed and dated copy of the written statement. Our common shares are subject to the penny stock regulations, which may discourage brokers from effecting transactions in the common shares. This would decrease market liquidity, adversely affect market price and make it difficult for you to use the common shares as collateral.

The rights of our shareholders may differ from the rights typically afforded to shareholders of a U.S. corporation.

We are incorporated under the Business Corporations Act (Ontario), also referred to herein as the OBCA. The rights of holders of our common shares are governed by the laws of the Province of Ontario, including the OBCA, by the applicable laws of Canada, and by our Articles of Incorporation and all amendments thereto, also referred to herein as the Articles, and our By-laws. These rights differ in certain respects from the rights of shareholders in typical U.S. corporations. The principal differences include without limitation the following:

Under the OBCA, we have a lien on any common share registered in the name of a shareholder or the shareholder's legal representative for any debt owed by the shareholder to us. Under U.S. state law, corporations generally are not entitled to any such statutory liens in respect of debts owed by shareholders.

With regard to certain matters, we must obtain approval of our shareholders by way of at least 66

$\frac{2}{3}$ % of the votes cast at a meeting of shareholders duly called for such purpose being cast in favor of the proposed matter. Such matters include without limitation: (a) the sale, lease or exchange of all or substantially all of our assets out of the ordinary course of our business; and (b) any amendments to our Articles including, but not limited to, amendments affecting our capital structure such as the creation of new classes of shares, changing any rights, privileges, restrictions or conditions in respect of our shares, or changing the number of issued or authorized shares, as well as amendments changing the minimum or maximum number of directors set forth in the Articles. Under U.S. state law, the sale, lease, exchange or other disposition of all or substantially all of the assets of a corporation generally requires approval by a majority of the outstanding

shares, although in some cases approval by a higher percentage of the outstanding shares may be required.

In addition, under U.S. state law the vote of a majority of the shares is generally sufficient to amend a company's certificate of incorporation, including amendments affecting capital structure or the number of directors. Under certain circumstances the board of directors may also have the ability to change the number of directors under U.S. state law.

Pursuant to our By-laws, two persons present in person or represented by proxy and each entitled to vote thereat shall constitute a quorum for the transaction of business at any meeting of shareholders. Under U.S. state law, a quorum generally requires the presence in person or by proxy of a specified percentage of the shares entitled to vote at a meeting, and such percentage is generally not less than one-third of the number of shares entitled to vote.

Under rules of the Ontario Securities Commission, a meeting of shareholders must be called for consideration and approval of certain transactions between a corporation and any "related party" (as defined in such rules). A "related party" is defined to include, among other parties, directors and senior officers of a corporation, holders of more than 10% of the voting securities of a corporation, persons owning a block of securities that is otherwise sufficient to affect materially the control of the corporation, and other persons that manage or direct, to a substantial degree, the affairs or operations of the corporation. At such shareholders' meeting, votes cast by any related party who holds common shares and has an interest in the transaction may not be counted for the purposes of determining whether the minimum number of required votes have been cast in favor of the transaction. Under U.S. state law, a transaction between a corporation and one or more of its officers or directors can generally be approved either by the shareholders or a majority of the directors who do not have an interest in the transaction. Corporations that are listed on a U.S. securities exchange or are quoted on Nasdaq may also be required to have transactions with officers and directors and other related party transactions reviewed by an audit committee comprised of independent directors.

There is no limitation imposed by our Articles or other charter documents on the right of a non-resident to hold or vote our common shares. However, the Investment Canada Act, also referred to herein as the Investment Act, as amended by the World Trade Organization Agreement Implementation Act, also referred to herein as the WTOA Act, generally prohibits implementation of a reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture that is not a "Canadian," as defined in the Investment Act, unless, after review, the minister responsible for the Investment Act is satisfied that the investment is likely to be a net benefit to Canada. An investment in our common shares by a non-Canadian would be reviewable under the Investment Act if it were an investment to acquire direct control of Micromem, and the value of our assets were CDN \$5.0 million or more. However, an investment in our shares by a national of a country (other than Canada) that is a member of the World Trade Organization or has a right of permanent residence in such a country (or by a corporation or other entity that is a "WTO Investor-controlled entity" pursuant to detailed rules set out in the Investment Act) would be reviewable at a higher threshold of CDN \$223 million in assets, except for certain economic sectors with respect to which the lower threshold would apply. A non-Canadian, whether a national of a WTO member or otherwise, would acquire control of Micromem for purposes of the Investment Act if he or she acquired a majority of our common shares. The acquisition of less than a majority, but at least one-third of our common shares, would also be presumed to be an acquisition of control of Micromem, unless it could be established that Micromem was not controlled in fact by the acquirer through the ownership of voting shares. The United States is a WTO Member for purposes of the Investment Act. Certain transactions involving our common shares would be exempt from the Investment Act, including:

- an acquisition of our common shares if the acquisition were made in connection with the person's business as a trader or dealer in securities;
- an acquisition of control of Micromem in connection with the realization of a security interest granted for a loan or other financial assistance and not for any purpose related to the provisions of the Investment Act; and
- an acquisition of control of Micromem by reason of an amalgamation, merger, consolidation or corporate reorganization, following which the ultimate direct or indirect control of Micromem, through the ownership of voting interests, remains unchanged. Under U.S. law, except in limited circumstances, restrictions generally are not imposed on the ability of nonresidents to hold a controlling interest in a U.S. corporation.



U.S. shareholders may not be able to enforce civil liabilities against us.

Micromem is incorporated under the laws of the Province of Ontario. Additionally, a number of our directors and executive officers are non-residents of the U.S., and all or a substantial portion of the assets of such persons are located outside the U.S. As a result, should any investor commence an action in the U.S. against Micromem or its directors or executive officers, Micromem or its directors or officers, as the case may be, may be able to insist that any action against them take place in the jurisdiction of the Province of Ontario. In addition, if an investor were to obtain a U.S. judgment against Micromem or its directors or executive officers, there is doubt as to the enforceability of such U.S. judgment in Canada.

We do not anticipate paying dividends.

We have never paid a dividend on our securities and we do not anticipate paying dividends in the foreseeable future.

We may need to issue additional securities which may cause our shareholders to experience dilution.

Our Board of Directors has the authority to issue additional common shares, without par value, also referred to herein as the common shares, or other of our securities without the prior consent or vote of our shareholders. The issuance of additional common shares would dilute the proportionate equity interest and voting power of our shareholders.

We depend on key personnel.

Our senior managers and employees are Salvatore Fuda, who serves as the Chairman of the Board of Directors, Joseph Fuda, who serves as our Chief Executive Officer, Mr. Steven Van Fleet who serves as our Head of Business Development and Dan Amadori who serves as our Chief Financial Officer. Dr. Harry Ruda, and a number of researchers forming the team that he oversees, are key technical personnel engaged pursuant to research collaboration agreements between us and the University of Toronto. We have also engaged the services of an engineering/technical consulting firm, Strategic Solutions Inc. to assist in converting our development efforts to an industrial fabrication plant. Our success depends on our ability to retain certain of our senior management and key technical personnel and our ability to attract and retain additional highly skilled personnel in the future.

We may be materially affected by global economic and political conditions.

Our ability to generate revenue may be adversely affected by uncertainty in the global economy and could also be affected by unstable global political conditions. Terrorist attacks or acts of war could significantly disrupt our operations and the operations of our future customers, suppliers, distributors, or resellers. We cannot predict the potential impact on our financial condition or our results of operations should such events occur.

We may be materially affected by rapid technological change and evolving industry standards.

Short product life cycles are inherent in high-technology companies due to rapid technological change and evolving industry standards. Our future financial condition and results of operations depend on our ability to respond effectively to these changes. We cannot provide any assurance that we will be able to successfully develop, manufacture, and market innovative new products or adapt our current products to new technologies or new industry standards. In addition, our customers may be reluctant to adopt new technologies and standards or they may prefer competing technologies and standards. Because the technology market changes so rapidly, it is difficult for us to predict the rate adoption of our MRAM technology.

We may be materially affected by risks associated with new product development.

Our new product research and development is complex and requires us to investigate and evaluate multiple alternatives, as well as plan the design and manufacture of those alternatives selected for further development. Our research and development efforts could be adversely affected by hardware and software design flaws, product development delays, changes in data storage technology, changes in operating systems and changes in industry standards.

The manufacturing of new products involves integrating complex designs and processes, coordinating with suppliers for parts and components and managing manufacturing capacities to accommodate forecasted demand. Our failure to obtain sufficient quantities of parts and components or other manufacturing delays and constraints could adversely affect our ability to timely introduce new products.

Our operations may be materially affected by the risks associated with developing and protecting intellectual property.

We cannot provide any assurance that we will be able to continue to develop new intellectual property or that we will continue to have it developed for us.

We rely on a combination of U.S. patent, copyright, trademark, and trade secret laws to protect our intellectual property rights. Due to financial constraints, we have decided to not file patent and trademark registration applications with foreign governments and this may expose our technologies to infringement in foreign jurisdictions.

We enter into confidentiality and non-disclosure agreements relating to our intellectual property with our employees and consultants.

Despite all of our efforts to protect our intellectual property rights, unauthorized parties may attempt to copy or otherwise obtain or use our intellectual property. Monitoring the unauthorized use of our intellectual property is difficult and we cannot provide assurance that we will be able to adequately protect our intellectual property in the future.

We may be materially affected if we are unable to attract, retain and motivate key employees.

Our future success depends, in large part, on our ability to attract, retain and motivate key employees. We face significant competition for individuals who possess the skills required to design, develop, manufacture, and market our technologies. An inability to successfully attract, retain, and motivate these employees in the future could have an adverse effect on our future operating and financial performance.

The price of our common shares and volume of our common shares may be volatile.

Our shareholders may be unable to sell a significant number of our common shares on the NASD OTC-BB without a significant reduction in the market price of the shares.

Furthermore, there can be no assurance that we will be able to meet the listing requirements of, or achieve listing on, any other stock exchange. The market price of the common shares may be affected significantly by factors such as fluctuations in our operating results, announcements of technological innovations or new products by us or our competitors, action by governmental agencies against us or the industry in general, developments with respect to patents or proprietary rights, public concern as to the safety of products developed by us or others, the interest of investors, traders and others in public companies such as ours and general market conditions. In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly small capitalization companies, have experienced fluctuations which have not necessarily been related to the operating performance, underlying asset values or business prospects of such companies.

There are foreign exchange risks associated with our company.

Because we have historically raised funding in U.S. dollars, and a significant portion of our costs are denominated in Canadian dollars, our funding is subject to foreign exchange risks. A decrease in the value of the U.S. dollar relative to the Canadian dollar could affect our costs and potential future profitability. We do not currently hold forward exchange contracts or other hedging instruments to exchange foreign currencies for U.S. dollars to offset potential currency rate fluctuations.

We attempted on a best efforts basis to make effective a Registration Statement in connection with Unit private placement financings completed in fiscal 2005.

We filed a Registration Statement with respect to Unit Private Placements during fiscal 2005. However, we decided to withdraw the Registration Statement prior to October 31, 2005. Our Board of Directors has since approved of the restructuring of the Unit Private Placements as follows:

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In December 2005, the Unit was revised to consist of a common share and a Class A and Class B warrant. The Class A warrant expiry date was extended to June 30, 2006 and the Class B warrant expiry date remained at December 31, 2006. All of the other terms and conditions of the Unit Private Placements remained unchanged.

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- In June 2006, the expiry date on the Class A warrants was extended to September 30, 2006 on the provision that one-third of the outstanding Class A warrants were exercised by June 30, 2006. A total of 771,850 Class A warrants were exercised on this basis and the Company realized proceeds of \$485,548. A total of 1,563,484 Class A warrants remained outstanding.
- In September 2006, the expiry date on the Class A warrants were extended to December 31, 2006.
- In December 2006, all of the outstanding Class A and Class B warrants were re-priced to \$0.50 per warrant and the expiry date was extended in both cases to March 31, 2007.
- In February 2007, the expiry date for all of the outstanding Class A and Class B warrants was extended to June 30, 2007.
- In April 2007, we extended the expiry date of the outstanding Class A and Class B warrants to June 30, 2008 and repriced the warrants to \$0.40 per warrant.

All of the other terms and conditions of the Unit Private Placements remain unchanged.

The Company filed an amended Registration Statement in June 2006 but it was not declared effective by the Securities and Exchange Commission at that time. In 2007, the Board of Directors decided that the Company had exercised best efforts to make the Registration Statement effective and that it would not further pursue this process. On this basis, the related Class A and Class B warrants, once exercised, will have trading restrictions imposed for a period of at least 12 months from issue date.

The investors in these Unit private placements could argue that the Company has not exercised best efforts and seek rescission rights on these private placements.

### ITEM 4.

#### **INFORMATION ON THE COMPANY**

##### **A. History and Development of Our Company**

Micromem is a corporation formed under the laws of the Province of Ontario, Canada, with principal executive offices at 777 Bay Street, Suite 1910, Toronto, Ontario M5G 2E4 (416.364.6513). Micromem was incorporated on October 21, 1985 as Mine Lake Minerals Inc. We subsequently changed our name to Avanti Capital Corp. on June 23, 1988, to AvantiCorp International Inc. on April 30, 1992 and to Micromem Technologies Inc. on January 11, 1999 in connection with our acquisition of Pageant Technologies Incorporated, also referred to herein as Pageant International. Our website address is [www.micromeminc.com](http://www.micromeminc.com). The information on our website is not part of this annual report on Form 20-F. We have included our website address in this document as an inactive textual reference only.

##### **Purchase of Pageant International**

On January 11, 1999, we completed the acquisition of 100% of the capital stock of Pageant Technologies Inc. ("Pageant International"), in exchange for 32,000,000 of our common shares and warrants for the purchase of an additional 1,000,000 of our common shares, also referred to herein as the warrants, representing 88.94% of the outstanding common shares of Micromem (89.24% assuming exercise of all the shares underlying the warrants). The acquisition was completed pursuant to an agreement, dated December 7, 1998, amongst Micromem, as the purchaser, and Ataraxia Corp., as the vendor, and Pageant International. The warrants were exercisable at CDN \$2.00 per share

through January 11, 2000 and thereafter at CDN \$2.30 per share through January 12, 2001 on which date the warrants remaining unexercised expired. The total purchase price for the Pageant International common stock was \$30,000,000. The value of our common shares used to pay the purchase price was determined through "arm's length" negotiations using as a point of reference the price per common share of \$1.16 on September 23, 1998 less an agreed upon discount.

The primary asset of Pageant International was an undivided 50% interest in patents issued in the United States and Europe, with a corresponding application in Japan, for nonvolatile random access memory technology which was, at the time, called MAGRAM and which is, today, called VEMRAM, referred to herein as the VEMRAM patents. The VEMRAM technology also includes certain improvements to the VEMRAM patents, some of which are the subject of pending patent applications. The undivided 50% interest in the VEMRAM patents was originally conveyed to Ataraxia Corp. by Estancia Limited, a company incorporated under the laws of the Turks & Caicos Islands, pursuant to a Joint Ownership and Licensing Agreement dated September 17, 1997, referred to herein as the Joint Ownership and Licensing Agreement, which Ataraxia Corp. assigned to Pageant International on October 22, 1997 with the written consent of Estancia Limited. In addition to the undivided 50% interest in the VEMRAM patents, under the Joint Ownership and Licensing Agreement, Pageant International was granted an exclusive worldwide license to develop, manufacture and sell the VEMRAM technology. The Joint Ownership and Licensing Agreement required Pageant International to pay Estancia Limited, or its nominee, a royalty of 40% of the gross profits less expenses agreed by the parties for each technology license sold. Additionally, Pageant International would be required to pay Estancia Limited 40% of any per unit royalty received by Pageant International less properly documented reasonable expenses directly related to the obtaining of those royalties and as agreed by the parties in writing.

The Joint Ownership and Licensing Agreement also provided that if Pageant International, as approved assignee of Ataraxia Corp., sold the rights to the VEMRAM technology to a third party not owned or controlled by it, it would have to pay Estancia Limited 50% of the proceeds from such transaction. In the event of the sale of all of the VEMRAM technology rights, 50% of the proceeds would be assigned to Estancia Limited, reflecting its 50% undivided interest in the technology, rather than 40% reflecting its royalty rights under the VEMRAM License. Estancia Limited is controlled by John Zammit. Mr. Zammit has no direct control relationship with us, and our management is not aware of the existence of an indirect control relationship between us and Ataraxia Corp and Mr. Zammit.

The acquisition of Pageant International was treated as a reverse takeover for accounting purposes. In the case of the purchase of Pageant International by Micromem, the two former shareholders of Pageant International ended up with a greater number of voting shares than did the pre-acquisition of our shareholders and therefore were deemed to have apparent control. Our consolidated financial statements are presented as a continuation of the financial position and results of Pageant International, even though we remain the legal parent and Pageant International remains the legal subsidiary. The primary consequence of the application of this treatment to the acquisition is that the patent rights were recorded at \$100 on the date of the reverse takeover, the historical value at which they were carried on the Pageant International balance sheet.

#### Agreement to Purchase Estancia Limited Interests

On December 10, 2000, we and Pageant International entered into an Asset Purchase Agreement with Estancia Limited and Richard M. Lienau to purchase from Estancia Limited and Mr. Lienau all interests in the VEMRAM patents and the VEMRAM technology and all other rights, interests and entitlements held by Estancia Limited and Mr. Lienau as set forth in the Joint Ownership and Licensing Agreement, also referred to herein as the estancia limited interests.

Under the Asset Purchase Agreement, which closed on March 9, 2001, Pageant International agreed to pay a purchase price of \$50.0 million to Estancia Limited, as follows:

- \$10.0 million was paid on closing, in the form of 2,007,831 of our common shares (or \$8.0 million worth of our common shares based on the close price on the closing date, being \$3.98 per share) and \$2.0 million in cash;

\$20.0 million, paid if and when either: (a) certification was received from Honeywell Federal Manufacturing & Technologies that fully integrated, randomly addressable memory matrices of VEMRAM technology met certain stipulated performance standards, or (b) Micromem or any of its affiliates executed a definitive agreement for the sale or licensing of the VEMRAM technology to an "arm's length" third party for any commercial purposes other than testing or evaluation of the technology. The \$20 million was payable in the form of cash and common shares to be determined by Pageant International provided that a minimum of 50% of the \$20.0 million shall be paid in our common shares valued at the close of trading on the date of such certification receipt, sale or licensing; and

\$20.0 million, paid if and when we or any of our affiliates executed a definitive agreement for the sale or licensing of any technology (including the VEMRAM technology) owned by us to an "arm's length" third party for any commercial purposes other than testing or evaluation of the technology; payable in the form of cash and common shares to be determined by Pageant International provided that a minimum of 50% of the \$20.0 million shall be paid in common shares valued at the close of trading on the date of execution of the license.

Notwithstanding the provisions triggering the two \$20.0 million payments, also referred to herein as the triggering events, Pageant International had the right to pay any portion or all of the purchase price at any time following the March 9, 2001 closing date, through a combination of cash and common shares, provided that a minimum of 50% of such payment was through the issuance of common shares.

At the closing of the Asset Purchase Agreement, on March 9, 2001, Estancia Limited was also required to and, they did in fact enter into a three year technology development agreement with Pageant International for the continued services of Mr. Lienau towards the development of VEMRAM technology, also referred to as the Technology Development Agreement. The Technology Development Agreement provided for fees to Estancia Limited of \$215,000 per annum and a budget for the continued development of VEMRAM of up to \$500,000 per annum. Effective April 23, 2002, the Technology Development Agreement was amended to extend the term of the agreement for an additional eight months commencing March 9, 2004 through to November 9, 2004, and to provide a reduction of the monthly fees payable to Estancia Limited to \$107,500 during the period from June to December 2002, and during the extended period.

Because neither of the triggering events occurred prior to March 9, 2004, Pageant International was deemed to have conveyed a 40% undivided interest in the VEMRAM patents and granted a 32% gross profits royalty (as described below), to Estancia Limited, where the proportionate interest was calculated as the ratio of the portion of the purchase price remaining unpaid (being \$40.0 million) at such date over \$50.0 million. Consequently, Pageant International owns a 60% interest in the VEMRAM patents and is required to pay Estancia Limited royalties equal to 32% of: (a) the gross profit, less expenses agreed to by the parties, for each license of the VEMRAM patents sold or otherwise transferred by Pageant International; and (b) the amount of any unit royalty received by Pageant International as a result of the license or sale of the VEMRAM patents less reasonable expenses directly related to the obtaining of said royalties.

#### Changes to Our Board of Directors and Management

On January 11, 1999, immediately following our acquisition of Pageant International, Stephen Fleming, who had been serving as President and Chief Executive Officer of Pageant Technologies (USA) Inc., was elected to our Board of Directors to join Salvatore Fuda and Ross McGroarty, who had served as Directors since 1992 and 1988, respectively. The Board of Directors then elected Mr. Fuda as Chairman of the Board of Directors, Mr. Fleming as President and Chief Executive Officer, and Mr. McGroarty, who had been serving as our President, to serve as our Executive Vice President and Secretary. Subsequently, on March 18, 1999, Robert Patterson, who had been serving as Chairman of the Board of Directors and Vice President of Corporate Development of Pageant Technologies (USA) Inc., was elected to serve as our President and Chief Executive Officer to replace Mr. Fleming. On November 15, 1999, Antonio Lopes was appointed Chief Financial Officer. On June 15, 2000, Mr. McGroarty resigned as Executive Vice-President and Secretary.

At our annual meeting of shareholders held on June 29, 2000, the following individuals were elected to serve on our Board of Directors: Andrew Brandt, Stephen Fleming, Salvatore Fuda, Charles Harnick and George Kennedy. The terms of all previously elected directors ended on such date. The term of Mr. Lopes' employment as our Chief Financial Officer ended on June 5, 2000 and Mr. Raj Viswanathan was then appointed to serve as our Chief Financial Officer. The term of Robert Patterson's employment as our President and Chief Executive Officer having ended, Salvatore Fuda was reappointed as Chairman of the Board of Directors and he was appointed to serve as our Chief Executive Officer on June 29, 2000. Also on June 29, 2000, Manoj Pundit was appointed to serve as our Executive Vice-President and General Counsel. On February 21, 2001, Dr. Dale Hensley was appointed to serve as Chief Operating Officer of both Micromem and Pageant Technologies (USA) Inc.

At our annual meeting of shareholders held on March 14, 2001, Andrew Brandt, Stephen Fleming, Salvatore Fuda, Charles Harnick, George Kennedy, Manoj Pundit and David Sharpless were elected to serve on our Board of Directors. At a meeting of our Board of Directors held on March 14, 2001, a resolution was passed appointing Dale Hensley as a director of Micromem. At a meeting of our Board of Directors held on February 13, 2002, our Board of Directors accepted the resignation of Salvatore Fuda as President and Chief Executive Officer of Micromem due to health reasons. Salvatore Fuda continues to serve as our Chairman of the Board of Directors. In his place, the Board of Directors appointed Joseph Fuda to serve as our Director and as President and Chief Executive Officer. Messrs. Andrew Brandt, Stephen Fleming, Salvatore Fuda, Charles Harnick, Dale Hensley, George Kennedy, Manoj Pundit,



David Sharpless and Stephen Van Fleet were elected as Directors of Micromem at the annual meeting held April 30, 2002.

Dr. Dale Hensley's employment as our Chief Operating Officer was terminated effective as of September 24, 2002. Raj Viswanathan resigned as our Chief Financial Officer on October 31, 2002 and as a Director of Pageant Technologies (USA) Inc. on September 26, 2002. Dr. Hensley resigned as a Director of Pageant Technologies (USA) Inc. on September 26, 2002 and as a Director of Micromem effective October 9, 2002. Antonio Lopes was reappointed as our Chief Financial Officer on November 1, 2002.

At our annual meeting of shareholders held on June 6, 2003, Salvatore Fuda, Stephen Fleming, Charles Harnick, George Kennedy, Andrew Brandt, Manoj Pundit, Joseph Fuda, David Sharpless and Steven Van Fleet were elected to serve on our Board of Directors.

At our annual meeting of shareholders held on June 25, 2004, Salvatore Fuda, Stephen Fleming, Charles Harnick, George Kennedy, Andrew Brandt, Manoj Pundit, Joseph Fuda, David Sharpless and Steven Van Fleet were elected to serve on our Board of Directors. Dan Amadori replaced Antonio Lopes as our Chief Financial Officer on the annual meeting date.

Dr. Cynthia Kuper joined us as Chief Technology Officer on January 28, 2005 after serving as acting Chief Technology Officer since September 2004. At our annual meeting of shareholders held on June 27, 2005, Salvatore Fuda, Stephen Fleming, Charles Harnick, George Kennedy, Andrew Brandt, Manoj Pundit, Joseph Fuda, David Sharpless and Steven Van Fleet were elected to serve on our Board of Directors.

On November 12, 2005 Mr. Larry Blue was appointed to serve on our Board of Directors.

At our annual meeting of shareholders held on June 26, 2006, Salvatore Fuda, Andrew Brandt, Joseph Fuda, David Sharpless, Steven Van Fleet, Oliver Nepomuceno and Larry Blue were elected to serve on our Board of Directors. Messrs. Salvatore Fuda, Joseph Fuda, Manoj Pundit, Dan Amadori and Ms. Cynthia Kuper continued to hold the officer roles as described above.

At our Annual Meeting of shareholders on Friday, July 27, 2007 Salvatore Fuda, Andrew Brandt, Joseph Fuda, David Sharpless, Steven Van Fleet, Oliver Nepomuceno and Larry Blue were all re-elected to serve on our Board of Directors. Messrs. Salvatore Fuda, Joseph Fuda, Manoj Pundit, Dan Amadori and Ms. Cynthia Kuper's roles as officers of the Company were continued.

On November 18, 2007, pursuant to the terms of the employment agreement previously executed, the Company served four months notice to terminate the employment contract of Cynthia Kuper as Chief Technology Officer.

As discussed in "Item 3 - Risk Factors" on Page 8 of this report, Dr. Kuper has filed a claim against the Company in February 2008 citing wrongful dismissal and making a number of allegations against the Company. The Company vigorously denies Dr. Kuper's claims which it considers malicious and frivolous. The dispute has been referred to the Company's Audit Committee and legal counsel has been engaged to advise the Company of its options and an appropriate response. April 21, 2008 has been set for mediation of this dispute.

On February 1, 2008, Manoj Pundit resigned as Vice President and Secretary of the Corporation.

The Company has not made any capital expenditures in 2007, 2006 or 2005; in 2004 capital expenditures were \$4,567.

## B. Business Overview

We are engaged in the development of memory technology having the characteristic of non-volatility, which is the ability to retain information after power has been shut off. Our technology is based on our ability to use magnetic materials in combination with a sensor to record the "state of magnetization." Each magnetic element stores one bit of data based on its ability to alternate between states of magnetic polarization, which states are determined by a sensor. Our technology represents "1"s and "0"s by the different polarization of magnets. For example, a magnet oriented north/south is a "1" and a magnet oriented south/north is a "0". The magnetic field strength and direction do not decay when power is switched off, and, therefore, the memory is non-volatile.

In June 2002, our management determined that our research and development required restructuring due to financial constraints, in order to continue the development of magnetic non-volatile memory technology. Accordingly, we commenced restructuring our operations in July 2002 to achieve an orderly transition of our research and development program. As part of this restructuring, Pageant Technologies (USA) Inc., a subsidiary of Pageant International, closed its Lee's Summit, Missouri facility by August 31, 2002 and we downsized our head office in Toronto as of October 31, 2002. Both we and Pageant Technologies (USA) Inc. terminated Dr. Dale Hensley as Chief Operating Officer effective as of September 24, 2002. Pageant Technologies (USA) Inc. terminated all of its other employees by October 31, 2002. Dr. Hensley resigned from our Board of Directors on October 9, 2002 and as a Director of Pageant Technologies (USA) Inc. on September 26, 2002. In September 2002, Pageant Technologies (USA) Inc. terminated its agreement with Townsend Capital Inc. pursuant to which Pageant Technologies (USA) Inc. occupied the offices, laboratory and clean room it had occupied at Summit Technology Campus, Lee's Summit, Missouri.

Until August 2002, we were pursuing the development of our two unique memory technologies:

a memory design with the magnetic bit aligned horizontally to the substrate, known as HEMRAM; and

- a memory design with the magnetic bit aligned vertically to the substrate, known as VEMRAM.

Since July 2002, we have participated in further magnetic memory technology research and development pursuant to our collaboration with the University of Toronto and Dr. Harry Ruda and have launched additional development initiatives in 2007. Refer to "Recent Developments Research and Development Efforts" on Page 22 of this report.

We have a portfolio of patents and patent applications protecting the technology that we are developing.

#### Industry Background

The semiconductor memory industry is principally driven by the requirements of the computing industry. The nature of the memory manufacturing industry is that it is capital intensive, cyclical, rapidly changing and it depends significantly on patent protection.

The semiconductor industry is intensely competitive. Both low-density and high-density nonvolatile memory products are manufactured and marketed by major corporations possessing worldwide wafer manufacturing and integrated circuit production facilities and by specialized product companies.

#### Our Company's Technology

The various characteristics of our technology can be better understood by describing the three basic types of memory used in present day computers, Random Access Memory (RAM), Read Only Memory (ROM), and secondary storage devices such as floppy and hard disks. The three types of memory are described below:

##### Random Access Memory (RAM)

is memory that can be both read and written randomly, which means that its storage locations can be accessed in any order. Thus, a computer using RAM can find and go directly to the selected location rather than performing a sequential search. Semiconductor RAM is usually the primary memory associated with the computer's *central processing unit (CPU)*, the computational unit of the computer responsible for interpreting and executing instructions. However, RAM is *volatile* which means that all stored information vanishes once the power supply is removed and must be restored from a secondary storage device each time the power is resumed.

Two typical examples of RAM are Dynamic Random Access Memory and Static Random Access Memory. *Dynamic Random Access Memory (DRAM)* uses integrated circuits containing capacitors to achieve significant storage capacity and speed. DRAM can be written and read in the speed range of less than 100 nanoseconds. DRAM has a major drawback in that its capacitors lose their charge over time and therefore information contained in DRAM must be continually refreshed. This means that, on average, DRAM must stop operations every 16-30 milliseconds and restore all of the data it contains or the data will disappear. During this refresh time, the processor has no access to the information being refreshed. *Static Random Access Memory (SRAM)* differs from DRAM in that it stores information in a logic circuit referred to as a flip-flop, rather than in a capacitor. SRAM memory does not need to be refreshed while the power is on, but also loses its information once the power is turned off.

Read Only Memory (ROM), like RAM, can be read randomly, but cannot be written randomly. Unlike RAM, however, it is nonvolatile and therefore does not lose its information when a computer's power is cut off. ROM is typically employed to store vital program information required during the first moments after a computer is powered on. It may be used for such purposes as forcing system test routines, directing the processor to input/output devices or for controlling access to certain computer subsystems such as hard drives. *EPROMs (erasable programmable read-only memory)* and *EEPROMs (electrically erasable read-only memory)* are read only memories that can be erased and rewritten, but must be written "en masse," rather than at the individual word level. "Flash" memory is a form of EEPROM that is widely used today in such devices as cell phones, modems and personal digital assistants. The drawbacks to Flash memory are that write times are slower, the number of read/write cycles are limited and there is a requirement for significantly higher power to store data.

### Secondary Storage Devices

include *CDs*, which are light and portable and are written and read by a motor driven mechanical drive. They normally have a storage capacity in the low megabyte range and are non-volatile and can be both written and read. However, since they are serial (as opposed to parallel) devices, they are considerably slower than RAM.

Our technology combines the use of semi-conducting ferromagnetic metals with a sensor. When the magnetization of the magnetic material changes direction, the sensor senses the change in direction and records a "0" or "1". In this fashion, a bit is created that is non-volatile and based on magnetic properties. We are developing this form of magnetic random access memory for low-density applications, such as RFID, that can benefit from non-volatile data storage.

### Competition

We are aware of others conducting research, development and commercialization in the magnetic non-volatile memory area. These include IBM Research (San Jose, California), Ovonyx, Inc. (Troy, Michigan), Hewlett-Packard (Palo Alto, California), Honeywell (Plymouth, Minnesota), Motorola (Phoenix, Arizona) and Freescale Semiconductor.

Two main centers of MRAM research are at IBM and Infineon. IBM and Infineon have alternative MRAM technologies based on the giant magneto resistance principle. This giant magneto resistance principle primarily consists of two ferromagnetic layers separated by a conductive nonmagnetic interlayer. The electrical resistance is high in the absence of an external magnetic field. However, an applied external field forces the initially anti-parallel magnetization in the coupled films into parallel alignment and the resistance drops. The high or low resistance determines the data storage state. Magnetic tunnel junction cells, as they are known, have similar sandwiched structures but the interlayer is insulating instead of conducting. In contrast to giant magneto resistance structures, in which the sense current flows parallel to the layers, the current in magnetic tunnel junction flows perpendicularly to the layers of the stack.

Even though we cite these companies as our competitors, because they develop MRAM technology, it should be noted that our technology is significantly different with respect to the device architecture and mechanism of functioning.

### Recent Developments Research and Development Efforts

On October 24, 2002, we entered into a two-year research collaboration agreement, also referred to herein as the U of T Research Collaboration Agreement, with Materials and Manufacturing Ontario, the University of Toronto and Dr. Harry Ruda, Chair Professor in Nanotechnology. Through the collaboration, we have continued our involvement in the research and development of magnetic memory technology, carried out by a highly skilled research team headed and assembled by Dr. Ruda. Under the agreement, we and Materials and Manufacturing Ontario have each provided CDN \$272,000 of funding and a combined CDN \$544,000 was used to cover the operating expenses of the research

collaboration over a term of two years. Under the agreement, we maintain our ownership of our portfolio of patents and intellectual property to date.

On November 1, 2002, we entered into an Infrastructure Agreement with the University of Toronto to fund the assembly of a facility for research and development and fabrication of magnetic memory which involves the storage of memory using magnetization. Under the terms of the agreement, we agreed to contribute \$249,463 (CDN \$360,000) in cash to fund the direct costs of magnetic memory files. The payment schedule to the University of Toronto was as follows:

- \$83,154 (CDN \$120,000) on execution of agreement, which was paid;
- \$83,154 (CDN \$120,000) at end of the two months following November 1, 2002, which was paid; and
- \$83,155 (CDN \$120,000) at end of the four months following the November 1, 2002, which was paid.

On December 10, 2002, we entered into a Collaborative Research Agreement with Communications and Information Technology Ontario, the University of Toronto and Dr. Harry Ruda. Under the terms of the agreement, over a period of two years, we were required to contribute \$63,750 (CDN \$92,000) in cash and \$67,632 (CDN \$97,600) of in-kind contribution. Communications and Information Technology Ontario was required to contribute \$215,430 (CDN \$308,000) for research into "High Density Magnetic Memory Device Development". In consideration of such contribution, Communications and Information Technology Ontario received a royalty based on revenues received from the sale of products incorporating intellectual property developed under this collaboration agreement for the remaining life of patents issued in connection with such intellectual property.

On March 1, 2003, we entered into an Equipment Transfer Agreement with the University of Toronto. Under the terms of this agreement, we conveyed equipment having an estimated value of \$200,000 (CDN \$297,600) to the University of Toronto for incorporation into the University's magnetic memory facility for the research and development and fabrication of magnetic memory.

On November 12, 2003, we entered into a second two-year research collaboration agreement, also referred to herein as the Second U of T Research Agreement, with Materials and Manufacturing Ontario and the University of Toronto. Through the collaboration, we continued our involvement in the research and development of magnetic memory technology carried out by a highly skilled research team headed by Dr. Harry Ruda. Under this agreement, we committed to providing \$56,130 (CDN \$81,000) per year in cash and \$30,770 (CDN \$44,400) per year of in kind contributions. Materials and Manufacturing Ontario committed to providing \$58,900 (CDN \$85,000) in cash. The combined cash contributions of both us and Materials and Manufacturing Ontario of \$230,060 (CDN \$332,000), was designated to cover the operating expenses of the research collaboration over a term of two years. Materials and Manufacturing Ontario's funding of \$117,800 (CDN \$170,000) is paid directly to the University of Toronto. Under the agreement, we maintained our ownership of our portfolio of patents and intellectual property that were developed prior to or outside of the scope of the agreement.

Each research collaboration agreement contemplates a number of milestones under a comprehensive research plan. The research was carried out from research facilities at the University of Toronto. We have the first right to an exclusive and perpetual worldwide sub-license for all uses of the technology developed under the collaboration (except that the University of Toronto may use the technology for educational and research purposes). Materials and Manufacturing Ontario and Communications and Information Technology Ontario, as the case may be, were entitled to receive a royalty on our manufacturing revenues from the sale of products incorporating the technology developed under the collaboration. A separate royalty would be negotiated in the future on revenues to be generated by us from sub-licenses of the technology developed under the collaboration.

Each of Materials and Manufacturing Ontario and Communications and Information Technology Ontario is one of four Ontario Centres of Excellence established by the Ontario government to promote commercial research partnerships between universities and industry. The Ontario Centres of Excellence program is funded by the Ministry of Enterprise, Opportunity and Innovation and is part of the Provincial government's \$2 billion investment in Ontario's knowledge economy. On April 1, 2004, Materials and Manufacturing Ontario, Communications and Information Technology Ontario and two other Centres of Excellence (CRESTech and PRO) merged to become OCE Inc., a non-for-profit, member based corporation.

In June 2005, we signed a license agreement with the University of Toronto and OCE Inc. whereby OCE Inc. released us from all future claims that existed under previous research collaboration and infrastructure agreements, and we acquired the exclusive worldwide license to exploit the related technology developed at the University of Toronto. We committed to a schedule of royalty payments on net revenues from related license revenues subject to a maximum cumulative payment of CDN \$500,000. Thereafter we can buy out all remaining obligations under this agreement by the payment of an additional CDN \$500,000 or the sum of the prior two years of royalty payments at the time of the buyout. We are currently in discussion with foundries for commercial prototyping. We are interested in gallium arsenide, silicon and radiation-hardened silicon. We are in discussions with foundries in these areas.

In mid-2004 we hired Dr. Cynthia Kuper as a consultant and in January 2005, we entered into an employment agreement with Dr. Cynthia Kuper for her services as Chief Technology Officer. The agreement had a term of two years and could be terminated by either party at any time with 4 months notice. The remuneration stipulated in the agreement was \$260,000 per year and 300,000 options, each option enabling her to purchase one common share at \$0.80. These options expired unexercised on March 22, 2007. In addition, Dr. Kuper was previously granted 100,000 options each of which entitle her to purchase one common share for \$0.68 in connection with her role as acting Chief Technology Officer since September 2004. These options expired on December 31, 2005 and were replaced by 100,000 options each of which entitle her to purchase one common share for \$0.68 and which will expire if unexercised on May 2, 2008.



In September 2006, we extended the employment agreement with Dr. Cynthia Kuper for an additional two years commencing in January 2007 on the same terms, conditions and cancellation provisions as reflected in the original contract. Dr. Kuper was granted an additional 200,000 stock options in August 2006, each option enabling her to purchase one common share for \$0.80 and which will expire if unexercised on May 2, 2008.

A number of initiatives were undertaken in 2005 - 2006 in our attempt to develop strategic relationships with potential development partners. We hired Strategic Solutions Inc., a California-based engineering and technical consulting firm, in mid-2006 to initiate discussions with these potential development partners and to identify industrial foundries with whom the Company might further develop industrial versions of the memory cell and Hall cross sensor prototype devices which Dr. Ruda and his UofT team were advancing in their laboratory.

In mid-2007 the Company formed a Technical Advisory Committee consisting of two outside directors, Larry Blue and Steven Van Fleet, to take forward the continuing development work, to ensure an effective conversion of our R&D efforts from the university laboratory to a fabrication plant and to spearhead discussions with potential development partners.

In order to ensure that the Company was obtaining an independent perspective on the priorities and efficacies of its go forward development plans, it also engaged the services of Mr. Henry Dreifus, and his company, Dreifus Associates Limited, Inc. ("DAL"), an Orlando, Florida-based consulting firm with substantial experience and dealings in the technology and defense sectors in the United States and elsewhere. DAL has had previous assignments in the MRAM space in which the Company operates.

In 2007, research efforts continued at the UofT and the UofT was successful in delivering a functioning prototype of our MRAM device to be used for future testing in a foundry.

We engaged a California-based foundry, Global Communication Services ("GGS"), in September 2007 to begin additional testing and to commence the development of a multi-bit array device. These efforts continue as of this date and the Company has announced several milestone achievements since September 2007.

In October 2007 Dr. Kuper provided a current status report on her activities over the previous eight months since she last reported to the Board of Directors in February 2007.

In November 2007 the Company announced that Steven Van Fleet was appointed as Head of Business Development and charged with the responsibilities of supervising the ongoing work being completed by Strategic Solutions Inc. and by the GCS foundry. On November 18, 2007 the Company served Dr. Kuper with the required four months written notice of termination of her employment agreement without cause.

Dr. Kuper has filed a claim against the Company in February 2008 citing wrongful dismissal and making a number of allegations against the Company. The Company vigorously denies Dr. Kuper's claims which it believes are malicious and frivolous. The dispute has been referred to the Company's Audit Committee and legal counsel has been engaged to advise the Company of its options and an appropriate response. April 21, 2008 has been set for mediation of this dispute. See Item 3-"Risk Factors".

The Company continues to report successful milestone results in the foundry testing underway at GCS. The Company has scheduled a number of meetings and discussions with potential strategic development partners and its Technical Advisory Committee is currently planning the ongoing R&D initiatives for 2008 with SSI, GCS and other parties.

#### Recent Developments - Equity Financing Transactions

In August 2003, we completed unit private placements to two private investors. Under the private placements, we received \$162,500 as subscription proceeds for the sale and issue of 2,031,250 units. Each unit consists of one

common share and one Series A warrant. Each Series A warrant entitles the holder to purchase one common share and one Series B warrant for \$0.08 per unit until expiry 12 months from the date of issue. Each Series B warrant entitles the holder to purchase one additional common share for \$0.08 per share until expiry 12 months from the date of issue. In August 2004, the investors exercised 2,031,250 Series A warrants and we thus issued 2,031,250 common shares and 2,031,250 Series B warrants and realized proceeds of \$162,500. In February 2005, the investors exercised 1,406,250 Series B warrants and we thus issued 1,406,250 common shares and realized proceeds of \$112,500. In August 2005, our investors exercised the remaining 625,000 Series B warrants and we thus issued 625,000 common shares and realized proceeds of \$50,000.

In December 2003, we completed unit private placements to two Canadian private investors pursuant to prospectus and registration exemptions set forth in applicable securities laws. Under the private placements, we received \$33,000 as subscription proceeds for the sale and issue of 300,000 units. Each unit consists of one common share and one Series A warrant. Each Series A warrant entitles the holder to purchase one common share and one Series B warrant for \$0.11 per unit until expiry 12 months from the date of issue. Each Series B warrant entitles the holder to purchase one additional common share for \$0.11 per share until expiry 12 months from the date of issue. In October 2004, the private investors exercised 200,000 Series A warrants and we thus issued 200,000 common shares and 200,000 Series B warrants and realized proceeds of \$22,000. In November 2004 and February 2005 the investors exercised the balance of their Series A and B warrants and we thus issued 400,000 common shares and realized proceeds of \$44,000.

In December 2003, we also completed a unit private placement to one Canadian private investor pursuant to prospectus and registration exemptions set forth in applicable securities laws. Under the private placement, we received \$40,000 as subscription proceeds for the sale and issue of 500,000 units. Each unit consists of one common share and one Series A warrant. Each Series A warrant entitles the holder to purchase one common share and one Series B warrant for \$0.08 per unit until expiry 12 months from the date of issue. Each Series B warrant entitles the holder to purchase one additional common share for \$0.08 until expiry 12 months from the date of issue. In June 2004, the private investor exercised the Series A warrants and we thus issued 500,000 common shares and 500,000 Series B warrants and realized proceeds of \$40,000. In September 2004, the private investor exercised the Series B warrants and we thus issued 500,000 common shares and realized proceeds of \$40,000.

In December 2004, we completed a unit private placement to several U.S. investors pursuant to prospectus and registration exemptions set forth in applicable securities laws. Under the private placement, we received \$617,000 as subscription proceeds for the sale and issue of 1,028,334 units. Each unit consists of one common share and one Series A warrant. Each Series A warrant entitles the holder to purchase one common share and one Series B warrant for \$0.60 per unit until expiry 12 months from the date of issue. Each Series B warrant entitles the holder to purchase one additional common share for \$0.60 per share until expiry 24 months from the date of issue. In December 2005, we revised the terms of this unit private placement. The unit was revised to consist of one common share, one Series A warrant expiring on June 30, 2006 and one Series B warrant expiring on December 31, 2006. The remaining terms of the warrants are unchanged.

In January 2005, we completed a unit private placement to one Canadian investor pursuant to prospectus and registration exemptions set forth in applicable securities laws. Under the private placement, we received \$10,500 as subscription proceeds for the sale and issue of 14,000 units. Each unit consists of one common share and one Series A warrant. Each Series A warrant entitles the investor to purchase one common share and one Series B warrant for \$0.75 per unit until expiry 12 months from the date of issue. Each Series B warrant entitles the holder to purchase one additional common share for \$0.75 per share until expiry 12 months from the date of issue. In December 2005, we revised the terms of this unit private placement. The unit was revised to consist of one common share, one Series A warrant expiring on June 30, 2006 and one Series B warrant expiring on December 31, 2006. The remaining terms of the warrants are unchanged.

In January 2005, we arranged a unit private placement to several investors pursuant to prospectus and registration exemptions set forth in applicable securities laws. Under the private placement we received \$845,000 by April 1, 2005 as subscription proceeds for the sale of 1,300,000 units. Each unit consists of one common share and one Series A warrants. Each Series A warrant entitles the holder to purchase one common share and one Series B warrant for \$0.65 per unit until expiry 12 months from the issue date. Each Series B warrant entitles the holder to purchase one additional common share for \$0.65 per share until expiry 12 months from the date of issue. In December 2005, we revised the terms of this unit private placement. The unit was revised to consist of one common share, one Series A warrant expiring on June 30, 2006 and one Series B warrant expiring on December 31, 2006. The remaining terms of the warrants are unchanged.

Our Board of Directors subsequently again revised the terms of the Series A and Series B warrants relating to the Unit private placements completed in December 2004 and January 2005 as follows:

- In June 2006, the expiry date on the Class A warrants was extended to September 30, 2006 on the provision that one-third of the outstanding Class A warrants were exercised by June 20, 2006. A total of 771,850 Class A warrants were exercised on this basis and the Company realized proceeds of \$485,948. A total of 1,563,484 Class A warrants remained outstanding.

■ September 2006, the expiry date on the Class A warrants were extended to December 31, 2006.

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- In January 2007, all of the outstanding Class A and Class B warrants were re-priced to \$0.50 per warrant and the expiry date was extended to June 30, 2007.
- In April 2007, all of the outstanding Class A and Class B warrants were repriced to \$0.40 per warrant and the expiry date was extended to June 30, 2008.

The Company filed an amended Registration Statement in June 2006 which was not finalized with the SEC. In 2007, the Company decided to suspend its efforts to have the Registration Statement declared effective.

On June 8, 2005, we entered into a financial advisory services agreement with an arm's length entity and, as consideration, issued a warrant to purchase 1,000,000 of our common shares. The warrant entitled the holder to purchase our common shares at \$0.70 per share. The warrant expired unexercised in June 2006.

We entered into a second financial advisory services agreement on June 22, 2005 with an arm's length entity and, as consideration, issued warrants to purchase 800,000 of our common shares. The warrant entitles the holder to purchase our common shares at \$0.70 per share. The warrants originally were to expire in December 2006. Prior to the original expiry date, the Board of Directors extended the expiry date to March 31, 2007. These warrants were subsequently extended to June 30, 2008 and repriced to \$0.40 per warrant.

In May 2006, the Company completed a Unit private placement financing with two investors pursuant to prospectus and registration exemptions set forth in applicable securities laws. The Company received \$75,000 as subscription proceeds for the sale and issue of 150,000 units. Each unit consists of one common share and one Series A warrant. Each Series A warrant entitles the investor to purchase one common share for \$0.50 until expiry in April 2007.

In October 2007, the Company completed a series of private placement financings with 8 arms length investors pursuant to prospectus and registration exemptions set forth in applicable securities laws. The Company received a total of \$716,230 subscription proceeds and issued a total of 1,577,368 common shares.

On September 16, 2007 the Company secured a 30-day bridge loan from an arms length investor in the amount of \$505,000. The Company paid a 5% financing fee to arrange the bridge loan and issued 250,000 common share purchase warrants to acquire common shares at a strike price of \$0.50 per share. The Company recorded a non-cash expense of \$85,484 with respect to these warrants, calculated in accordance with the Black Scholes option-pricing model. The warrants have a one-year term and expire in September 2008 if unexercised. The bridge loan was repaid in October 2007.

Between November 2007- February 2008 the Company completed a series of private placement financings with arms length investors pursuant to prospectus and registration exemptions set forth in applicable securities laws. The Company received a total of \$1,066,727 as subscription proceeds and issued a total of 2,117,110 common shares.

The Company secured a 30 day bridge loan of \$200,000 from an arms length investor in January 2008. The interest rate on the bridge loan was 4% due in 30 days. As additional consideration, the Company issued 100,000 common share purchase warrants at a strike price of \$0.60 per share. The loan was repaid in February 2008.

### Patents and Trademarks

We believe that protection of our intellectual property is important to our ability to generate revenues from our technology in the future. We have both issued patents and pending patent applications and also entered into confidentiality and other agreements with third parties and our employees to protect our intellectual property and trade secrets. We intend to continue to actively pursue the protection of our intellectual property. Our management will

determine from time to time the jurisdictions where protection will be appropriate. This determination will be based on a number of factors including the state of development of our technology, the importance of a particular market for our technology, the costs of pursuing patent protection in a jurisdiction and our financial position at the time.

Our magnetic memory patent portfolio comprises separate series of patents and patent applications: those covering technologies developed pursuant to research collaborations with the University of Toronto and OCE Inc.; and those covering what is referred to as the VEMRAM and HEMRAN technologies.

## Environmental Matters

We are subject to various environmental protection regulations imposed by the government in the jurisdiction where we conduct our development work. We are not aware of any current or pending environmental protection laws or regulations that would have a material impact on our capital expenditure requirements or competitive position.

### C. Organizational Structure

We have a wholly-owned subsidiary, Pageant International, which was incorporated under the laws of the Turks & Caicos Islands and continued to Barbados on May 25, 2001. Pageant International has a wholly-owned subsidiary, Pageant Technologies (USA) Inc., a corporation incorporated in the State of Utah. We have a second wholly-owned subsidiary, Memtech International Inc, incorporated under the laws of the Bahamas, which in turn has a wholly-owned subsidiary, Memtech International (USA) Inc., a corporation incorporated in the State of Delaware.

We had a third wholly-owned subsidiary, Micromem Technologies B.V., incorporated under the laws of the Netherlands on January 16, 2001, which had a subsidiary, Micromem Technologies S.p.A., a corporation incorporated under the laws of Republic of Italy on January 25, 2001. Micromem Technologies S.p.A. was dissolved pursuant to the laws of Italy on December 27, 2002. Micromem Technologies B.V. was dissolved pursuant to the laws of the Netherlands on August 11, 2003.

Pageant International and Pageant USA are sometimes jointly referred to in this Form 20-F as "Pageant." Micromem, Pageant International, Pageant Technologies (USA) Inc., Memtech International Inc. and Memtech International (USA) Inc. are sometimes collectively referred to as Micromem in this Form 20-F.

#### D. Property, Plant and Equipment

We maintain our corporate headquarters in Toronto, Ontario, Canada. We occupy a space consisting of 3,987 square feet of commercial office space pursuant to a lease that expires in 2010.

The research and development facilities at the University of Toronto are comprised of equipment, tools, a clean room and laboratory space. All facilities and equipment are owned by the University of Toronto and are being made available to the research and development team under our research collaboration agreements with the University of Toronto and an infrastructure agreement between us and the University of Toronto.

ITEM 4A.

#### UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 5.

### OPERATING AND FINANCIAL REVIEW AND PROSPECTS

This section of the Form 20-F has been prepared to provide a more substantive discussion on our business and to assist the reader in analyzing the consolidated financial statements for the year ended October 31, 2007. This discussion and analysis of financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes in this report, which are prepared in accordance with Canadian GAAP and are stated in United States dollars. These principles are also in conformity in all material respects with U.S. GAAP as described in Note 16 to our 2007 consolidated financial statements.

#### I. OVERVIEW

##### The Company

: We are a development stage Company that currently operates in a single segment as a developer of non-volatile magnetic memory technology (the "Technology"). Non-volatile memory implies the ability to retain information after power has been shut off. Our Technology is based on our ability to use magnetic materials in combination with a sensor to record a state of magnetization as a mechanism of data storage.

##### A. Operating Results

The following table sets forth certain selected financial information of our company:

##### Selected statement of operations and deficit information

(all amounts in United States dollars)

	2007	2006	2005	2004	2003
Interest and other income	\$2,586	\$(9,930)	\$(8,703)	\$(4,746)	\$(20,121)
Loss for the year	2,811,378	4,058,180	4,035,483	2,314,298	1,767,965
Loss per share-basic and diluted	0.04	0.06	0.07	0.04	0.04

##### Selected balance sheet information

(all amounts in United States dollars)



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	2007	2006	2005	2004	2003
Working capital (deficiency)	\$(1,531,855)	\$(448,923)	\$(74,831)	\$34,685	\$100,670
Property and equipment	-	-	-	2,925	3,768
Total Assets	329,232	465,440	728,375	474,234	350,138
Shareholders' equity (deficiency)	(1,531,855)	(448,923)	(74,831)	37,610	104,438

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### Fiscal 2007 Compared to Fiscal 2006

The Company remains in pre-revenue mode. We reported interest income totaling \$2,586 in 2007, compared to \$9,930 in 2006.

Administration costs were consistent between years in 2007 the Company reported \$223,177 of administration costs (2006: \$268,241). These costs relate to public company filings, office support costs, Annual Meeting costs, communication costs etc.

Professional, management and consulting fees totaled \$1,250,984 in 2007 (2006: \$1,017,859). The major components of the costs in 2007 include legal fees pertaining to intellectual property filings of approximately \$220,000, other legal expenses totaling \$26,000 and audit and filing-related expenses totaling approximately \$100,000. Management and consulting fees incurred in 2007 totaled \$309,000 paid to the Chairman (2006: \$133,600), \$116,000 to each of the President and the CFO (2006: \$72,000 in each case) and \$266,000 paid to the Company's CTO (2006: \$266,000). The Company has paid a total of approximately \$100,000 to other consultants during the year (2006: \$86,000).

Wages and salaries totaled \$111,109 in 2007 (2006: \$172,169). There are three employees on payroll and in 2007 we recovered a portion of their payroll costs from other companies for whom services were provided.

Research and development costs in 2007 totaled \$682,331 (2006: \$368,969). In 2007, the Company incurred incremental costs associated with the services provided by SSI of approximately \$300,000 as compared to approximately \$50,000 in the prior year. We incurred approximately \$330,000 with respect to work performed at the University of Toronto, in 2007, comparable to the costs incurred in 2006.

Travel and entertainment costs totaled \$141,200 in 2007 (2006: \$195,607). In 2006, the Company incurred considerable travel expenses pertaining to our Chief Technology Officer, these costs were not replicated in 2007. Other travel costs incurred in 2007 relate to costs incurred with respect to visits to the California-based foundry, travel costs associated with the attempted European financing and costs associated with a preliminary due diligence visit to a European-based potential strategic partner.

Stock compensation expense in 2007 totaled \$269,216. The Company issued a total of 775,000 stock options in 2007 and 250,000 common share purchase warrants associated with the bridge loan financing that it completed in September 2007. The total non-cash costs associated with these options and warrants was calculated in accordance with the Black Scholes option-pricing model. In 2006, the comparable expense was \$2,058,580, relating primarily to a total of 4.6 million stock options granted to officers, directors and employees in July 2006.

The Company's functional currency is the U.S. dollar. It has ongoing exposure to Canadian dollar denominated expenses. Given fluctuations in the prevailing exchange rates from time to time, the Company reports foreign exchange gains or losses relating to the translation of its statements into U.S. dollars. The foreign exchange loss in 2007 was \$135,947 reflecting the significant appreciation of the Canadian dollar against the U.S. dollar in 2007. The foreign exchange gain in 2006 was \$13,295.

### Fiscal 2006 Compared to Fiscal 2005

Professional, management and consulting fees declined to \$1,017,859 in 2006 from \$1,303,662 in 2005. The Company continues to incur annual cash expense of approximately \$260,000 with respect to our CTO and \$133,600 with respect to our Chairman. We reduced the compensation of our President and our CFO to \$65,000 each in 2006 from \$165,000 each in 2005. The Company also incurred less legal fees in 2006 as the level of contractual and intellectual property filings were reduced.

Research and development expenses totaled \$368,969 in 2006 compared to \$362,141 in 2005. In 2006 the expense included approximately \$212,000 in payments to the University of Toronto, \$50,000 in payments to Professor Harry Ruda and additional expenses with respect to the California based engineering consulting firm that was engaged in 2006 with respect to the Company's commercialization efforts. In 2005 the expenses related totally to the University of Toronto.

Travel and entertainment expenses were \$195,607 in 2006 compared to \$169,739 in 2005. The Company continues to incur approximately \$60,000 per year in travel costs pertaining to our CTO. In 2006 we incurred costs relating to a mid-year trip to Japan for three of our Board members who visited Omron Inc. Additionally, we incurred travel costs associated with a new engineering consulting firm engaged in 2006.

Administration costs were \$268,241 in 2006 compared to \$320,383 in 2005. We recovered more of these costs from other related companies who share the Micromem office space in 2006. Additionally, we reduced our investor relations expenses in mid-2006 which was previously provided on a fixed monthly fee basis.

Stock compensation expense was \$2,058,560 in 2006 compared to \$1,721,742 in 2005. In 2006 the Company awarded a total of 5,050,000 stock options to directors, officers and employees as compared to 4,700,000 options granted in 2005. The stock compensation expense as reported has been calculated in accordance with the Black Scholes option-pricing model.

The exercise of stock options by directors, officers and employees continues to be a source of financing to the Company. In 2006 a total of 3,550,000 options were exercised and the Company realized cash proceeds of \$1,064,980; in 2005 a total of 1,820,000 stock options were exercised and the Company realized proceeds of \$553,600.

We also raised the following cash in 2006:

a.

\$485,548 from the exercise of outstanding warrants by investors (2005: \$206,500 from the exercise of 1,806,875 warrants).

b.

\$75,000 from a private place financing (2005: \$472,500 from private placement financings).

#### Fiscal 2005 Compared to Fiscal 2004

In fiscal 2005, we established certain goals and milestones relating to our technology. This included further development and optimization of our 1 bit prototype device and initial work on the development of an array. Additionally, we set the objective of initiating discussions with potential joint development partners. Finally, we set the objectives of consolidating our patent position and improving our financial reporting capabilities and internal controls.

In June 2005, we completed the renegotiation of our license agreement with the University of Toronto and the Ontario Centres of Excellence and signed the new license agreement.

We expanded our patent portfolio with 6 new filings in 2005.

We continue to work with the University of Toronto and successfully developed prototype applications for commercialization in future.

We hired additional accounting staff and retained independent firm of Chartered Accountants to conduct an independent review of internal control and reporting procedures.

To accommodate this activity and additional expense, we raised approximately \$2.3 million of additional capital in 2005.

We had no operating revenues in either year. The only income reported in 2005 was interest income of \$8,703, as compared to \$4,746 in 2004.

Operating costs and expenses increased from \$2,319,044 in 2004 to \$4,044,186 in 2005. The significant changes included:

a.

Administrative costs increased from \$157,854 to \$320,383, an increase of \$162,529. In 2005, we reported higher expenses relating to shareholder communications and meetings and absorbed a higher proportion of common costs (rent, telephone, office expenses) which costs are shared with related entities.

b.

Professional, management and consulting fees increased from \$271,351 in 2004 to \$1,303,662 in 2005 principally as a result of:

i.

\$133,600 of deferred compensation expense relating to our Chairman of the Board of Directors, as compared to an expense of nil in 2004;

ii.

Compensation of senior officers totaled \$354,000 (including \$200,000 of deferred compensation) in 2005, as compared to \$120,000 current and nil deferred compensation in 2004 during which we hired a CFO in mid-year);

iii.

Compensation of our Chief Technology Officer hired on a full-time basis as of January 2005 at a salary of \$230,000, as compared to \$40,000 in 2004;

iv.

Legal fees in 2005 pertaining to intellectual property related matters totaled \$202,000, as compared to \$40,000 in 2004;

v.

Other legal fees totaled \$105,000 in 2005, as compared to \$80,000 in 2004; and

vi.

Audit related expenses and accounting fees pertaining to the financing/registration statement and the internal control review and evaluation completed in 2005 totaled \$200,000, as compared to \$80,000 in 2004.

a.

Wages and salaries increased from \$31,563 in 2004 to \$152,628 in 2005. We added one accounting personnel and absorbed more of the salary costs shared amongst related entities in 2005.

b.

Travel and entertainment costs increased from \$77,616 in 2004 to \$169,737 in 2005. The increase in costs relates primarily to significantly higher travel costs associated with the newly hired Chief Technology Officer in 2005.

c.

Stock compensation expense was \$1,721,742 in 2005 as compared to \$1,379,970 in 2004. We adopted fair value accounting for stock options issued in 2005 using the Black Scholes option-pricing model and have restated prior years financial statements accordingly.

d.

Research and Development expenses were \$362,141 in 2005 as compared to \$378,410 in 2004. This increase reflects several payments made by the Company to the UofT in furtherance of our development efforts. These payments include:

i.

Cost share payment for EMK proposal number PN01069 in the aggregate amount of \$75,000.

ii.

A payment of \$81,000 relating to proposal EE40103.

iii.

A direct payment from the Company to the UofT in the amount of \$250,000 Canadian funds (approximately \$200,000 U.S. funds at the then prevailing exchange rates) reflecting partial payment of a sponsored research agreement pursuant to the terms of our license agreement with the

UofT.

We reported a net loss of \$4,035,483, or \$0.07 per share, in 2005, as compared to a net loss of \$2,314,298, or \$0.04 per share in 2004.

#### Fiscal 2004 Compared to Fiscal 2003

In both 2004 and 2003 we continued to develop our memory technology. We signed Research Collaboration Agreements with Materials and Manufacturing Ontario in 2002 and 2003 and with Communications and Information Technology Ontario, the University of Toronto and Dr. Harry Ruda in 2002. We entered into an Infrastructure Agreement with the University of Toronto in 2002. In 2004, we continued these business relationships and met our requirements under the terms of these agreements.

In 2004, the research milestones that were contemplated in the various agreements were met on the timetable originally contemplated. In August 2004, we filed a provisional patent application with respect to certain of these initiatives. Additionally, we entered into negotiations with Dr. Cynthia Kuper to serve as our acting Chief Technology Officer. Dr. Kuper joined us in this capacity subsequent to October 31, 2004.

We had no operating revenue in either year. The only income reported in 2004 was interest income of \$4,746, as compared to interest income of \$20,121 in 2003.

Operating Costs and Expenses increased from \$1,788,086 in 2003 to \$2,319,044 in 2004. The significant differences included:

- A decrease in wages and salaries expense from \$112,437 in 2003 to \$31,563 in 2004. In 2004, we recovered more of the salary costs we incur for our employees from other companies that share facilities with us.

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- Included in professional fees, as reported, are management and consulting fee payments made to various companies whose shareholders serve as our officers and directors. Such payments totaled \$72,000 in 2004, as compared to \$201,000 in 2003. During 2004, we engaged our acting Chief Technology Officer who became employed as the Chief Technology Officer subsequent to the year-end.
- Research and development costs decreased from \$490,914 in 2003 to \$378,410 in 2004. The costs associated with the various research initiatives were lower in 2004. Included in each of these expenses reported in 2004 are sums in the amount of \$143,000, and \$107,000 in 2003. These sums relate to a research program which was terminated in 2002.
- Travel and entertainment costs increased to \$77,616 in 2004 from \$17,508 in 2003. We incurred more travel expenses, primarily to United States destinations, in pursuit of additional financing and to further our future research initiatives.
- In 2003, we wrote down the remaining balance we reported in patent and trademark costs in the sum of \$299,820. This expense was non-recurring in 2004.
- Amortization expense on capital assets and patents and trademarks totaled \$5,410 in 2004 versus \$73,178 in 2003. We donated \$58,302 of capital assets to the University of Toronto in 2003 leaving only nominal capital assets reported in 2004 on our books resulting in this lower amortization expense in 2004.

During 2004, we raised \$73,000 in equity funding through the issue of common shares and warrants, \$264,500 through the exercise of previously issued warrants and \$530,000 through the exercise of previously granted officers and directors stock options.

We reported a net loss of \$2,314,298 for 2004, or \$0.04 loss per share as compared to a loss of \$1,767,965 for 2003, or \$0.04 loss per share.

### Unaudited quarterly financial information

(all amounts in United States dollars)

Quarter ended	Total Revenues	Net Loss	Loss Per share Basic and diluted
October 31, 2007	\$2,166	(\$1,328,604)	0.02
July 31, 2007	420	(600,100)	0.01
April 30, 2007	-	(524,906)	0.005
January 31, 2007	-	(357,766)	0.005
October 31, 2006	\$7,687	(\$2,359,560)	0.04
July 31, 2006	1,024	(530,370)	0.01
April 30, 2006	-	(333,768)	0.005
January 31, 2006	1,219	(834,482)	0.005
October 31, 2005	7,070	(1,380,802)	0.025
July 31, 2005	1,043	(1,726,931)	0.035
April 30, 2005	301	(474,227)	0.005
January 31, 2005	289	(453,523)	0.005
October 31, 2004	117	(429,289)	0.01
July 31, 2004	450	(1,621,839)	0.03
April 30, 2004	3,658	(70,876)	0.00
January 31, 2004	521	(192,294)	0.00



## B. Liquidity and Capital Resources

### Liquidity

We are a development stage company. We currently have no cash flow from operations and will have none until we are in a position to either license or directly produce and sell products utilizing our memory technology.

We currently have no lines of credit in place and must obtain equity financing from investors and from persons who hold outstanding options and warrants in order to meet our cash flow needs until we can generate revenues. At October 31, 2007, we had approximately \$245,000 cash on hand and our monthly cash expenses approximate \$150,000. Since October 31, 2007, we have raised an additional \$1,138,727 through the exercise of stock options and private placements.

We have granted to our directors, officers and other employees a number of options to purchase shares at prices that are at or above market price on the date of grant. None of the optionees has any obligation to exercise their options and there can be no guarantee that we will realize any funds from these options.

### Capital Resources

We had no commitments for capital expenditures as of October 31, 2007 or 2006.

In March 2001, we and our wholly owned subsidiary, Pageant International, completed the Asset Purchase Agreement to acquire the VEMRAM patents, VEMRAM technology and related assets. The total consideration payable in respect of the purchased assets under the Asset Purchase Agreement was \$50 million in the form of cash and shares. Of this amount, \$10 million was paid at closing through a cash payment of \$2.0 million and the issuance by us of 2,007,831 of our common shares valued at \$3.98 per share. The balance of \$40 million was to have been payable in two equal amounts of \$20 million each upon achievement of certain stipulated milestones provided that a minimum of 50% of each \$20 million payment would be in the form of our common shares. None of the stipulated milestones were met and therefore no amounts were paid toward the balance of the \$40 million purchase price. See "Information on the Company 4. History and Development of the Company".

As no further payments toward the purchase price were made to Estancia Limited under the Asset Purchase Agreement, Pageant International was deemed to have conveyed back, as of March 9, 2004, a percentage of the VEMRAM patents and to have granted a gross profits royalty to Estancia Limited such that Pageant International would remain holding a 60% interest in the VEMRAM patents and it would be required to pay a 32% gross profits royalty to Estancia Limited in respect of the VEMRAM technology.

### Critical Accounting Policies

Our significant accounting policies are set forth in Note 3 to our consolidated financial statements, which should be read in conjunction with management's discussion of our critical accounting policies and estimates set forth below.

Our financial statements are prepared in conformity with Canadian GAAP, which in our case, conform in all material respects with U.S. GAAP. Management is required to make estimates and assumptions which can affect the reported balances. In determining estimates of net recoverable amounts and net realizable values, or whether there has been a permanent impairment in value, we rely on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

Accounts recorded in foreign currency have been converted to United States dollars as follows:

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Current Assets and Current Liabilities at the prevailing exchange rates at the end of the year;

Other Assets at historical rates;

Revenues and expenses are translated at the average monthly exchange rate per quarter which rate approximates the rate of exchange prevailing at the transaction dates; and

- Gains and losses resulting from the fluctuation of foreign exchange rates are included in the determination of income.

Until October 31, 2004, for all awards of employee stock-based compensation granted after January 1, 2002, we recognized employee stock-based compensation costs under the intrinsic value-based method and provided proforma disclosure of the impact on net income and earnings per share as if the fair value-based method has been applied. Effective November 1, 2004, we have adopted the fair value method of accounting for employee stock-based compensation costs. Accordingly, the closing deficit at October 31, 2004 and in prior periods has been restated for the effect of the stock-based compensation costs that we had incurred to that date, which expense previously was disclosed on a proforma basis. The stock-based compensation expense for options granted during the fiscal years ending October 31, 2005 - 2007 has been reflected as an expense in the consolidated statement of operations.

We are a development stage company. Research and development costs are expensed in the period incurred.

## Commitments

Summary of commitments:	Date executed:
<b>A. Research collaboration agreements</b>	
(1) Materials and Manufacturing Ontario	October 24, 2002 (expired)
(2) University of Toronto	November 1, 2002 (expired)
(3) Communications and Information Technology Ontario	December 10, 2002 (expired)
(4) Revised Licensed Agreement University of Toronto	June 2005
<b>B. Technology Development Agreement, Pageant Technologies Incorporated</b>	March 14, 2001
<b>C. Operating Leases</b>	2007 2010
<b>D. Consulting and Employment Contracts</b>	
(1) Chairman of the Board of Directors	May 29, 2005
(2) Chief Technology Officer	January 2007*
* Four months termination notice served on November 18, 2007	

A summary of our financial commitments as of October 31, 2007 is as below:

	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long term debt obligations	-	-	-	-	-
Capital Lease obligations	-	-	-	-	-
Operating lease obligations	309,000	103,000	206,000	-	-
Purchase obligations	-	-	-	-	-
<b>Management contracts</b>					
Chairman	316,000	158,000	158,000	-	-
CTO	97,000	97,000	-	-	-
Research collaboration agreement	-	-	-	-	-
All other	202,000	202,000	-	-	-
<b>Total:</b>	<b>924,000</b>	<b>560,000</b>	<b>364,000</b>	<b>-</b>	<b>-</b>

**A. Research Collaboration and Infrastructure Agreements:**

**1. Materials and Manufacturing Ontario:**

On October 24, 2002, we entered into a two year Research Collaboration Agreement with Materials and Manufacturing Ontario, a not-for-profit organization funded by the provincial government, the University of Toronto and a researcher employed by University of Toronto to fund the research on Magnetic Structure development for Hall effect memory devices.

Under the terms of the agreement, we committed to contribute \$87,432 (CDN \$136,175) and \$18,000 (CDN \$28,000) in cash and in-kind contribution, respectively, per year to fund the research. We have met all of our obligations under this agreement.

On November 12, 2003, we entered into a second research collaboration agreement with Materials and Manufacturing Ontario and the University of Toronto for research and development associated with magnetic memory devices. Under the second agreement, in the first year and upon renewal in the second year, Materials and Manufacturing Ontario granted \$58,900 (CDN \$85,000) in cash funding and we contributed \$56,130 (CDN \$81,000) in cash funding and additionally made \$30,770 (CDN \$44,400) of in-kind contributions, all towards the research collaboration, each year. We have met all of our obligations under the agreement.

2. University of Toronto:

On November 1, 2002, we entered into an Infrastructure Agreement with the University of Toronto to fund the assembly of a magnetic memory facility for research, development and fabrication of magnetic memory. The University of Toronto has agreed to use the magnetic memory facility in connection with, among other things, research to be conducted pursuant to collaborations between us and the University of Toronto.

Under the agreement, we were required to and did contribute \$249,463 (CDN \$360,000) in cash to fund the direct costs of the magnetic memory facility. The contribution has been included as a research and development expense in the consolidated statements of operations and deficit.

3. Communications and Information Technology Ontario:

On December 10, 2002, we entered into a two year Collaborative Research Agreement with Communications and Information Technology Ontario, the University of Toronto and Dr. Harry Ruda. For the first year, Communications and Information Technology Ontario provided funding of \$106,715 (CDN \$154,000) and we contributed \$31,875 (CDN \$46,000). For the second year, Communications and Information Technology Ontario provided funding of \$107,715 (CDN \$154,000) and we provided funding of \$31,875 (CDN \$46,000). We have further provided \$67,632 (CDN \$97,600) of in-kind contributions to the research collaboration.

4. Revised License Agreement, June 2005:

In June 2005, we signed a new license agreement with the University of Toronto and the Ontario Centres of Excellence whereby:

a.

Ontario Centres of Excellence released us and the University of Toronto from the commercialization obligations set forth in all prior research collaboration agreements.

b.

We acquired exclusive worldwide rights to the technology and any technology or patent rights under the agreement related to the MRAM technology developed at the University of Toronto.

c.

We have agreed to royalties and payments as follows:

1.1

In consideration for the rights and licenses granted, we shall pay to the University of Toronto: a. 4% of Net Sales until such time as the University of Toronto has received from us an aggregate amount of CDN \$500,000. b. 1% of Net Sales thereafter.

1.2

If we sublicense any rights granted herein to any non-affiliate: a. In combination or association, the University of Toronto shall receive 10% of any Net Fees and/or Net Royalties that shall be received by us in respect of any licenses involving both the rights granted herein and such our intellectual property;

a.

For all other sublicenses of the rights granted herein to a non-affiliate, the University of Toronto shall receive 20% of any Net Fees and/or Net Royalties that shall be received by us in respect of such sublicenses; and

b.

Net Fees and/or Net Royalties shall be paid to the University of Toronto until such time as it has received an aggregate amount of CDN \$500,000; thereafter we shall pay half of the amounts set forth in 1.2 (a) or (b) as is applicable.

1.3

At any point after which we have paid the University of Toronto CDN \$500,000, we may at our option buy out the obligation to pay royalties hereunder by paying to the University of Toronto a single lump sum payment equaling the greater of CDN \$500,000 and an amount equal to the total amount of royalties paid by us to the University of Toronto in the preceeding twenty-four months. We shall be entitled to exercise such option by providing written notice to the University of Toronto along with the required payment, after which time our obligation to pay royalties under Section 4 1.1. or 4 1.2 shall be waived by the University of Toronto.

As a condition to entering the license agreement, we have agreed that we will enter into a further research agreement with a funding commitment of no less than CDN \$500,000 to continue the further research and development of inventions and our intellectual property. In August 2005, we made an initial payment of \$250,000 and, subsequent to October 31, 2005, we made the second payment of \$250,000 under the terms of this further research agreement.

We believe that there are substantial market opportunities available to commercialize our technology in conjunction with strategic partners, and we are currently pursuing such opportunities. We plan to complete our research initiatives and enter into agreements with strategic partners so as to commercialize our Technology under licensing and other arrangements.

**B. Technology Development Agreement:**

On March 14, 2001, our subsidiary, Pageant International, entered into a three-year technology development agreement with Estancia Limited and Mr. Lienau to continue the development of the technology. Under the terms of the agreement, Pageant International committed to pay Estancia Limited \$215,000 per year, payable on a monthly basis in arrears, and committed to incur expenditures in connection with development expenses of up to a maximum of \$500,000 per agreement year.

On April 23, 2002, the technology development agreement was amended to extend its term for an additional eight-month period through November 2004. The go-forward payments were renegotiated as \$62,707 between the months of May and October 2002, \$197,086 during fiscal 2003 and \$143,330 during fiscal 2004.

The development efforts under this agreement ceased in July 2002. We have reported approximately \$287,000 in accounts payable and accrued liabilities with respect to this agreement as of October 31, 2005, as compared to \$287,000 at October 31, 2004.

**C. Operating leases:**

We have operating lease commitments which expire in 2010 for the lease of our head office. The future minimum annual lease payments are approximately as follows:

2008	2010 (annually)	\$127,000
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**D. Consulting and employment contracts:**

1. On May 29, 2005, we entered into a new employment agreement with the Chairman of the Board of Directors. The agreement commenced on January 1, 2005 and expires on September 30, 2009. Under the terms of the agreement, the Chairman of the Board of Directors has been retained to provide certain management services to us. We have agreed to provide compensation based on a percentage of the increase of the market capitalization on a year-over-year basis commencing as of December 31, 2005. This compensation is subject to a minimum annual amount of \$150,000 Canadian funds or (approximately \$158,000 U.S. funds at current exchange rates). At our option, we can pay either cash or issue common shares as compensation providing that the cumulative maximum number of shares that we can issue under the agreement is 2,000,000 common shares. At December 31, 2007 \$309,000 of cash compensation for the 2007 fiscal year has been provided for (2006: \$133,600).

2. In January 2005, we entered into an employment agreement with an arm's length individual, Dr. Kuper, for her services as our Chief Technology Officer. The agreement extended for 2 years with a cancellation clause which could be executed by us at any time with 4 months notice. The base remuneration stipulated in the contract was \$260,000 per year. We also granted the Chief Technology Officer 100,000 options to purchase our common shares exercisable at \$0.68 per share which expired on December 31, 2005, 300,000 options to purchase our common shares exercisable at \$0.80 per share which expired on March 22, 2007 and 100,000 options to purchase our common share at \$0.68 per share which option expires on May 2, 2008.



In September 2006 we extended the employment agreement with Dr. Kuper for an additional two years commencing in January 2007 on the same terms, conditions and cancellation provisions as reflected in the original contract. Dr. Kuper was granted additional 200,000 stock options in August 2006 each option enabling her to purchase one common share for \$0.80 and which will expire if unexercised on May 2, 2008.

On November 18, 2007 we provided the required four months written notice to terminate the agreement without cause.

As discussed in Item 3-Risk Factors on Page 8 of this report, Dr. Kuper has filed a claim against the Company in February 2008 citing wrongful dismissal and making a number of allegations against the Company. The Company vigorously denies Dr. Kuper's claims which it considers malicious and frivolous. The dispute has been referred to the Company's Audit Committee and legal counsel has been engaged to advise the Company of its options and an appropriate response. April 21, 2008 has been set for mediation of this dispute.

#### Contingencies

:

A. We have agreed to indemnify our directors and officers and certain of our employees in accordance with our By-laws. We maintain insurance policies that may provide coverage against certain claims.

B. Pageant Technologies (USA) Inc. was previously named as a defendant in legal actions relating to tenant improvements on a leased property, including an action claiming damages of approximately \$887,000 alleging breach of contract under a construction contract entered into by Clear Blue Laboratories, Inc. The landlord of the leased property was also claiming damages against Pageant Technologies (USA) Inc. Pageant Technologies (USA) Inc. assigned its rights under the lease to Clear Blue Technologies, Inc., however, Pageant Technologies (USA) Inc. was allegedly obligated to pay the lease payments should the assignee default under the contract. The landlord claimed damages of approximately \$887,000. This matter was settled pursuant to a settlement agreement in 2005 at no cost to us.

C. As outlined above, certain interests under the Asset Purchase Agreement with Estancia Limited reverted to Estancia Limited on March 9, 2004. On this basis, to the extent that revenues are generated by us relating directly and specifically to the VEMRAM patents, we are obligated to pay Estancia Limited 32% of the gross profit realized less expenses agreed to by the parties and 32% of any unit royalties realized less direct expenses.

D. The former CTO has filed a claim against the Company. See "Item 3 - Key Information - Risk Factors" on page 8 of this report.

#### Translation of Foreign Currencies

Our functional and reporting currency is the United States dollar. Accounts recorded in foreign currency have been converted to United States dollars as follows:

- Monetary assets and liabilities are translated at exchange rates at the consolidated balance sheet dates;
- Non-monetary assets are translated using the historical rate of exchange in effect at the translation dates;
- Revenues and expenses are translated using the average monthly rate of exchange per quarter, which rate approximates the rate of exchange prevailing at the transaction dates; and
- Gains and losses resulting from the translation are included in the determination of net loss for the period.

#### Research and Development

We are a development stage company. Research and development costs are expensed in the period incurred.

Our research and development activities have been related primarily to research and development of a magnetic random access memory device through research collaboration agreements. Our research and development expenses for the year ended October 31, 2007 were \$682,331, October 31, 2006 were \$368,969, for the year ended October 31, 2005 were \$362,141, for the year ended October 31, 2004 were \$378,410, for the year ended October 31, 2003 were \$490,914 and for the year ended October 31, 2002 were \$1,601,624.

## Trend Information

The digital memory industry and, more broadly, the semiconductor industry, have historically been characterized by wide fluctuations in demand for and supply of semiconductors and memory technologies. Prior experience has shown that restructuring of operations, resulting in significant restructuring charges, may become necessary if an industry downturn were to occur.

Our prospects for revenues are dependent upon the successful completion of our technology development and the incorporation of any technology that may be developed under or pursuant to our research collaboration agreements.

## Off-Balance Sheet Arrangements

We are not party to any material off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities.

## Transactions With Related Parties, Directors &amp; Officers

The Company has paid cash and non-cash compensation to its officers and directors during the fiscal year as follows:

		Cash Compensation	Non-Cash Compensation
Chairman	2007	\$309,232	\$ -
	2006	133,600	416,250
	2005	133,600	659,000
Officers & Directors	2007	563,000	105,000
	2006	611,000	1,165,000
	2005	639,000	1,044,000

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## A. Directors and Executive Officers

The Directors, Executive Officers and other key personal of Micromem as at October 31, 2007 are set forth below:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Salvatore Fuda	72	Chairman of the Board of Directors
Joseph Fuda	47	President, Chief Executive Officer and Director
Manoj Pundit	43	Secretary and Vice President
Andrew Brandt	69	Director
David Sharpless	57	Director
Steven Van Fleet	53	Director
Larry Blue	51	Director
Dan Amadori	56	Chief Financial Officer
Cynthia Kuper	35	Chief Technology Officer
Oliver Nepomuceno	39	Director

Salvatore Fuda

is and has served as Chairman of the Board of Directors of Micromem since January 11, 1999 and a Director of Micromem since 1992. He served as President and Chief Executive Officer from June 2000 through to February 13, 2002. From 1992 to January 11, 1999 he also served as Secretary of Micromem. He served as President and Chief Executive Officer of Ontex Resources Limited (TSE) from 1986 to December 1998 and as Chairman of the Board of Ontex Resources Limited since that date. He has served as Chairman of the Board of Directors and as a director of Echo Energy Canada Inc. since June 2002. He also serves as Chairman of the Board of Leader Capital Corp. He is the father of Joseph Fuda.

## Joseph Fuda

is and has been President, Chief Executive Officer and Director since February 13, 2002. Previously he served as Manager of Strategic Alliances for Micromem since February 2001. Prior thereto, he served as a consultant to Micromem since November 2000. Prior thereto he served as a Vice-President and a Director of IPO Capital Corp since April 1999. He was a director of Leader Capital Corp. until June 2007 and currently also serves as a director of Echo Energy Canada Inc. and of Echo Power Generation Inc.

## Manoj Pundit

previously served as Micromem's Executive Vice President and General Counsel and joined the Board of Directors in March 2001. He served as a director of Micromem until June 28, 2006. He did not stand for reelection to the Board at that time. He has also been a partner, since December 1996, at Chitiz Pathak LLP (and predecessor firms), a Toronto law firm. Mr. Pundit holds a LL.M. in Taxation from Osgoode Hall Law school and a LL.B. and B.Sc. (Math) from the University of Alberta. Mr. Pundit served as Vice President and Secretary of Micromem Technologies Inc. from June 29, 2006 until he resigned from this position in February 2008.

## Andrew Brandt

was Chairman of the Board of Directors and Chief Executive Officer of the Liquor Control Board of Ontario from February 1991 to January 2006. The Liquor Control Board of Ontario is one of the largest single purchasers of alcohol beverage products in the world. Prior to his appointment to the Liquor Control Board of Ontario, Mr. Brandt served as Leader of the Ontario Progressive Conservative Party from 1987 to 1990. He has previously served as the Minister of Industry and Trade, Minister of Environment and Mayor of Sarnia, Ontario. Mr. Brandt has served as a director of Micromem since June 2000.

## David Sharpless

is Vice-Chairman of the Board of Directors of HKMB Hub International Limited (formerly Hunter, Keilty, Muntz & Beatty Limited), a Toronto-based property and casualty insurance broker. He was Chairman of the Board of Directors of Hunter, Keilty, Muntz & Beatty Limited prior to its purchase in January 2008 by Hub International Limited a Chicago-based property and casualty insurance broker. He also serves as Chairman of the Board of Directors of Maverick Inc., a family investment and consulting corporation. From 2000 to September 2001, he was President of CIT's Vendor Technology Finance unit. In this capacity, he was responsible for CIT's international vendor finance business, covering CIT's operations in Canada, Europe, Latin America, Asia Pacific and Australia. Prior thereto, Mr. Sharpless was Newcourt Credit

Group Inc.'s Deputy Chairman of the Board of Directors and was responsible for international operations for Newcourt Financial. Mr. Sharpless is a graduate of Osgoode Hall Law School and is a member of the bar of Ontario. Mr. Sharpless has served as a director of Micromem since March 2001.

Steven Van Fleet currently serves as a technology consultant to a number of companies. He was the principal of the R&V Group LLC, an RFID business consulting and technology development company until 1996. Between 1999-2003 he served as Program Director for the Silent Commerce/Smart Packaging Initiative at International Paper Company. From January 1999 to November 1999, he was Program Director for Process and Product Uniformity and from March 1996 to December 1998 he was the Director for Control Systems Development at International Paper in Cincinnati, Ohio. He is also presently on the Board of Overseers for the Massachusetts Institute of Technology Auto ID Center. Mr. Van Fleet has been a director of Micromem since 2002.

Larry Blue

is President of Hi-G-Tek Inc. a privately-held technology company based in Maryland. Previously he was the Vice President and General Manager of Symbol Technologies Inc. and was appointed to the Micromem Board of Directors on November 7, 2005. Previously Mr. Blue had senior management roles with Hughes Network Systems and with IBM in Research Triangle Park.

Dan Amadori

has served as Chief Financial Officer of Micromem since June 2004. He has also served as Chief Financial Officer of Leader Capital and Echo Power Generation Inc. since June 2004. He served as a Director and Chair of the Audit Committee of Ontex Resources between September 2003 and March 2005. He is President of Lamerac Financial Corp., a financial advisory firm and has held that position since October 1988. Mr. Amadori is a Chartered Accountant and holds an MBA from the Ivey School of Business.

Cynthia Kuper

has served as our Chief Technology Officer since January 2005 until four months notice was served in November 2007 to terminate her employment agreement. Prior thereto, she served as our acting Chief Technology Officer since September 2004. Dr. Kuper has a B.S. in Chemistry and a Ph.D. in Physical Chemistry from Temple University. In 2000 she founded a nanotechnology start-up company, Versilant Nanotechnologies. In that same year, Dr. Kuper founded K1 Consulting, a consulting firm providing services to start-ups, medium sized and large conglomerate companies and investors in nanotechnology.

On November 18, 2007 the Company served four months notice of termination without cause of the employment agreement with Dr. Kuper. Dr. Kuper has filed a claim against the Company in February 2008 citing wrongful dismissal and making a number of allegations against the Company. The Company vigorously denies Dr. Kuper's claims which it considers malicious and frivolous. The dispute has been referred to the Company's Audit Committee and legal counsel has been engaged to advise the Company of its options and an appropriate response. April 21, 2008 has been set for mediation of this dispute. See Item 3-Key Information "Risk Factors" on page 8 of this report.

Oliver Nepomuceno

has served as a director of Micromem since June 26, 2006. He is a resident of Switzerland and continues to serve as a Financial Advisor and as a member of the Board of Directors of Intel Trust, a private wealth management company located in Switzerland.

There are no arrangements or understandings between any director and any other person pursuant to which the director was selected as a director or executive officer. Each director holds office until the next annual meeting of shareholders or until his or her successor is elected or appointed, unless his or her office is earlier vacated according to the provisions of our By-laws or the *Business Corporations Act* (Ontario).

Other than a father/son relationship between Salvatore Fuda (father) and Joseph Fuda (son), there is no family relationship between any director or executive officer and any other director or executive officer.



## B. Compensation

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation				
		Salary (US\$)	Bonus (US\$)	Awards	Payouts	Restricted Shares or Restricted Share Units (\$)	Long Term Incentive Plan Payouts (\$)	All other Compensation (\$)
				Other Annual Compensation (US\$)	Securities Under Options Granted (#)			
Joseph Fuda	2007	72,000	50,000	-	-	-	-	-
Chief	2006	65,000	-	-	900,000 <sup>13</sup>	-	-	-
Executive	2005	81,000	-	-	1,800,000 <sup>9</sup>	-	-	100,000
Officer <sup>1</sup>	2004	-	-	-	1,800,000 <sup>2</sup>	-	-	52,000
	2003	-	-	-	850,000 <sup>3</sup>	-	-	90,000
Salvatore	2007	-	-	-	-	-	-	309,000
Fuda,	2006	-	-	-	1,000,000 <sup>13</sup>	-	-	133,000
Chairman of	2005	-	-	-	1,800,000 <sup>11</sup>	-	-	133,000
the Board of	2004	-	-	-	1,800,000 <sup>2</sup>	-	-	-
Directors	2003	-	-	-	1,050,000 <sup>3</sup>	-	-	-
Former Chief								
Executive								
Officer and								
President <sup>1</sup>								
Manoj	2007	-	-	-	-	-	-	-
Pundit,								
Executive	2006	-	-	-	100,000 <sup>13</sup>	-	-	-
Vice	2005	-	-	-	-	-	-	-
President and	2004	-	-	-	1,000,000 <sup>2</sup>	-	-	-
General	2003	-	-	-	850,000 <sup>3</sup>	-	-	90,000
Counsel <sup>4</sup>								
Andrew	2007	-	-	-	-	-	-	-
Brandt	2006	-	-	-	300,000 <sup>13</sup>	-	-	-
Director	2005	-	-	-	-	-	-	-
	2004	-	-	-	400,000 <sup>2</sup>	-	-	-
	2003	-	-	-	400,000 <sup>3</sup>	-	-	-
Stephen	2005	-	-	-	-	-	-	-
Fleming	2004	-	-	-	300,000 <sup>2</sup>	-	-	-
Director	2003	-	-	-	300,000 <sup>3</sup>	-	-	-
Charles	2005	-	-	-	-	-	-	-
Harnick	2004	-	-	-	400,000 <sup>2</sup>	-	-	-
Director	2003	-	-	-	400,000 <sup>3</sup>	-	-	-
George A	2005	-	-	-	-	-	-	-
Kennedy	2004	-	-	-	300,000 <sup>2</sup>	-	-	-
Director	2003	-	-	-	300,000 <sup>3</sup>	-	-	-

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David Sharpless	2007	-	-	-	-	-	-	-
Director	2006	-	-	-	300,000 <sup>13</sup>	-	-	-
	2005	-	-	-	-	-	-	-
	2004	-	-	-	400,000 <sup>2</sup>	-	-	-
	2003	-	-	-	400,000 <sup>3</sup>	-	-	-
	2002	-	-	-	-	-	-	-
Steven Van Fleet	2007	30,000	-	-	350,000 <sup>14</sup>	-	-	-
Director	2006	86,000	-	-	300,000 <sup>13</sup>	-	-	-
	2005	24,000	-	-	300,000 <sup>9</sup>	-	-	-
	2004	-	-	-	300,000 <sup>2</sup>	-	-	-
	2003	-	-	-	300,000 <sup>3</sup>	-	-	-
Dan Amadori	2007	72,000	50,000	-	-	-	-	-
Chief Financial Officer <sup>8</sup>	2006	65,000	-	-	400,000 <sup>13</sup>	-	-	-
	2005	74,000	-	-	450,000 <sup>9</sup>	-	-	100,000
	2004	24,000	6,000	-	300,000 <sup>2</sup>	-	-	6,000
Cynthia Kuper	2007	260,000	-	-	-	-	-	-
Acting Chief Technology Officer <sup>6</sup>	2006	260,000	-	-	300,000 <sup>15</sup>	-	-	-
	2005	260,000	-	-	300,000 <sup>10</sup>	-	-	10,000
	2004	-	-	-	100,000 <sup>7</sup>	-	-	-
Antonio Lopes	2005	-	-	-	-	-	-	-
Former Chief Financial Officer <sup>8</sup>	2004	-	-	-	-	-	-	14,000
	2003	-	-	-	300,000 <sup>3</sup>	-	-	20,789
Larry Blue	2007	-	-	-	-	-	-	-
Director	2006	-	-	-	300,000 <sup>13</sup>	-	-	-
	2005	-	-	-	300,000 <sup>12</sup>	-	-	-

Notes:

1.

Salvatore Fuda has served as our Chairman of the Board of Directors since January 11, 1999. He served as our President and Chief Executive Officer from June 2000 through to February 13, 2002. Joseph Fuda was appointed our Chief Executive Officer on February 13, 2002.

2.

Each option entitles the holder to purchase one of our common shares at \$0.30 prior to expiry on July 18, 2009 and is fully vested.

3.

Each option entitled the holder to purchase one of our common shares at \$0.10. These options were exercised in 2004.

4.

Mr. Pundit previously served as our Executive Vice-President, General Counsel and Secretary.

5.

Each option entitles the holder to purchase one of our common shares at \$0.68. These options expire on May 5, 2008 if unexercised.

6.

Dr. Kuper has served as our Chief Technology Officer since January 2005, and prior thereto served as acting Chief Technology Officer since September 2004.

7.

These options had an exercise price of \$0.68 and expired on December 31, 2005 unexercised.

8.

Mr. Lopes served as our Chief Financial Officer between November 1, 2002 and June 2004. Mr. Amadori has served as our Chief Financial Officer since June 29, 2004.

9.

Each option entitles the holder to purchase one of our common shares at a price of \$0.72 per share prior to expiry on May 27, 2010.

10.

Each option entitles the holder to purchase one of our common shares at a price of \$0.80. These options expired on March 22, 2007.

11.

Each option entitles the holder to purchase one of our common shares at a price of \$0.65 per share prior to expiry on June 16, 2009.

12.

Each option entitles the holder to purchase one of our common shares at a price of \$0.60 per share prior to expiry on November 24, 2009.

13.

Each option entitles the holder to purchase one of our common shares at a price of \$0.80 per share prior to expiry on July 6, 2011.

14.

Each option entitles the holder to purchase one of our common shares at a price of \$0.36 per share prior to April 15, 2012.

15.

200,000 options entitle the holder to purchase one of our common shares at a price of \$0.80 per share, and 100,000 options at \$0.68 per share. These options expire on May 2, 2008 if unexercised.

The aggregate direct compensation paid or accrued on behalf of all other directors, as a group during 2006 and 2005 was zero. None of the non-employee directors have agreements with us that provide for benefits upon termination of service.

Our Board of Directors compensation policy is as follows. Directors do not receive cash compensation for serving as directors. Instead they have been awarded stock options over the years. These options are set at each annual meeting and approved by the shareholders.

We have adopted a stock option plan. Options are offered to directors, executive officers and employees to purchase our common shares at an exercise price equal to or above the market price for the common shares at the date that the options are granted. 5,300,000 options were granted during 2003 and were exercised in 2004. In 2004, 7,150,000 options were granted and were outstanding at October 31, 2004. These options have vested and are exercisable at \$0.30 per share. In 2005, 1,800,000 of these options were exercised and in 2006 3,550,000 of these options were exercised. In January 2007, 1,000,000 of these options were exercised.

120,000 options were granted in 2004 at an exercise price of \$0.68. In 2005, 20,000 of these options were exercised and at December 31, 2005 the remaining 100,000 options expired.

In 2005, we issued 2,500,000 options exercisable at \$0.72, 1,800,000 options exercisable at \$0.65, 100,000 options exercisable at \$0.91 and 300,000 options exercisable at \$0.80. These options are fully vested and expire in 5 years if unexercised.

In 2006, we issued 300,000 options at \$0.60, 50,000 options at \$0.72 and 4,600,000 options at \$0.80. These options are fully vested and expire in 5 years if unexercised.

In 2007, we issued 350,000 options at \$0.36 which expire in April 2012 if unexercised; 150,000 options at \$0.70 which expire on May 31, 2008 if unexercised; 50,000 options at \$0.50 which expire in May 2012 if unexercised and 225,000 options at \$0.60 which expire in October 2012 if unexercised. These options are fully vested.

#### C. Board of Directors Practices

Our Board of Directors meets as a full Board of Directors on an as required basis during the fiscal year. In 2007 our Board of Directors met on February 25, 2007 and on April 5, July 27 and October 11, 2007.

Our Audit Committee of the Board of Directors has met on a quarterly basis during fiscal 2007 for the purpose of approving the quarterly financial statements. In addition, our Audit Committee has received periodic reports from management.

All matters pertaining to our financing, contractual arrangements and Board of Directors and management compensation are approved by the Board of Directors. All Board of Directors meeting minutes and directors resolutions are maintained by us on an up-to-date basis.

The Audit Committee approved an independent review of our internal reporting and control procedures, which review was completed during fiscal 2005 by an independent firm of chartered accountants. Their report has been submitted and management has now implemented certain recommendations under the supervision of the Audit Committee.

In July 2007, the Board of Directors approved the formation of a Technical Advisory Committee. Two independent directors were named to the committee and an arm's length industry consultant was contracted to also sit on the committee. The committee's mandate is to supervise and coordinate the ongoing technical developments, initiatives and discussions in which the Company is currently engaged.

The members of the Board of Directors are appointed to a one-year term at our annual meeting.

Audit Committee

The Board of Directors has appointed an Audit Committee consisting of three independent directors. The members of the Audit Committee are Andrew Brandt, Oliver Nepomuceno and David Sharpless (Chairman) each of whom shall serve in such capacity until our next annual meeting. The Audit Committee is responsible for the integrity of our internal accounting and control systems. The committee receives and reviews our financial statements and makes recommendations thereon to the Board of Directors prior to its approval by the full Board of Directors. The Audit Committee communicates directly with our external auditors in order to discuss audit and related matters whenever appropriate.

#### Compensation Committee

The Board of Directors also intends to appoint a Compensation Committee. Our executive compensation will be administered by the Compensation Committee which will meet on executive compensation matters as and when required. Currently these matters are handled by the Audit Committee.

## D. Employees

We have seven officers and employees of which three serve in a management capacity and four serve in an administrative capacity. This includes a Chairman of the Board of Directors, a Chief Executive Officer and President, a Chief Financial Officer, and four support staff, all of whom work from our executive offices in Toronto, Canada. All research and development is outsourced to several different groups.

We served four months notice to termination without cause our employment agreement with Dr. Cynthia Kuper on November 18, 2007. Dr. Kuper has filed a claim against the Company in February 2008 citing wrongful dismissal and making a number of allegations against the Company. The Company vigorously denies Dr. Kuper's claims which it considers malicious and frivolous. The dispute has been referred to the Company's Audit Committee and legal counsel has been engaged to advise the Company of its options and an appropriate response. April 21, 2008 has been set for mediation of this dispute. See Item 3-Key Information "Risk Factors" on page 11 of this report.

We consider our relations with our employees to be satisfactory. We had 8 employees as of October 31, 2007 and 2006; we had 7 employees as of October 31, 2005.

## A. Share Ownership

NAME	SHARES OWNED	OPTIONS HELD	OPTION EXERCISE PRICE	EXPIRY DATE	% OF TOTAL <sup>1</sup>
Joseph Fuda Chief Executive Officer and Director	51,780	1,800,000 900,000	\$0.72 \$0.80	6/30/2010 7/6/2011	3.82%
Salvatore Fuda Chairman of the Board of Directors and Director	2,755,292 <sup>2</sup>	1,800,000 1,000,000	\$0.65 \$0.80	6/16/2009 7/6/2011	8.1%
Manoj Pundit Executive Vice- President, General Counsel and Director	2,478	100,000	\$0.80	3/15/2008	0.14%
Andrew Brandt Director	100,000	300,000	\$0.80	7/6/2011	0.57%
David Sharpless Director	100,000	300,000	\$0.80	7/6/2011	0.57%
Steven Van Fleet Director	-	350,000 300,000 300,000	\$0.36 \$0.72 \$0.80	4/15/2012 5/27/2010 7/6/2011	1.28%
Dan Amadori Chief Financial Officer	254,000	50,000 200,000 400,000	\$0.91 \$0.72 \$0.80	6/17/2009 5/27/2010 6/30/2010	1.29%
Cynthia Kuper Chief Technology Officer	-	100,000 200,000	\$0.68 \$0.80	5/2/2008 5/2/2008	0.86%
Jason Baun Investor Relations	-	50,000 50,000 200,000	\$0.91 \$0.63 \$0.80	6/17/2009 12/2/2010 7/6/2011	0.43%
Larry Blue	-	300,000	\$0.60	11/3/2009	0.85%

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Director		300,000	\$0.80	7/6/2011	
Oliver Nepomuceno	900,000	300,000	\$0.80	7/6/2011	1.73%
Director					
Stephen Fleming	200,000	100,000	\$0.30	7/18/2009	0.43%
Director of Subsidiary 1					

Calculated based on shares owned plus options held as a percentage total of shares outstanding plus options held.

2

These shares are held by a corporation wholly owned by a trust established for the benefit of members of Salvatore Fuda's family.



## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A.

### Major Shareholders

No shareholder holds greater than 5% of the common shares outstanding. As of the date of this 20-F report approximately 73% of the issued and outstanding common shares are held by Canadian investors and approximately 27% of the issued and outstanding shares are held by U.S. investors.

B.

### Other Related Party Transactions

During the fiscal year ended October 31, 2007, we paid \$15,000, as compared to \$40,000 in 2006, to a law firm in which Manoj Pundit, an officer of the Company (until February 2008 when he resigned), is a partner.

C.

### Interests of Experts and Counsel

Manoj Pundit, a partner of Chitiz Pathak LLP, who serves as legal counsel to us, holds 2,478 common shares and options to purchase 100,000 common shares of Micromem at \$0.80 per share.

ITEM 8.

## FINANCIAL INFORMATION

### A. Consolidated Statements

See "Item 17 Financial Statements."

B.

### Dividend Policy

We have never paid a dividend on our securities. We do not anticipate paying dividends in the foreseeable future.

C.

### Significant Changes

Except as otherwise disclosed in this report, there has been no significant change in our financial position since October 31, 2007.

D. Legal Proceedings

Our subsidiary, Pageant Technologies (USA) Inc. was named as a defendant in legal actions relating to tenant improvements on a leased property, including an action claiming damages of approximately \$887,000 alleging breach of contract under a construction contract entered into by Clear Blue Laboratories, Inc. The landlord of the property was also seeking damages from Pageant Technologies (USA) Inc. Pageant Technologies (USA) Inc. assigned its

rights under the lease to Clear Blue Laboratories, Inc., however, Pageant Technologies (USA) Inc. was allegedly obligated to pay the lease payments should the assignee default under the contract. The landlord was claiming damages of approximately \$887,000. This matter was settled pursuant to a settlement agreement at no cost to us in 2005.

April 21, 2008 has been set as the mediation date for a dispute that the Company has with its former Chief Technology Officer. See "Item 3-Key Information-Risk Factors".

ITEM 9.

#### **THE OFFER AND LISTING**

The table below sets forth the high and low sales prices for common shares in U.S. Dollars as reported for the periods specified. Our fiscal year ends October 31. Our common shares are not traded in Canada.

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Our common shares are traded in the United States and are quoted on the NASD's OTC Bulletin Board. The common shares are quoted under the symbol MMTIF.OB.

Period	High	Low
<b>Last six months:</b>		
January 2008	0.65	0.55
December 2007	0.85	0.51
November 2007	0.72	0.55
October 2007	0.72	0.55
September 2007	0.79	0.45
August 2007	0.65	0.35
<b>Last eight quarters:</b>		
Q4 2007	0.79	0.35
Q3 2007	0.55	0.35
Q2 2007	0.63	0.35
Q1 2007	0.68	0.39
Q4 2006	0.90	0.53
Q3 2006	1.33	0.68
Q2 2006	1.20	0.43
Q1 2006	0.72	0.47
<b>Last five years:</b>		
2007	0.85	0.35
2006	1.33	0.43
2005	1.15	0.37
2004	1.17	0.15
2003	0.31	0.05

On February 28, 2008, the last reported sale price for our common shares on the NASD OTC Bulletin Board was \$ 1.07.

## ITEM 10. ADDITIONAL INFORMATION

### A. Share Capital

At October 31, 2007 the Company reports 72,946,167 common shares outstanding (2006: 69,191,299). Additionally the Company has 10,325,000 stock options outstanding with a weighted average exercise price of \$0.55 (2006: 11,550,000 options outstanding with a weighted average exercise price of \$.53) and a total of 4,471,328 outstanding warrants to acquire common shares with a weighted average exercise price of \$.53 (2006: 4,848,818 outstanding warrants with a weighted average exercise price of \$.53).

### B. Memorandum and Articles of Incorporation

#### Articles of Incorporation

#### **Incorporation Details and Objects of Micromem Technologies Inc.**

Micromem Technologies Inc. was incorporated under the laws of the Province of Ontario, Canada, on October 21, 1985 as Mine Lake Minerals Inc. We subsequently changed our name to Avanti Capital Corp. by filing Articles of Incorporation of Amendment on June 23, 1988 and to AvantiCorp International Inc. on April 30, 1992 before becoming Micromem Technologies Inc. on January 14, 1999. The Articles of Incorporation place no restrictions on the nature of the business to be carried on by Micromem.

#### Summary of Directors Powers and Authorities

The rights, duties, powers and authorities of our Board of Directors are set out in the Articles of Incorporation and By-laws and the statutory provisions of the *Business Corporations Act* (Ontario). The following is a selected summary of the Articles of Incorporation, By-laws and applicable provisions of the Business Corporations Act (Ontario) as they relate to selected rights, duties, powers and authorities of our Board of Directors.

The Articles of Incorporation provide for a minimum of three and a maximum of 12 directors. The Business Corporations Act (Ontario) prescribes that an offering corporation must have a minimum of three directors, a majority of whom are Canadian residents and at least one third of whom are not officers or employees of us or our affiliates. The Board of Directors may, between annual shareholders meetings, appoint one or more additional directors to serve until the next annual shareholders meeting provided that the number of directors so added may not exceed by one-third (1/3) the number of directors required to have been elected at the last annual meeting of shareholders.

The Chairman of the Board of Directors or any one director may call a meeting upon the provision of forty-eight hours notice to each director in the manner prescribed in our By-laws. Any such notice shall include the items of business to be considered at the meeting. A majority of the directors constitute a quorum provided that half of those directors present are Canadian residents. Business cannot be transacted without a quorum. A quorum of directors may vote on any matter of business properly brought before the meeting provided that where a director is a party to a material contract or proposed material contract or has a material interest in the matter to be considered, such director must disclose his or her interest at the earliest possible date, request the conflict be noted in the minutes of the meeting, and with a few limited exceptions enumerated in the By-laws, refrain from voting on the matter in which the director has a material interest. There is no limitation on the Board of Directors to vote on matters of their remuneration provided such remuneration is disclosed in the financial statements and annual shareholder proxy materials.

The Board of Directors has broad borrowing powers and may, without authorization from the shareholders:

- borrow money on the credit of Micromem;
- issue, re-issue, sell or pledge debt obligations of Micromem;

- 

subject to restrictions respecting financial assistance prescribed in the Business Corporations Act (Ontario), give a guarantee on behalf of Micromem to secure the performance of an obligation of any person; and

- mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of Micromem, owned or subsequently acquired, to secure any obligation of Micromem.

A person is qualified to be or stand for election as a director provided such person is at least 18 years of age, is not a bankrupt and is not found to be of unsound mind by a court in Canada or elsewhere. There is no requirement for a director to hold common shares.

#### Securities of Micromem

Our authorized capital consists of an unlimited number of common shares, of which 72,946,167 shares were issued and outstanding as of October 31, 2007, and 2,000,000 special, redeemable, voting preference shares, referred to herein as special shares, none of which were outstanding, as of October 31, 2007.

Holders of our common shares will be entitled to receive notice of, attend and vote at all meetings of the shareholders of Micromem. Each common share carries one vote at such meetings. In the event of the voluntary or involuntary liquidation, dissolution or winding-up of Micromem, after payment of all outstanding debts, the remaining assets of Micromem available for distribution will be distributed to the holders of our common shares. Dividends may be declared and paid on our common shares in such amounts and at such times as the directors shall determine in their discretion in accordance with the Business Corporations Act (Ontario). There are no pre-emptive rights, conversion rights, redemption provisions or sinking fund provisions attaching to the common shares. Common shares are not liable to further calls or to assessment by Micromem; provided, however, that pursuant to the provisions of the Business Corporations Act (Ontario), Micromem has a lien on any common share registered in the name of a shareholder or the shareholder's legal representative for a debt owed by the shareholder to Micromem.

Holders of special shares are entitled to receive notice of, attend and vote at all meetings of the shareholders of Micromem. Each special share carries one vote at such meetings. In the event of the voluntary or involuntary liquidation, dissolution or winding-up of Micromem, after payment of all outstanding debts, the holders of the special shares shall be entitled to receive, before any distribution of any part of the assets of Micromem among the holders of any other shares, the amount paid up on the special shares. The special shares are redeemable at the option of Micromem for the amount paid up on the shares. Dividends may not be declared or paid on the special shares and transfer of the Special Shares is restricted without the approval of the Directors of Micromem and the prior written consent of the Ontario Securities Commission. The number of special shares that may be issued and outstanding at any time is limited to 500,000. There are no pre-emptive rights, conversion rights or sinking fund provisions attaching to the special shares. Special shares are not liable to further calls or to assessment by Micromem; provided, however, that pursuant to the provisions of the Business Corporations Act (Ontario), Micromem has a lien on any special shares registered in the name of a shareholder or the shareholder's legal representative for a debt owed by the shareholder.

## Rights and Privileges of Shareholders

Only the registered holders of our common shares and special preference shares on the record date are entitled to receive notice of and vote at annual and special meetings of shareholders. Where the items of business affect the rights of shareholders other than the holders of common shares, a special majority of two-thirds of the votes cast by the affected shareholders at the meeting called for such purpose is required to approve the item of business. Beneficial holders of common shares and special shares are also entitled to receive proxy materials in respect of meetings of shareholders in accordance with Canadian Securities Administrators National Instrument 54-101, provided that such proxies are limited in scope to instructing the registered shareholder (usually a brokerage house) on how to vote on behalf of the beneficial shareholder. There are no restrictions on the number of shares that may be held by non-residents other than restrictions set out in the *Investment Canada Act* (Canada). See "Additional Information - D. Exchange Controls".

There are no provisions in the By-laws regarding public disclosure of individual shareholdings. Notwithstanding this, applicable Canadian securities legislation requires certain public disclosure of persons owning or acquiring common shares in excess of 10% of a corporation's issued and outstanding share capital.

### C. Material Contracts

1. Equipment Transfer Agreement dated March 1, 2003 (now expired), by and between Micromem and the Governing Council of the University of Toronto, pursuant to which we conveyed equipment having an estimated value of \$200,000 (CDN \$297,600) to the University of Toronto for incorporation into the University's magnetic memory facility for the research and development and fabrication of magnetic memory.

2. Collaborative Research Agreement dated December 10, 2002 (now expired), by and among Micromem, Communications and Information Technology Ontario, the University of Toronto and Dr. Harry Ruda, Professor of Physics at the University of Toronto, pursuant to which:

- over a period of two years Micromem contributed \$63,750 (CDN \$92,000) and \$67,632 (CDN \$97,600) of in-kind contribution and, Communications and Information Technology Ontario contributed \$215,430 (CDN \$308,000) for research into "High Density Magnetic Memory Device Development"; and

- in consideration of such contribution, Communications and Information Technology Ontario shall receive a royalty based on revenues received from the sale of products incorporating intellectual property developed under this collaboration agreement for the remaining life of patents issued in connection with such intellectual property.

3. Research Collaboration Agreement, dated October 24, 2002 (now expired), by and among Micromem, Materials and Manufacturing Ontario, the University of Toronto and Dr. Harry Ruda, Chair Professor in Nanotechnology, pursuant to which:

- Micromem has engaged the University of Toronto to conduct research and development of magnetic memory technology; and

Micromem and Materials and Manufacturing Ontario each provide \$174,864 (CDN \$272,000) of funding and the combined \$349,728 (CDN \$544,000) is used to cover the operating expenses of the research collaboration over a term of two years.

4. A second two-year research collaboration agreement dated November 12, 2003 (now expired), by and among Materials and Manufacturing Ontario and the University of Toronto, pursuant to which:

- through the collaboration, Micromem has continued its involvement in the research and development of magnetic memory technology, carried out by a highly skilled research team;





- Micromem has committed to providing \$56,130 (CDN \$81,000) per year in cash and \$30,770 (CDN \$44,400) per year of in kind contributions and Materials and Manufacturing Ontario has committed to providing \$58,900 (CDN \$85,000) in cash;
- the combined cash contributions of we and Materials and Manufacturing Ontario, \$230,060 (CDN \$332,000), will be used to cover the operating expenses of the research collaboration over a term of two years;
- Materials and Manufacturing Ontario's funding of \$117,800 (CDN \$170,000) (or \$58,900 (CDN \$85,000) per year) will be paid directly to the University of Toronto and therefore is not reflected in Micromem's financial statements; and
- Micromem maintains its ownership of its portfolio of patents and intellectual property that was developed prior to or outside the scope of the agreement.

5. Asset Purchase Agreement, dated December 10, 2000, by and among Micromem, Pageant International, Estancia Limited and Richard M. Lienau, pursuant to which:

- Pageant International purchased from Estancia Limited and Mr. Lienau all interests in the VEMRAM patents and the VEMRAM technology and all other rights, interests and entitlements held by Estancia Limited and Mr. Lienau as set forth in the Joint Ownership and Licensing Agreement and a termination of such agreement; and

Micromem is required to pay to Estancia Limited a purchase price of \$50 million, of which \$10 million was paid in cash and shares at closing and the balance of \$40 million being payable in cash and shares upon certain stipulated milestones being achieved;

6. Technology Development Agreement, dated March 9, 2001, as amended on April 23, 2002, by and among Pageant International, Estancia Limited and Richard M. Lienau, pursuant to which:

- Estancia Limited and Mr. Lienau are required to provide services to Pageant International in respect of the continued development of VEMRAM technology; and

Pageant International is required to pay monthly fees to Estancia Limited at the rate of \$215,000 per annum over a term of three years and eight months, except that the fees payable during the period from June 1 to December 2002 and during the period from March 9, 2004 through to November 9, 2004 will be at a rate of \$107,000 per annum;

7. Infrastructure Agreement by and between Micromem and the University of Toronto, dated November 1, 2002, pursuant to which Micromem agreed to provide funding to the University of Toronto in the amount of \$249,463 (CDN \$360,000) for the assembly of a magnetic memory facility to be used for research collaborations between Micromem and the University of Toronto.

8. Revised License Agreement between the University of Toronto, the Materials and Manufacturing Ontario and Communications and Information Technology Ontario as detailed above in Section 5 under the commentary on Commitments (point 4).

9. In January 2005, we entered into a consulting agreement with Dr. Cynthia Kuper for her services as Chief Technology Officer. The agreement extended for 2 years with a cancellation clause which could be executed by us at any time with 4 months notice provided. The base remuneration stipulated in the contract is \$260,000 per year. We also granted the Chief Technology Officer 100,000 options to purchase our common shares exercisable at \$0.68 per share which expired on December 31, 2005, 100,000 options to acquire common shares at \$0.68 per share which options expired on March 22, 2007 and 200,000 options to acquire common shares at \$0.80 which options expire on May 2, 2008.

In October 2005, the Company extended the consulting contract for 2 more years commencing in January 2007 on the same terms, conditions and cancellation clauses. On November 18, 2007 the Company served Dr. Kuper with the required four months written notice of termination of her employment agreement. As discussed in the Risk Section of this report, on Page 8, Dr. Kuper has filed a claim against the Company in February 2008 citing wrongful dismissal and making a number of allegations against the Company. The Company vigorously denies Dr. Kuper's claims which it considers malicious and groundless. The dispute has been referred to the Company's Audit Committee, legal counsel has been engaged to advise the Company of its options and an appropriate response. A date of Monday, April 21, 2008 has been set for mediation of this dispute.

10. On May 29, 2005, we entered into a new employment agreement with the Chairman of the Board of Directors. The agreement commenced on January 1, 2005 and expires on September 30, 2009. Under the terms of the agreement, the Chairman of the Board of Directors has been retained to provide certain management services to us. We have agreed to provide compensation based on a percentage of the increase of the market capitalization on a year-over-year basis commencing as of December 31, 2005 subject to a minimum annual compensation amount of \$150,000 (Canadian funds approximately \$158,000 in U.S. funds at current exchange rates). At our option, we can pay either cash or issue common shares as compensation providing that the cumulative maximum number of shares that we can issue under the agreement is 2 million common shares. The Company has reported \$309,000 of costs associated with this contract in 2007 and \$133,600 in each of the 2005 and 2006 fiscal years.

#### D. Exchange Controls

As of the date hereof, we are not aware of any governmental laws, decrees or regulations in Canada that restrict the export or import of capital, including, but not limited to, foreign exchange controls, or that affect the remittance of dividends or other payments to nonresident holders of our common shares.

We are not aware of any limitations under the laws of Canada or the Province of Ontario, or in the Articles of Incorporation or any other of our constituent documents on the right of nonresidents of Canada or persons who are not Canadian citizens to hold and/or vote common shares.

#### E. Taxation

##### Certain Canadian Income Tax Consequences

This discussion under this heading summarizes the principal Canadian federal income tax consequences of acquiring, holding and disposing of common shares for a shareholder who is not a resident of Canada but is a resident of the United States and who will acquire and hold a common share as capital property for the purposes of the Income Tax Act, Canada, also referred to as the Canadian Tax Act. This summary does not apply to a shareholder who carries on business in Canada through a permanent establishment situated in Canada or performs independent personal services in Canada through a fixed base in Canada if the shareholder is effectively connected with such permanent establishment or fixed base. This summary is based on the provisions of the Canadian Tax Act and the regulations thereunder and on an understanding of the administrative practices of Canada Customs & Revenue Agency, and takes into account all specific proposals to amend the Canadian Tax Act or regulations made by the Minister of Finance of Canada as of the date hereof. It has been assumed that there will be no other relevant amendments of any governing law although no assurance can be given in this respect. This discussion is general only and is not a substitute for independent advice from a shareholder's own Canadian and US tax advisors.

The provisions of the Canadian Tax Act are subject to income tax treaties to which Canada is a party, including the Canada-United States Income Tax Convention (1980), as amended.

##### Dividends on common shares and Other Income

Under the Canadian Tax Act, a non-resident of Canada is generally subject to Canadian withholding tax at the rate of 25 percent on dividends paid or deemed to have been paid to him or her by a corporation resident in Canada. We are responsible for the withholding of tax at the source. The Canada-United States Income Tax Convention (1980) limits the rate to 15 percent if the shareholder is a resident of the United States and the dividends are beneficially owned by and paid to such shareholder, and to 5 percent if the shareholder is also a corporation that beneficially owns at least 10 percent of the voting stock of the payor corporation.

The amount of a stock dividend (for tax purposes) would generally be equal to the amount of our paid up or stated capital and increased by reason of the payment of such dividend. We will furnish additional tax information to

shareholders in the event of such a dividend. Interest paid or deemed to be paid on our debt securities held by non-Canadian residents may also be subject to Canadian withholding tax, depending upon the terms and provisions of such securities and any applicable tax treaty.

The Canada-United States Income Tax Convention (1980) generally exempts from Canadian income tax dividends paid to a religious, scientific, literary, educational or charitable organization or to an organization constituted and operated exclusively to administer a pension, retirement or employee benefit fund or plan, if the organization is a resident of the United States and is exempt from income tax under the laws of the United States.

### Dispositions of Common Shares

Under the Canadian Tax Act, a non-resident of Canada is subject to Canadian tax on taxable capital gains, and may deduct allowable capital losses, realized on a disposition of "taxable Canadian property". common shares will constitute taxable Canadian property of a shareholder at a particular time if the shareholder used the shares in carrying on business in Canada, or if at any time in the five years immediately preceding the disposition 25 percent or more of the issued shares of any class or series in the capital stock of Micromem belonged to one or more persons in a group comprising the shareholder and persons with whom the shareholder did not deal at "arm's length" and in certain other circumstances.

The Canada-United States Income Tax Convention (1980) relieves United States residents from liability for Canadian tax on capital gains derived on a disposition of shares unless:

the value of the shares is derived principally from "real property" in Canada, including the right to explore for or exploit natural resources and rights to amounts computed by reference to production, the shareholder was resident in Canada for 120 months during any period of 20 consecutive years preceding, a and at anytime during the 10 years immediately preceding, the disposition and the shares were owned by them when they ceased to be resident in Canada, or the shares formed part of the business property of a "permanent establishment" that the holder has or had in Canada within the 12 months preceding the disposition.

### Certain United States Federal Income Tax Consequences

The following is a general summary of certain United States federal income tax consequences, under current law, generally applicable to a US Holder (as defined below). This summary does not address all potentially relevant United States federal income tax matters and it does not address consequences peculiar to persons subject to special provisions of United States federal income tax law, such as those described below as excluded from the definition of a US Holder. United States alternative minimum tax considerations are not addressed in this summary. In addition, this summary does not cover any state, local or foreign tax consequences.

The following summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations, published Internal Revenue Service ("IRS") rulings, published administrative positions of the IRS, and court decisions that are currently applicable, any of which could be materially and adversely changed, possibly on a retroactive basis, at any time. This summary does not consider the potential effects, both adverse and beneficial, of any recently proposed legislation which, if enacted, could be applied (possibly on a retroactive basis) at any time (including, without limitation, changes in applicable tax rates).

This summary is for general information only and it is not intended to be, nor should it be construed to be, legal or tax advice to any holder or prospective holder of common shares, and no opinion or representation with respect to the United States federal income tax consequences to any such holder or prospective holder is made. Accordingly, holders and prospective holders of common shares should consult their own tax advisors about the federal, state, local, and foreign tax consequences of purchasing, owning and disposing of common shares.

### US Holders

As used herein, a "US Holder" means an owner of common shares who is a citizen or individual resident (as defined under United States tax laws) of the United States; a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or of any political subdivision thereof; an estate the income of which is taxable in the United States irrespective of source; or a trust if (a) a court within the United States is able to exercise primary supervision over the trust's administration and one or more United States persons have the authority to control all of the substantial decisions of the trust or (b) the trust was in existence on August 20, 1996 and has properly elected to continue to be treated as a United States person. This summary does not address the tax

consequences to, and "US Holder" does not include, tax-exempt persons or organizations; qualified retirement plans, individual retirement accounts and other tax-deferred accounts; broker-dealers; non-resident alien individuals or entities; persons or entities that have a "functional currency" other than the US dollar; persons who hold common shares as part of a straddle, hedging or conversion transaction; and persons who acquire their common shares as compensation for services. This summary is limited to US Holders who own common shares as capital assets and who hold the common shares directly (e.g., not through an intermediary entity such as a corporation, partnership, LLC or trust). This summary does not address the consequences to a person or entity of the ownership, exercise or disposition of any options, warrants or other rights to acquire common shares.

## Distributions to US Holders Who Own Common Shares

Subject to the discussion below concerning the potential status of the Company (or any of its subsidiaries that are classified as corporations for United States federal income tax purposes ("Related Entities")) as a "passive foreign investment company" ("PFIC"), the gross amount of any distribution by the Company (including any Canadian taxes withheld therefrom) with respect to common shares generally should be included in the gross income of a US Holder as foreign source dividend income to the extent such distribution is paid out of current or accumulated earnings and profits of the Company, as determined under United States federal income tax principles. To the extent that the amount of any distribution exceeds the Company's current and accumulated earnings and profits in that taxable year, the distribution is treated as a tax-free return of capital to the extent of the US Holder's adjusted tax basis in the common shares. Thereafter, to the extent that such distribution exceeds the US Holder's adjusted tax basis in the common shares, it is taxed as a capital gain.

Dividends received by non-corporate US Holders may be subject to United States federal income tax at lower rates (generally 15%) than other types of ordinary income in taxable years beginning on or before December 31, 2010, if certain conditions are met. These conditions include neither the Company nor a Related Entity being classified as a PFIC (discussed below), the Company being a "qualified foreign corporation", the US Holder's satisfaction of a holding period requirement, and the US Holder not treating the distribution as "investment income" for purposes of the investment interest deduction rules.

In the case of US Holders that are corporations, distributions from the Company generally are not eligible for the dividends received deduction.

## Dispositions of Common Shares of the Company

Subject to the discussion below regarding PFICs, gain or loss, if any, realized by a US Holder on the sale or other disposition of common shares generally is subject to United States federal income taxation as capital gain or loss in an amount equal to the difference between the US Holder's adjusted tax basis in the common shares and the amount realized on the disposition. Net capital gain (i.e., capital gain in excess of capital loss) recognized by a non-corporate US Holder upon a sale or other disposition of common shares that have been held for more than one year is generally subject to a maximum United States federal income tax rate of 15%, under present law. Deductions for capital losses are subject to limitations.

## US Anti-Deferral Regimes

There are two regimes applicable to foreign corporations under United States federal income tax law that potentially may apply to the Company - the "controlled foreign corporation" ("CFC") regime and the PFIC regime.

Generally, a foreign corporation is not a CFC unless more than fifty percent (by vote or value) of its stock is owned by "U.S. Shareholders" (generally, United States persons who have ten percent or more of the votes of the foreign corporation). This classification generally results in the inclusion of certain income of the CFC in the U.S. Shareholders' income as a deemed dividend. If the Company were a CFC, the United States federal tax consequences summarized herein could be materially and adversely different.

PFIC status is not conditioned on a certain level of ownership of the foreign corporation by United States persons, however. The Company or any Related Entity would be considered a PFIC if during any taxable year, 75% or more of its gross income consists of certain types of "passive" income, or if the average value during a taxable year of its "passive assets" (generally, assets that generate passive income) is 50% or more of the average value of all assets held by it. Passive income generally includes items such as dividends, interest, rents and royalties, although there are various "look through" rules that treat dividends from related persons, for example, as non-passive under certain conditions.

If the Company is classified as a PFIC, a US Holder is subject to increased United States federal income tax liability in respect of gain recognized on the disposition of his, her or its common shares or upon the receipt of certain distributions, unless such person makes a "qualified electing fund" election to be taxed currently on his, or her or its *pro rata* portion of the Company's income and gain (whether or not such income or gain is distributed in the form of dividends or otherwise), and the Company provides certain annual statements which include the information necessary to determine inclusions and assure compliance with the PFIC rules. As an alternative to the foregoing rules, a US Holder may make a "mark-to-market" election to include in income each year as ordinary income an amount equal to the increase in value of his, her or its common shares for that year or to claim a deduction for any decrease in value (but only to the extent of previous mark-to-market gains).



The PFIC rules are very complex. The Company can give no assurance as to its status as a PFIC for the current or any future year. US Holders should consult their own tax advisors with respect to the PFIC issue and its applicability to their particular situation.

#### Foreign Tax Credit

A US Holder who pays (or has withheld from distributions) Canadian income tax with respect to the common shares may be entitled to either a deduction or a tax credit for such foreign tax paid or withheld, at the option of the US Holder. Generally, it is more advantageous to claim a credit because a credit reduces United States federal income tax on a dollar-for-dollar basis, while a deduction merely reduces the taxpayer's income subject to tax. This election is made on a year-by-year basis and generally applies to all foreign taxes paid by (or withheld from) the US Holder during that year. Unused foreign tax credits can generally be carried back one year and carried forward ten years.

There are significant and complex limitations which apply to the foreign tax credit, among which is the general limitation that the credit cannot exceed the proportionate share of the US Holder's United States income tax liability that the US Holder's foreign source income bears to its worldwide taxable income. This limitation is designed to prevent foreign tax credits from offsetting United States source income. In determining this limitation, the various items of income and deduction must be classified into foreign and domestic sources. Complex rules govern this classification process.

In addition, this limitation is calculated separately with respect to specific "baskets" of income. Foreign taxes assigned to a particular class of income generally cannot offset United States tax on income assigned to another class. The "basket limitation" has changed significantly for tax years after 2006, due to recent US tax legislation.

US Holders should consult their own tax advisors concerning their ability to utilize foreign tax credits, especially in light of the changes made by recent legislation.

#### Currency Fluctuations

For United States federal income tax purposes, the amount received by a US Holder as payment with respect to a distribution on, or disposition of common shares, if paid in Canadian dollars, is the US dollar value at the date of the payment, regardless of whether the payment is later converted into US dollars. In such case, the US Holder may recognize additional ordinary income or loss as a result of currency fluctuations between the date on which the payment is made and the date the payment is converted into US dollars.

#### Circular 230 Disclosure

Any tax statement made herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for purposes of avoiding any penalties. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

F.

#### **Dividends and Paying Agents**

Not applicable.

G.

#### **Statement by Experts**

Not Applicable.

H.

**Documents on Display**

We have filed the documents referred to herein and other information with the SEC, the Ontario Securities Commission and the Alberta Securities Commission. You may inspect and copy such material at the public reference facilities maintained by the SEC 100 Fifth Street, N.E., Washington, D.C. 20549. You may also obtain copies of such material from the SEC at prescribed rates by writing to the Public Reference Section of the SEC, 100 Fifth Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

The SEC maintains an Internet website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements, information statements and other material that are filed through the SEC's Electronic Data Gathering, Analysis and Retrieval ("EDGAR") system. Documents filed with the Ontario Securities Commission and the Alberta Securities Commission can be accessed through an Internet website at [www.sedar.com](http://www.sedar.com) that contains reports, proxy statements, information statements and other material that are filed through the System for Electronic Document Analysis and Retrieval ("SEDAR").

Additional information is also available on our website at [www.micromeminc.com](http://www.micromeminc.com). Such information on our website is not part of this Form 20-F.

I.

### **Subsidiary Information**

Not Applicable.

ITEM 11.

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not Applicable.

ITEM 12.

### **DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not Applicable.

PART II

ITEM 13.

### **DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not Applicable.

ITEM 14.

### **MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not Applicable.

ITEM 15.

### **CONTROLS AND PROCEDURES**

We operate as a development stage company and have historically had only limited accounting personnel and resources with which to address our internal control procedures.

In anticipation of the implementation of Rules 13a-15(c) of the Securities Exchange Act of 1934 as amended (the Exchange Act"), also referred to as Section 404 of the Sarbanes-Oxley Act of 2002, we engaged, in 2005, an

independent firm of external accountants - a different firm from our independent registered public accounting firm - to complete an in-depth review of our internal accounting procedures and controls. The firm's evaluation was only interim, and did not meet the requirements of Rule 13a-15(c). The independent firm of external accountants made several recommendations which we reviewed and evaluated at that time.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of October 31, 2005. Based on management's evaluation in 2005, our Chief Executive Officer and Chief Financial Officer concluded that, as of October 31, 2005, our disclosure controls and procedures were (1) not effective, in that they were not designed to ensure that material information relating to us is made known to our Chief Executive Officer and Chief Financial Officer by others within our organization, as appropriate to allow timely decisions regarding required disclosures, and (2) not effective, in that they did not ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

When our independent registered public accountants audited our financial statements as of and for the year ended October 31, 2005, they identified significant deficiencies in our disclosure controls and procedures. Significant deficiencies noted were that:

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- we lacked certain formalized accounting policies and procedures including written procedures for the monthly, quarterly and annual closing of our financial books and records;
- our staff was not always subject to timely review and supervision; and
- security practices over our information technology were not sufficiently robust.

Since 2005 we have been committed to improving and enhancing our disclosure controls and procedures. In connection with the deficiencies described above, we implemented additional controls and procedures commencing in the fourth quarter of 2005 and continuing thereafter. The additional controls and enhanced procedures included:

- development of a system of controls including the upgrading of accounting software and the development of formalized software;
- monthly analytical reviews by both the Chief Executive Officer and Chief Financial Officer;
- prompt review of all financial statements and immediate reconciliation of our financial results;
- our Audit Committee has met formally on a quarterly basis and on an informal basis as required to assess our financial performance and to review the progress management has made in upgrading its accounting procedures and controls; interaction of our Audit Committee with our independent registered public accounting firm in 2007 on reporting and control related matters, and

● requirement that our Chief Technology Officer issue regular (weekly) status reports on her dealings with our research partners at the UofT.

We replaced our previous controller in 2006 with a more experienced individual. Additionally, we engaged an additional experienced person in 2006 to supervise and review the work of our controller and to interact directly with our Chief Financial Officer.

Our CFO has attended professional development courses dealing with SEC related filings.

In 2006 our Board of Directors adopted formal disclosure controls and policies and appointed a Chief Information Officer to implement these policies.

When our independent registered public accountants audited our financial statements as of and for the year-ended October 31, 2007 they identified a reportable condition relating to our operating controls relating to our outsourced research and development efforts at the University of Toronto. They reported that the relationship with the University of Toronto had not been managed in a manner which would prevent unauthorized charges on a timely basis which could result in disputed charges and additional costs.

In July 2007 we formed a Technical Advisory Committee consisting of independent directors and an outside consultant to supervise and to report on our technical developments on a timely basis.

The foregoing remedial measures did not materially increase our expenses. With the implementation of the above controls and procedures, we believe that we have significantly improved our disclosure controls and procedures.

The Company believes that it currently maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed internally is complete, accurate, reliable and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in its various reports are recorded, processed, summarized and reported accurately.

In spite of its evaluation, management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure controls and procedures occur and/or mistakes arise,

the Company intends to take the necessary steps to minimize the consequences thereof. If, however, we fail to maintain adequate controls and procedures, we may not meet the demands that are placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act of 2002 and our business could accordingly face repercussions.

#### Changes in Internal Control Over Financial Reporting.

Other than as stated above, no change in our internal controls over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, occurred during the fiscal year ended October 31, 2007 that has materially affected or is reasonable likely to materially affect, our internal controls over financial reporting.

Other Matters. In anticipation of the implementation of Rules 13a-15(c) of the Exchange Act, also referred to as Section 404 of the Sarbanes-Oxley Act of 2002, with the participation of our management, we engaged an independent registered public accounting firm, to complete an in-depth review of our internal accounting procedures and controls. The firm's evaluation was only interim, and did not meet the requirements of Rule 13(a)-15(c). The independent firm of chartered accountants made several recommendations which will help us improve our internal accounting procedures and controls, and, as discussed above, implemented certain of these recommendations in 2006. To date, management has not conducted a separate evaluation of their internal controls over financial reporting.

Item 15T. Controls and Procedures

Not applicable

PART III

Item 16. (Reserved)

Not Applicable.

Item 16A

**. Audit Committee Financial Expert**

Our Board of Directors has determined that a member of the Board of Directors, David Sharpless, is an audit committee financial expert and that he is independent, as defined in the Marketplace Rules of the Nasdaq Stock Market.

Item 16B

**. Code of Ethics**

We have adopted a Code of Ethics to impose certain policies relating to ethical conduct on all of our Directors and employees, including our Chief Executive Officer, Chief Financial Officer, principal accounting officer and persons performing similar functions. We undertake to provide a copy of our Code of Ethics to any holder of our securities upon request, without charge.

**Item 16C. Principal Accountant Fees and Services**

On September 28, 2005, the Audit Committee of the Board of Directors replaced Grant Thornton LLP, as our independent firm of Chartered Accountants and engaged Schwartz Levitsky Feldman LLP as our new independent firm of Chartered Accountants.

The following table presents fees for professional audit services rendered by our auditors for the audit of our consolidated financial statements for the years ended October 31, 2007 and 2006, and fees billed for other services rendered by our auditors including our offerings of securities and tax services.

	<u>2007</u>	<u>2006</u>
Audit Fees	\$75,000	\$60,000
Audit Related Fees	-	-
Tax Fees	-	-
All Other Fees	18,000	5,000

Audit Fees

In 2007, we paid a total of \$75,000 to Schwartz Levitsky Feldman LLP for audit services, which included work related to the annual audit.

In 2006, we paid a total of \$60,000 to Schwartz Levitsky Feldman LLP for audit services, which included work related to the annual audit.



Audit Related Fees

We did not pay any audit related fees to Schwartz Levitsky Feldman LLP during 2007 or 2006.

Tax Fees

We did not pay any tax related fees to Schwartz Levitsky Feldman LLP for services in 2006 or 2007.

All Other Fees

Schwartz Levitsky Feldman LLP billed us \$8,000 for other services during 2007; \$5,000 in 2006.

Grant Thornton LLP billed us \$10,000 for other services in 2007.

Item 16D.

**Exemptions from the Listing Standards for Audit Committees**

Not applicable.

Item 16E. Purchases of Equity by the Issuer and Affiliated Purchasers.

Not applicable.

**Item 17. Financial Statements.**

INDEPENDENT AUDITORS REPORT

To the Shareholders of  
Micromem Technologies Inc.  
(A Development Stage Company)

We have audited the consolidated balance sheets of Micromem Technologies Inc. as at October 31, 2007 and 2006, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for each of the years in the three-year period ended October 31, 2007. These consolidated financial statements are the responsibility of the Company's management. 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 and with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2007 in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles may vary in certain significant respects from US generally accepted accounting principles. Information relating to the nature and effects of such changes is presented in note 16 to the consolidated financial statements.

The consolidated statement of operations, comprehensive loss and deficit, cash flows and shareholders' deficiency for the cumulative period from September 3, 1997 to October 31, 2004 were audited by other auditors who expressed opinions without reservation on those statements in their reports dated February 11, 2006, December 5, 2003, January 27, 2003, November 16, 2001, December 13, 2000, February 25, 2000 and December 20, 1999.

"SCHWARTZ LEVITSKY FELDMAN LLP"

Toronto, Ontario, Canada  
February 28, 2008

Chartered Accountants  
Licensed Public Accountants

1167 Caledonia Road  
Toronto, Ontario M6A 2X1  
Tel: 416 785 5353  
Fax: 416 785 5663

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COMMENTS BY AUDITORS FOR US READERS ON CANADA US REPORTING DIFFERENCE

In the United States, reporting standards for auditors require that the following information be included in the auditor's report:

The addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in note 2 to the consolidated financial statements. Our report to the shareholders dated February 28, 2008 is expressed in accordance with Canadian reporting standards, which do not permit a reference to such events and conditions in the auditor's report when these are adequately disclosed in the consolidated financial statements.

In the introductory paragraph of the auditor's report, it would be required to state that the cumulative statements of operations, comprehensive loss and deficit, cash flows and shareholders' deficiency for the period from September 3, 1997 to October 31, 2004 were audited by other auditors whose reports have been furnished to us and reference would have been made to the opinion of the other auditors, in so far as it relates to the cumulative financial information for the Company for the period from September 3, 1997 through October 31, 2004. Our opinion on the consolidated financial statements would refer to the reports of the other auditors for the period from September 3, 1997 to October 31, 2004. Our report to the shareholders dated February 28, 2008 is expressed in accordance with Canadian reporting standards, which do not permit reference to the reports of other auditors in our auditor's report in the introductory paragraph.

"SCHWARTZ LEVITSKY FELDMAN LLP"

Toronto, Ontario, Canada  
February 28, 2008

Chartered Accountants  
Licensed Public Accountants

1167 Caledonia Road  
Toronto, Ontario M6A 2X1  
Tel: 416 785 5353  
Fax: 416 785 5663

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MICROMEM TECHNOLOGIES INC.  
(A DEVELOPMENT STAGE COMPANY)

**Consolidated Balance Sheet**

(Expressed in United States dollars)

(See Note 2 - Going Concern)

As at	October 31, 2007	October 31, 2006 (as restated - Note 9)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$244,575	\$406,702
Deposits and other receivables (Note 5)	84,657	58,738
	329,232	465,440
Property and equipment (Note 6)	-	-
Patents and trademarks (Note 7)	-	-
Royalty rights (Note 4 and Note 10)	-	-
	329,232	465,440
<b>Liabilities and Shareholders' Deficiency</b>		
Current liabilities:		
Accounts payable and accrued liabilities (Note 5)	1,861,087	914,363
Shareholders' Deficiency:		
Share capital: (Note 8)		
Authorized:		
2,000,000 special preference shares, redeemable, voting		
Unlimited common shares without par value		
Issued and outstanding:		
72,946,167 common shares ( 2006: 69,191,299)	37,166,397	36,693,353
Contributed surplus (Notes 8 and 9)	22,691,336	21,435,934
Deficit accumulated during the development stage	(61,389,588)	(58,578,210)
	(1,531,855)	(448,923)
	\$329,232	\$465,440
Management Compensation and Related Party Transactions (Note 12)		
Commitments (Note 13)		
Contingencies (Note 14)		

"Joseph Fuda" (Signed)

Joseph Fuda, Director

"David Sharpless" (Signed)

David Sharpless, Director

See accompanying notes.

MICROMEM TECHNOLOGIES INC.  
(A DEVELOPMENT STAGE COMPANY)

**Consolidated Statements of Operations, Comprehensive Loss and Deficit**  
(Expressed in United States dollars)

For the year ended October 31, 2007 (with comparative data)

	Oct. 31, 2007	Oct. 31, 2006	Oct. 31, 2005	Period from September 3, 1997 to October 31, 2007
Interest and other income	\$2,586	\$9,930	\$8,703	\$552,603
Costs and expenses (income):				
Administration	223,177	268,241	320,383	2,961,840
Professional, other fees, and salaries (Note 12)	1,631,309	3,248,588	3,178,032	38,421,528
Research and development (Notes 6 and 13)	682,331	368,969	362,141	7,808,133
Travel and entertainment	141,200	195,607	169,737	1,574,126
Amortization of property and equipment (Note 6)	-	-	2,925	344,466
Foreign exchange loss (gain)	135,947	(13,295)	10,968	79,480
Amortization of patents and trademarks	-	-	-	67,596
Operating leases	-	-	-	109,412
Loss on sale of investment	-	-	-	54,606
Write-down of investment	-	-	-	61,020
Write-down of royalty rights (Note 10)	-	-	-	10,000,000
Write-down of patents and trademarks (Note 7)	-	-	-	299,820
Interest expense	-	-	-	75,027
Loss on sale of property and equipment	-	-	-	65,460
	2,813,964	4,068,110	4,044,186	61,922,514
Loss before income taxes	(2,811,378)	(4,058,180)	(4,035,483)	(61,369,911)
Income taxes (Note 11)		-		19,677
Net loss and comprehensive loss for the year	(2,811,378)	(4,058,180)	(4,035,483)	(61,389,588)
Deficit accumulated during the development stage, beginning of year - as restated (Note 8)	(58,578,210)	(54,520,030)	(50,484,547)	-
Deficit accumulated during the development stage, end of year	(61,389,588)	(\$58,578,210)	(\$54,520,030)	(\$61,389,588)
Loss per share - basic and diluted	(0.04)	(0.06)	(0.07)	(1.15)
Weighted average number of shares	70,685,153	66,709,353	62,155,234	53,192,184

See accompanying notes.



**MICROMEM TECHNOLOGIES INC.**  
(A DEVELOPMENT STAGE COMPANY)

Consolidated Statement of Cash Flows

(Expressed in United States dollars)  
For the year ended October 31, 2007 (with comparative data)

	Oct.31, 2007	Oct. 31, 2006	Oct. 31, 2005	Period from September 03, 1997 to October 31, 2007
Cash flows from operating activities:				
Net loss and comprehensive loss for the period	(\$2,811,378)	(\$4,058,180)	(\$4,035,483)	(\$61,389,588)
Adjustments to reconcile loss for the period to net cash used in operating activities:				
Amortization of patents and trademarks	-	-	-	67,596
Amortization of property and equipment	-	-	2,925	529,686
Stock option expense	269,216	2,058,560	1,721,742	21,888,997
Loss on sale of investment	-	-	-	54,606
Write down of investment	-	-	-	61,020
Loss on disposal of property and equipment	-	-	-	65,460
Write-down of royalty rights	-	-	-	10,000,000
Write-down of patents and trademarks	-	-	-	299,820
Share compensation expense	-	-	-	7,285,696
Non-cash wages and salaries	-	-	-	34,000
Decrease (increase) in deposits and other receivables	(25,919)	26,834	(52,010)	(76,060)
Increase (decrease) in accounts payable and accrued liabilities	946,724	111,157	366,582	1,750,247
Net cash used in operating activities	(1,621,357)	(1,861,629)	(1,996,244)	(19,428,520)
Cash flows from investing activities:				
Purchase of property and equipment	-	-	-	(729,604)
Proceeds on disposal of property and equipment	-	-	-	134,458
Patents and trademarks	-	-	-	(367,416)
Sale of available-for-sale Investment	-	-	-	260,641
Royalty rights	-	-	-	(2,000,000)
Term deposits	-	-	87,243	-
Net cash provided by (used in) investing activities	-	-	87,243	(2,701,921)
Cash flows from financing activities:				
Issue of common shares	1,459,230	1,625,528	2,201,300	21,794,291
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 financing activities	1,459,230	1,625,528	2,201,300	22,375,016

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Increase (decrease) in cash and cash equivalents	(162,127)	(236,101)	292,299	244,575
Cash and cash equivalents, beginning of period	406,702	642,803	350,504	-
Cash and cash equivalents, end of period	\$244,575	\$406,702	\$642,803	\$244,575

Supplemental cash flow information:

Interest paid	-	-	-	76,987
Income taxes paid	-	-	-	66,722

See accompanying notes.

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## MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIENCY)

(Expressed in United States dollars)

For the year ended October 31, 2007 (with comparative data)

	Number of Shares	Share Capital	Contributed Surplus	Deferred Share Compensation	Deficit Accumulated during Development stage
Micromem share capital, October 31, 1998	3,490,643	\$ -	\$ -	\$ -	\$ -
Exercise of director's stock options	490,000	-	-	-	-
Pageant share capital, October 31, 1998	-	1	-	-	-
Net loss for the year	-	-	-	-	(500,992)
Common shares of Pageant, December 4, 1998	-	4,999	-	-	-
Assigned fair value of net assets (Note 3(c) (iv))	32,000,000	549,140	-	-	-
Micromem share capital, September 11, 1999	35,980,643	554,140	-	-	(500,992)
Exercise of common share purchase warrants for cash	120,676	164,053	-	-	-
Private placement of common shares for cash, May 17, 1999	350,000	1,050,000	-	-	-
Shareholder loan forgiven (Note 9)	-	-	544,891	-	-
Exercise of stock options for cash	100,000	300,000	-	-	-
Net loss for the year	-	-	-	-	(5,207,787)
Balance, October 31, 1999	36,551,319	2,068,193	544,891	-	(5,708,779)
Exercise of common share purchase warrants for cash	182,087	274,717	-	-	-
Exercise of stock options for cash	100,000	300,000	-	-	-
Deferred share compensation (Note 12)	-	-	2,711,881	(453,219)	-
Private placement of common shares for cash, February 10, 2000	2,000,000	5,000,000	-	-	-
Common shares issued pursuant to compensation agreements, March 15, 2000	901,110	4,206,447	-	-	-
Stock options issued to directors/consultants	-	-	9,681,257	-	-
Net loss for the year	-	-	-	-	(16,940,613)
Balance, October 31, 2000	39,734,516	11,849,357	12,938,029	(453,219)	(22,649,392)
Exercise of common share purchase warrants for cash	362,450	554,655	-	-	-
Common shares issued under rights offering November 20, 2000	304,674	1,119,058	-	-	-
Exercise of stock options for cash	800,000	2,400,000	-	-	-
Deferred share compensation (Note 12)	-	-	(453,219)	453,219	-
Stock-based compensation	-	-	34,000	-	-

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Exercise of director's stock options for cash, January 17, 2001	714,686	71,469	-	-	-
Common shares issued pursuant to compensatory stock options, at January 17, 2001 (Note 12 (a))	-	1,581,242	(1,581,242)	-	-
Adjustment-share compensation expenses (Note 12)	-	-	(677,420)	-	-
Common shares issued pursuant to compensation agreement, January 23, 2001(Note 12 (a))	11,192	66,461	-	-	-
Private placement of common shares for cash, March 21, 2001	2,000,000	4,000,000	-	-	-
Common shares issued under asset purchase agreement to Estancia Limited, March 14, 2001	2,007,831	8,000,000	-	-	-
Compensation shares due but not issued (Note 12)	-	-	1,431,545	-	-
Stock options issued to directors/consultants	-	-	4,627,752	-	-
Net loss for the year	-	-	-	-	(9,187,377)
Balance, October 31, 2001	45,935,349	29,642,242	16,319,445	-	(31,836,769)
Stock options issued to directors/consultants	-	-	1,832,500	-	-
Shares issued pursuant to compensatory agreement, March 26, 2002 (Note 12)	765,588	1,431,545	(1,431,545)	-	-
Net loss for the year	-	-	-	-	(14,565,515)
Balance, October 31, 2002	46,700,937	31,073,787	16,720,400	-	(46,402,284)
Private placement of common shares for cash, August 13, 2003 (Note 8(d))	2,031,250	162,500	-	-	-
Net loss for the year	-	-	-	-	(1,767,965)
Stock options issued to directors/consultants	-	-	318,000	-	-
Balance, October 31, 2003	48,732,187	31,236,287	17,038,400	-	(48,170,249)
Private Placement of common shares for cash, December 2003 (Note 8 (e) ii)	500,000	40,000	-	-	-
Private Placement of common shares for cash, December 2003 (Note 8 (e) i)	300,000	33,000	-	-	-
Exercise of common share purchase warrants for cash (Note 8(d), August 2004)	2,031,250	162,500	-	-	-
Exercise of common share purchase warrants for cash (Note 8 (e) ii), June-September 2004	1,000,000	80,000	-	-	-
Exercise of common share purchase warrants for cash (Note 8 (e) i), October 2004	200,000	22,000	-	-	-
Exercise of options for cash	5,300,000	530,000	-	-	-
Stock options issued to consultant	-	-	1,379,970	-	-
Net loss for the year	-	-	-	-	(2,314,298)
Balance, October 31, 2004	58,063,437	32,103,787	18,418,370	-	(50,484,547)
Exercise of common share purchase warrants for cash (Note 8(e)), December January 2005	400,000	44,000	-	-	-
Private placement of common shares for cash	1,028,334	617,000	-	-	-
Net loss for the quarter	-	-	-	-	(453,523)
Stock options issued to consultants/employers	-	-	202,203	-	-

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Balance at January 31, 2005	59,491,771	32,764,787	18,620,573	-	(50,938,070)
Exercise of common shares purchase warrants for cash (Note 8(d)), February, 2005	1,406,250	112,500	-	-	-
Private Placement of common shares for cash, March, 2005	1,300,000	845,000	-	-	-
Private Placement of common shares for cash, February, 2005	14,000	10,500	-	-	-
Legal expenses relating to private placements	-	(75,000)	-	-	-
Net loss for the quarter	-	-	-	-	(474,227)
Balance at April 30, 2005	62,212,021	33,657,787	18,620,573	-	(51,412,297)
Exercise of stock options (Note 8(b)), June, 2005	1,820,000	553,600			
Settlement of accounts payable for common shares.	62,428	43,700			
	See accompanying notes.				

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MICROMEM TECHNOLOGIES INC.  
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIENCY)  
(Expressed in United States dollars)

For the year ended October 31, 2007 (with comparative data)

	Number of Shares	Share Capital	Contributed Surplus	Deferred Share Compensation	Deficit Accumulated during Development stage
Exercise of stock options (Note 8(b)), June, 2005	1,820,000	553,600			
Settlement of accounts payable for common shares.	62,428	43,700			
Stock options issued to consultants/employees			903,040		
Net loss for the quarter					(1,726,931)
Balance at July 31, 2005	64,094,449	\$ 34,255,087	\$ 19,523,613		\$ - (53,139,228)
Exercise of common shares purchase warrants for cash September, 2005	625,000	50,000	-		
Stock options issued to consultants			616,499		
Net loss for the quarter					(1,380,802)
Balance at October 31, 2005 as previously reported	64,719,449	\$ 34,305,087	\$ 20,140,112		\$ - (54,520,030)
Transfer to contributed surplus re financial advisory agreement (Note 9)		(264,000)	264,000		
As restated at October 31, 2005	64,719,449	34,041,087	20,404,112		- (54,520,030)
Exercise of stock options (Note 8(b))	150,000	45,000			
Stock options issued to consultants/employees			143,786		
Net loss for the quarter					(734,482)
Balance at January 31, 2006	64,869,449	34,086,087	20,547,898		- (55,254,512)
Exercise of stock options (Note 8(b))	1,600,000	480,000			
Net loss for the quarter					(333,768)
Balance at April 30, 2006	66,469,449	34,566,087	20,547,898		- (55,588,280)
Private placement of common shares for cash May 2006	150,000	75,000			
Exercise of stock options (Note 8(b))	1,100,000	329,980			
	771,850	485,548			

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Exercise of common share purchase warrants for cash (Note 8(d))

Net loss for the quarter				(530,370)
Balance as at July 31, 2006	68,491,299	35,456,615	20,547,898	- (56,118,650)

Exercise of stock options (Note 8(b))	700,000	210,000		
Stock options issued to consultants/employees			1,914,774	

Net loss for the quarter				(2,459,560)
Balance at October 31, 2006 as previously reported	69,191,299	35,666,615	22,462,672	- (58,578,210)

Transfer from contributed surplus re stock options (Note 9)		1,026,738	(1,026,738)	
As restated at October 31, 2006	69,191,299	36,693,353	21,435,934	- (58,578,210)

Exercise of stock options (Note 8(b))	1,000,000	300,000		
Transfer from contributed surplus		190,000	(190,000)	
Price adjustment on outstanding warrants (Note 8)		(332,361)	332,361	
Net loss for the quarter				(357,766)
Balance at January 31, 2007	70,191,299	36,850,992	21,578,295	- (58,935,976)

Exercise of stock options (Note 8(b))	600,000	180,000		
Transfer from contributed surplus		114,000	(114,000)	
Stock options issued to director			96,945	
Exercise of warrants for cash	417,500	167,000		
Price adjustment on outstanding warrants (Note 8)		(800,299)	800,299	
Net loss for the quarter				(524,908)
Balance at April 30, 2007	71,208,799	36,511,693	22,361,539	- (59,460,884)

Exercise of warrants for cash	60,000	24,000		
Price adjustment on outstanding warrants (Note 8)		(193,648)	193,648	
Stock options issued to consultant/employee			33,914	
Net loss for the quarter				(600,100)
Balance at July 31, 2007	71,268,799	36,342,045	22,589,101	- (60,060,984)

Exercise of stock options (Note 8(b))	100,000	72,000		
Transfer from contributed surplus		36,122	(36,122)	
Private placement of common shares for cash October, 2007	1,577,368	716,230		
Stock options issued to consultant/employees			52,873	
Warrants issued to consultants			85,484	
Net loss for the quarter				(1,328,604)
Balance at October 31, 2007	72,946,167	37,166,397	22,691,336	- (61,389,588)

See accompanying notes.

MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

October 31, 2007 and 2006

### 1.

#### Nature of business:

Micromem Technologies Inc. ( Micromem or the Company ) is a corporation incorporated under the laws of the Province of Ontario, Canada. By Articles of Amendment dated January 14, 1999, the Company changed its name from Avanticorp International Inc. to Micromem Technologies Inc. On January 11, 1999, the Company acquired all of the outstanding shares of Pageant Technologies Inc. ( Pageant ), a company subsisting under the laws of Barbados.

This acquisition was recorded as a reverse takeover under Canadian generally accepted accounting principles ( Canadian GAAP ) which, in the case of the Company, conforms with United States generally accepted accounting principles ( U.S. GAAP ).

On January 11, 1999, the Company issued 32,000,000 common shares and 1,000,000 warrants to acquire all of the issued and outstanding shares of Pageant. On that date, the total number of the Company shares outstanding was 35,980,643 shares. As a result of this transaction, the shareholders of Pageant owned 88.9% of the outstanding common shares of the Company and, accordingly, the purchase of Pageant was accounted for as a reverse takeover transaction. The transaction was accounted for by the purchase method with the results of operations included in the consolidated financial statements from the date of acquisition.

The Company currently operates as a developer of non-volatile magnetic memory technology. The Company has not generated significant revenue through October 31, 2007 and is devoting substantially all of its efforts to the development of its technology. Accordingly, for financial reporting purposes, the Company is a development stage enterprise.

### 2.

**Going concern:**

These 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 to date. It will be necessary to raise additional funds for the continuing development, testing and commercial exploitation of its technology. The sources of these funds have not yet been identified and there can be no certainty that additional funds will be available in the future.

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MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in United States dollars)**

October 31, 2007 and 2006

Certain principal conditions and events are prevalent which indicate that there is substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time. These include:

a.

Recurring operating losses

b.

Stockholders' deficiency

c.

Working Capital deficiency

Management has initiated certain plans, which it believes will mitigate and alleviate these conditions and events, including exploring alternative sources of financing so as to be able to continue its research, development and commercialization efforts.

The Company continues to pursue its research initiatives as outlined in Note 13 in order to develop its technology for commercial applications and continues to raise financing for operations as outlined in Note 8.

The Company's ability to continue as a going concern is in substantial doubt and it is dependent upon completing the development of its technology for specific applications, achieving profitable operations, obtaining additional financing and successfully bringing its technology 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. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used.

**3.**

**Summary of significant accounting policies:**

These consolidated financial statements have been prepared in accordance with Canadian GAAP and are stated in United States dollars. These principles are also in conformity in all material respects with U.S. GAAP. The most significant accounting policies are as follows:

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MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in United States dollars)**

October 31, 2007 and 2006

a.

Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Memtech International Inc., Memtech International (U.S.A.) Inc., Pageant Technologies Inc. and Pageant Technologies (U.S.A.) Inc. During the fiscal year ending October 31, 2003, two of the Company's subsidiaries, Micromem Technologies B.V. and Micromem Technologies S.p.A. were wound up. All intercompany balances and transactions have been eliminated upon consolidation.

b.

Use of estimates:

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Examples of where estimates are used include the computation of stock option expense calculated in accordance with the Black Scholes option-pricing model and in the estimation of accrued liabilities.

c.

Cash and cash equivalents:

Cash and cash equivalents consist of all bank accounts and all highly liquid investments with original maturities of three months or less at the date of purchase.

d.

Property and equipment:

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on property and equipment on a straight-line basis for a period of up to three years. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When circumstances dictate, an impairment loss is calculated as equal to the excess of the carrying value of the assets over their undiscounted estimated future net cash flow.

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MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in United States dollars)**

October 31, 2007 and 2006

e.

Patents and trademarks:

Patents and trademarks are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When circumstances dictate, an impairment loss is calculated as equal to the excess of the carrying value of the assets over their undiscounted estimated future net cash flow (Note 7).

f.

Research and development expenses:

Research costs are expensed in the period incurred. Development expenses are expensed as incurred unless they meet the criteria for deferral and amortization under Canadian GAAP which is the translation of research findings or other knowledge into a plan for the technology prior to commercial production or use. The Company has determined that no development costs have met these criteria at the financial reporting date.

g.

Stock-based compensation:

The Company has a stock-based compensation plan, which is described in Note 8. Stock-based compensation is recognized using the fair value method. Under this method, the Black Scholes option-pricing model is used to

determine periodic stock option expense. Any compensatory benefit recorded is recognized initially as deferred share compensation in the consolidated statements of stockholders' equity and then charged against income over the contractual or vesting period.

Until October 31, 2004, for all awards of employee stock-based compensation granted after January 1, 2002, the Company recognized employee stock-based compensation costs under the intrinsic value-based method and provided pro forma disclosure of net income and earnings per share as if the fair value-based method had been applied.

Effective November 1, 2004 the Company has adopted the fair value method of accounting for employee stock-based compensation costs. Accordingly, the financial statements for the years ending October 31, 2000 - 2004 and the cumulative financial statements for the period from September 3, 1997 to October 31, 2004 have been restated to reflect the stock-based compensation costs that the Company has incurred in each period, which expense previously was disclosed on a proforma basis.

MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

October 31, 2007 and 2006

The stock-based compensation expense for options granted since November 1, 2004 have been reflected as an expense in the consolidated statement of operations in the period in which the granted options have vested. As stock options are exercised, the Company records a charge to contributed surplus and a credit to share capital. The amount reported in each case is based on the original expense recorded when the related options were granted.

h.

Income taxes:

The Company accounts for income taxes by the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted tax rates and laws that are expected to apply when the asset is realized or the liability settled. To the extent that it is estimated that a future income tax asset will not be realized, a valuation allowance is provided.

i.

Long-Lived Assets

The Company records the value of the long-term assets acquired at cost. Such rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In such circumstances an impairment loss is calculated as equal to the excess of the carrying value of the assets over their undiscounted estimated future net cash flows.

j.

Foreign currency translation:

The functional and reporting currency of the Company is the United States dollar. The Company's wholly-owned subsidiaries are integrated foreign operations and therefore, the Company uses the temporal method whereby monetary assets and liabilities are translated into United States dollars at the rate of exchange in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical rates. Income and expenses are translated using the average monthly rate of exchange per quarter, which rate approximates the rate of exchange prevailing at the transaction dates. Gains or losses resulting from translation are included in the determination of net loss for the period.

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MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in United States dollars)**

October 31, 2007 and 2006

k.

Earnings or Loss Per Share:

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the year. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus common stock equivalents (if dilutive) related to stock options and warrants for each year.

l.

Unit Private Placements:

The Company has adopted the residual value approach in accounting for the value assigned to the common shares and the warrants which it has made available in a number of Unit private placement financings. In that the Unit private placement price is equal to the common share price at the issue date of the Unit, the Company has assigned 100% of the proceeds to the common shares and a nil value to the attached warrants.

m.

Warrant Repricing:



The Company records a non-cash charge to share capital and an offsetting credit to contributed surplus at the point in time that outstanding common share purchase warrants are repriced. The amount reported is calculated based on the Black Scholes option-pricing model.

n.

Recent Accounting Pronouncements:

i.

Accounting Changes

Effective January 1, 2007, the Company adopted the new recommendations of the CICA Handbook Section 1506, Accounting changes. Under these new recommendations voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and/or relevant information.

These recommendations also require changes in accounting policy to be applied retrospectively unless doing so is impractical, require prior period errors to be corrected retrospectively, require enhanced disclosures about the effect of changes in accounting policies, estimates and errors on the financial statements and require disclosure of new primary sources of GAAP that have been issued but not yet effective. The adoption of Section 1506 has no impact on the Company.

MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

October 31, 2007 and 2006

ii.

### Capital Disclosures

CICA Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such noncompliance.

This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company has not yet determined the impact, if any, of the adoption of this change on the disclosure in its financial statements.

iii.

### Financial Instruments

Effective November 1, 2006, the Company adopted five new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): *Comprehensive Income (Section 1530)*, *Hedges (Section 3865)*, *Financial Instruments-Recognition and Measurements (Section 3855)*, *Equity (Section 3251)*, and *Financial Instruments - Disclosure and Presentation (Section 3861)*. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements.

*Comprehensive Income*

Section 1530 requires the presentation of comprehensive income, which consists of net income and other comprehensive income ("OCI"). Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. OCI refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

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Financial Instruments - Recognition and Measurement and Disclosure and Presentation Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial assets and financial liabilities, including derivatives, are measured in the balance sheet at fair value, except for loans and receivables, investments held-to maturity and other financial liabilities, which are measured at amortized cost. Measurement in subsequent periods depends on whether the financial instrument had been classified as held-for trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. There has been no impact on the financial statements in adopting these policies.

Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met in accordance with Section 3865 which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. There has been no impact on the financial statements in adopting these policies.

As a result of the adoption of these standards, the Company classifies cash and cash equivalents as held-for-trading. Held-for-trading financial assets are measured at fair value with unrealized gains and losses recognized in the consolidated statement of Income. There has been no impact on the financial statements in adopting these policies.

The Company classifies derivative instruments, such as foreign exchange forward contracts, as held for-trading unless the instruments meet all the criteria of a hedge. If the criteria is met, then any unrealized gains and losses will be reported in other comprehensive income. There has been no impact in the financial statements in adopting these policies.

iv.

Financial Instruments Disclosure

CICA Handbook Section 3862, Financial Instruments Disclosure, increases the disclosure currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risk arising from financing instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company has not yet determined the impact, if any, of the adoption of this change on the disclosure in its financial statements.

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v.

Financial Instruments Presentation

CICA Handbook Section 3863, Financial Instruments Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this section. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company does not expect the adoption of this standard to have any impact on the financial statements.

vi.

General Standards on Financial Statement Presentation

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company does not expect the adoption of these changes to have an impact on its financial statements.

vii.

International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ( IFRS ) over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company s financial statements is not yet determinable.

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4.

### **Acquisition of royalty rights and remaining interest in technology from Estancia Limited:**

On December 9, 2000, the Company and its subsidiary, Pageant, entered into an Asset Purchase Agreement (the Agreement ) with Estancia Limited ( Estancia ) and Richard Lienau ( Lienau ) to purchase the remaining 50% interest in the patents which the Company did not own and a 40% gross profit royalty ( Estancia Royalty ),

in respect of certain ferromagnetic memory technology known as VEMRAM (previously known as MAGRAM) and covered by U.S. Patent #5,295,097 and the related patent applications (the Vemram Patents ) described in the Agreement and all rights (the Technology ) held by Estancia and Lienau under the Joint Ownership and Licensing Agreement dated September 17, 1997 among Estancia, Lienau and Pageant. Under the terms of the Agreement, the Company was required to pay a maximum purchase price of \$50,000,000 to Estancia as follows:

a.

\$10,000,000 was paid on closing (after receipt of regulatory approvals), in the form of \$8,000,000 in common shares of the Company ( Micromem Shares ) (based on the price on the closing date) and \$2,000,000 in cash;

b.

\$20,000,000 if and when either (i) certification was received from Honeywell Federal Manufacturing & Technologies ( Honeywell ) that fully integrated, randomly addressable memory matrices of the Technology met certain stipulated performance standards, or (ii) the Company or any of its affiliates executed a definitive agreement for the sale or licensing of the Technology to an arm's length third party for any commercial purposes other than testing or evaluation of the Technology; payable in the form of cash and Micromem Shares to be determined by Pageant provided that a minimum of 50% of the \$20,000,000 would be paid in Micromem Shares valued at the close of trading on the date of



receipt of such certification, sale or licensing; and

c.

\$20,000,000 if and when the Company or any of its affiliates executed a definitive agreement for the sale or licensing with respect to any technology (including the Technology) owned by the Company to an arm's length third party for any commercial purposes other than testing or evaluation of the technology, payable in the form of cash and Micromem Shares to be determined by Pageant provided that a minimum of 50% of the \$20,000,000 would be paid in Micromem Shares valued at the close of trading on the date of execution of such sale or licensing.

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During fiscal 2001, the Company paid \$2,000,000 in cash and issued 2,007,831 shares, being the equivalent of \$8,000,000, the first installment payable under the terms described above, on approval by its shareholders in the annual shareholder meeting held on March 14, 2001. The \$10,000,000 paid was initially recorded as royalty rights in fiscal 2001 and was written down to nil value in fiscal 2002 (Note 10).

On March 9, 2004, the requirements set out in terms (b) and (c) above were not met and, in accordance with the terms of the Agreement, the Company's obligations to pay these amounts terminated. The Company thus has had to revert to Estancia:

1.

a 40% interest in the Vemram Patents;

2.

a 32% interest in the gross profit, less expenses agreed to by the parties, for each license of the Vemram Patents sold or otherwise transferred by Pageant; and

3.

a 32% interest of any unit royalties received by Pageant as a result of the license or sale of the Vemram Patents less reasonable expenses directly related to the obtaining of said royalties.

5.

**Non-cash working capital balances:**A.Deposits and other receivables

	<b>10/31/07</b>	<b>10/31/06</b>
Sales tax recoverable	\$ 47,792	\$15,110
Receivables from companies where senior officers and directors of the Company exercise significant influence (Note 12(b)) and employee advances	34,856	41,928
Prepaid insurance	2,009	1,700
	\$84,657	\$58,738

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**B.****Accounts payable and accrued liabilities**

	<b>10/31/07</b>	<b>10/31/06</b>
Deferred compensation to Chairman (Note 12(a) ii) and to senior officers (Note 12(c))	\$625,732	\$397,118
Accrual of costs under technology development agreement (Note 13(b))	289,863	289,863
Accounts payable and other accruals	945,492	227,382
	<b>\$1,861,087</b>	<b>\$914,363</b>

Included in accounts payable are the following bridge loans:

a.

\$100,000 which the Company secured from an arms length party on October 17, 2007. The loan bears interest at 3% per month. In November 2007, the loan was settled through the issuance of common shares (Note 17).

b.

\$30,000 which the Company secured from a director in September 2007. There are no specified repayment terms or interest on the loan. In February 2008, this loan was settled through the issuance of common shares (Note 17).

## 6.

**Property and equipment:**

	10/31/06	Additions	10/31/07
Cost:			
Computers and equipment	\$ 41,348	-	\$ 41,348
	\$ 41,348	-	\$ 41,348

	10/31/06	Amortization Expense	10/31/07
Accumulated amortization:			
Computers and equipment	\$ 41,348	-	\$ 41,348
	\$ 41,348	-	\$ 41,348

	10/31/06	10/31/07
Net book value:	\$ -	\$ -
Computers and equipment	\$ -	\$ -

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During fiscal 2003, the Company contributed equipment and supplies with a net book value of \$58,302 under the Equipment Transfer Agreement to the University of Toronto ( U of T ) (Note 13A(4)). The net book value of the contributed equipment has been charged to the period as a research and development expense.

7.

### Patents and trademarks:

In 2003 the Company discontinued a number of patent and trademark applications primarily outside the United States and the net book value of \$130,839 relating to these applications was written off in 2003. At the time the Company also assessed the remaining balances reported for patents and trademark applications registered in Canada and in the United States and expensed the residual net book value of \$168,981 to reflect the uncertain nature of future events.

The Company continues to actively pursue and protect its patents and trademarks registered in Canada and the United States. Current expenditures for patent-related activity have been expensed.

8.

### Share Capital:

A.

Authorized and outstanding:

The Company has two classes of shares as follows:

i.

Special redeemable voting preference shares, 2,000,000 authorized, none are issued and outstanding.

ii.

Common shares without par value an unlimited number authorized. At October 31, 2007 the Company reports 72,946,167 outstanding common shares. The Company had also issued 100,000 common shares which it held in trust at October 31, 2007 pending an anticipated financing and which shares are not included in the issued and outstanding total. Subsequent to October 31, 2007, these shares were cancelled in that the anticipated financing did not materialize.

B.

Stock option plan:

The Company has a fixed stock option plan. Under the Company's Stock Option Plan (the Plan), the Company may grant options for up to 15,000,000 shares of common stock to directors, officers, employees or consultants of the Company and its subsidiaries. The exercise price of each option is equal to or greater than the market price of the Company's shares on the date of grant unless otherwise permitted by applicable securities regulations. An option's maximum term under the Plan is 10 years. Stock options are fully vested upon issuance by the Company.

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A summary of the status of the Company's fixed stock option plan as at October 31, 2007 and changes during the periods ended on those dates is as follows:

**October 31, 2007****Options in Thousands Weighted Average exercise price**

Outstanding, beginning of year	11,550	.53
Granted	775	.50
Expired	(300)	.80
Exercised	(1,700)	.33
Outstanding end of year	10,325	.55

Cash proceeds realized during the year ended October 31, 2007 by the Company upon the exercise of a total of 1.7 million options by officers and directors totaled \$552,000 (2006: 3,550,000 options for proceeds of \$1,064,980).

The following options which have vested immediately have been granted after October 31, 2006:

i.

350,000 options were awarded to an outside director in April 2007 pertaining to technical and marketing services provided. These options have a strike price of \$0.36 per share and expire in April 2012 if unexercised.

ii.



150,000 options were awarded to an arm's length engineering consulting firm in June 2007 who has provided services to the Company. These options have a strike price of \$0.70 per share and expire on May 31, 2008 if unexercised.

iii.

50,000 options were awarded to an employee in June 2007. These options have a strike price of \$0.50 per share and expire on May 31, 2012 if unexercised.

iv.

225,000 options were awarded to employees and a consultant in October 2007. These options have a strike price of \$0.60 per share and expire on October 25, 2012 if unexercised.

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At October 31, 2005 the cumulative stock compensation expense for stock options granted to employees has been calculated, using the Black Scholes option-price model, as \$17,829,459 which expense had previously not been reflected in the consolidated statement of operations and deficit. Effective November 1, 2004, the Company adopted the fair value method of accounting for stock compensation expense and, accordingly, restated the prior year financial statements as appropriate.

A reconciliation of the restatement of the prior year financial statements is as below:

	<b>2004</b>	<b>2003</b>	<b>Period from September 3, 1997 to October 31, 2004</b>
Stock compensation expense as originally reported	\$ 10,020	\$ -	\$ 10,020
Restatement expense using fair value method	1,369,950	318,000	19,551,201
Restated stock compensation expense	\$ 1,379,970	\$ 318,000	\$ 19,561,221
Net loss as originally reported	\$ (944,348)	\$ (1,449,965)	\$(36,690,571)
Restatement expense using fair value method	(1,369,950)	(318,000)	(17,829,459)
Restated net loss	\$ (2,314,298)	\$ (1,767,965)	\$(54,520,030)
Closing deficit as originally reported	\$(32,655,088)	\$(31,710,740)	\$(36,690,571)
Restatement, expense using fair value method	(17,829,459)	(16,459,509)	(17,829,459)
Restated closing deficit	\$(50,484,547)	\$(48,170,249)	\$(54,520,030)
Basic and fully diluted loss per share as originally reported	\$ (0.02)	\$ (0.03)	\$ (0.75)
Restatement impact on loss per share using fair value method	(0.02)	(0.01)	(0.38)

Revised basic and fully diluted loss per share	\$ (0.04)	\$ (0.04)	\$ (1.13)
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The fair value of each option used for the purpose of estimating the stock compensation cost is based on the grant date using the Black Scholes option-pricing model. The unexpended stock-based compensation deferred over the vesting period is nil.

The fair value of all options granted since 2005 was estimated as of the date of grant using the Black Scholes option-pricing model with the following assumptions:

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	2007		2006		2005
Expected dividends	-		-		-
Volatility factor	51% - 97%		99%-111%		97% - 142%
Risk free interest rate	4.5%	4.75%	3.25%	4.5%	3.25%
Weighted average expected life	1 to 1.5 years		1.5 years		1.5 years

The current stock compensation expense as reflected in the financial statements is summarized as:

<u>Quarter Ending</u>	<u>Expense</u>
January 31, 2005	\$ 202,203
April 30, 2005	-
July 31, 2005	903,040
October 31, 2005	616,499
January 31, 2006	143,786
April 30, 2006	-
July 31, 2006	-
October 31, 2006	1,914,774
January 31, 2007	-
April 30, 2007	96,945
July 31, 2007	33,914
October 31, 2007	52,873

The following table summarizes information about stock options outstanding as at October 31, 2007 (Note 17):

<b>Options Outstanding</b>			Weighted	<b>Options exercisable</b>	
Actual exercise price	Number outstanding	Weighted average remaining contractual life (in		Number	Weighted
				Exercisable	

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			years)	Average exercise price		Average exercise price
\$	0.30	200,000	1.7 years	\$0.30	200,000	\$ 0.30
	0.68	100,000	3.3 years	0.68	100,000	0.68
	0.91	100,000	2.3 years	0.91	100,000	0.91
	0.72	2,400,000	2.5 years	0.72	2,400,000	0.72
	0.65	1,800,000	2.5 years	0.65	1,800,000	0.65
	0.60	300,000	3.0 years	0.60	300,000	0.60
	0.80	4,600,000	3.7 years	0.80	4,600,000	0.80

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0.63	50,000	3.1 years	0.63	50,000	0.63
0.36	350,000	4.5 years	0.36	350,000	0.36
0.70	150,000	.5 years	0.70	150,000	0.70
0.50	50,000	4.5 years	0.50	50,000	0.50
0.60	225,000	5.0 years	0.60	225,000	0.60
0.55	10,325,000		0.55	10,325,000	0.55

C.

Loss per share

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the dilution that would occur if outstanding stock options and share purchase warrants were exercised or converted into common shares using the treasury stock method and is calculated by dividing net loss applicable to common shares by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

The inclusion of the Company's stock options and share purchase warrants in the computation of diluted loss per share would have an anti-dilutive effect on loss per share and they are therefore excluded from the computation.

Consequently, there is no difference between basic loss per share and diluted loss per share.

D.

Warrants

Under the residual value accounting policy which the Company has adopted, the Company has allocated the closing trading value of its shares as at August 13, 2003 to the common shares. Since the net proceeds received from the issuance of the common shares attached to the First Units equaled the closing trading value at the date authorized by the Board of Directors, the warrants were allocated nil value, as outlined below.

On August 13, 2003, the Company issued 2,031,250 First Units at \$0.08 each. Each First Unit provided the holder with one common share and a warrant for one Second Unit at \$0.08 each, exercisable for one year. Each Second Unit provided the holder with one common share and a warrant for one common share at \$0.08 each, exercisable for one year.

In August 2004, the holders of the First Units exercised the First Unit warrants and the Company thus issued 2,031,250 common shares and the warrants for the Second Units and realized proceeds of \$162,500.

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In February 2005, the holders of the Second Units exercised 1,406,250 Second Unit warrants and the Company thus issued 1,406,250 common shares and realized proceeds of \$112,500.

In August 2005, the holders of the Second Units exercised 625,000 Second Units warrants and the Company thus issued 625,000 common shares and realized proceeds of \$50,000.

E.

Private Placements

Under the residual value accounting policy which the Company has adopted, the Company has allocated the net proceeds received from the Unit private placements outlined below to the common shares attached to the Units since the net proceeds equaled the closing trading value of the shares at the date authorized by the Board of Directors. Accordingly, the warrants were allocated nil value.

i)

In December 2003, the Company completed Unit private placements to two Canadian private investors pursuant to prospectus and registration exemptions set forth in applicable securities laws. Under the private placements, the Company received \$33,000 as subscription proceeds for the sale and issue of 300,000 Units. Each Unit consisted of one common share and one Series A Warrant. Each Series A Warrant entitled the holder to purchase one common share and one Series B Warrant for \$0.11 until expiry 12 months from the date of issue. Each Series B Warrant entitles the holder to purchase one additional common share for \$0.11 until expiry 12 months from the date of issue.



In October 2004, the private investors exercised 200,000 Series A warrants and the Company thus issued 200,000 common shares and 200,000 Series B warrants and realized proceeds of \$22,000.

In the quarter ended January 31, 2005 the private investors exercised the remaining Series A warrants and the Company thus issued 100,000 additional common shares and 100,000 Series B warrants and realized proceeds of \$11,000. The investors then exercised 300,000 Series B warrants and the Company thus issued 300,000 common shares and realized proceeds of \$33,000.

ii)

In December 2003, the Company completed a Unit private placement to one Canadian private investor pursuant to prospectus and registration exemptions set forth in applicable securities laws. Under the private placement, the Company received \$40,000 as subscription proceeds for the sale and issue of 500,000 Units.

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Each unit consisted of one common share and one Series A. Warrant. Each Series A Warrant entitled the holder to purchase one common share and one Series B Warrant for \$0.08 until expiry 12 months from the date of issue. Each Series B Warrant entitled the holder to purchase one additional common share for \$0.08 until expiry 12 months from the date of issue.

In June 2004, the private investor exercised the Series A warrants and the Company thus issued 500,000 common shares and 500,000 Series B warrants and realized proceeds of \$40,000.

In September 2004, the private investor exercised the Series B warrants and the Company thus issued 500,000 common shares and realized proceeds of \$40,000.

iii)

In December 2004 the Company completed a Unit private placement to several U.S. investors pursuant to prospectus and registrations exemptions set forth in applicable securities laws. Under the private placement, the Company received \$617,000 as subscription proceeds for the sale and issue of 1,028,334 Units. Each Unit consisted of one common share and one Series A Warrant. Each series A Warrant entitled the holder to purchase one common share and one Series B warrant for \$.60 until expiry 12 months from the date of issue. Each Series B Warrant entitled the holder to purchase one additional Common Share for \$.60 until expiry 12 months from the date of issue.

iv)

In February 2005, the Company arranged a Unit private placement to several investors pursuant to prospectus and registration exemptions set forth in applicable securities laws. Under this private placement, the Company received \$845,000 as of April 30, 2005 as subscription proceeds for the sale of 1,300,000 Units. Each unit consisted of one common share and one Series A Warrant. Each Series A Warrant entitled the holder to purchase one common share and one Series B Warrant for \$.65 until expiry 12 months from the issue date. Each Series B warrant entitled the

holder to purchase one common share for \$.65 until expiry 12 months from the issue date.

v)

In February 2005, the Company completed a Unit private placement to two Canadian investors pursuant to prospectus and registration exemptions set forth in applicable securities laws. Under the private placement, the Company received \$10,500 as subscription proceeds for the sale and issue of 14,000 Units. Each Unit consisted of one common share and one Series A Warrant. Each Series A Warrant entitled the investor to purchase one common share and one Series B Warrant for \$.75 until expiry 12 months from the date of issue. Each Series B Warrant entitled the holder to purchase one additional common share for \$.75 until expiry 12 months from the date of issue.

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In December 2005 the Company revised the terms of the Unit private placements outlined in Note 8(E) (iii) (iv) and (v). In each case the Unit was revised to consist of one common share, one Series A warrant expiring on June 30, 2006 and one Series B warrant expiring on December 31, 2006. In June 2006, the Series A warrants were extended to September 30, 2006 and, concurrently, 771,883 warrants were exercised and the Company realized \$485,548 of net proceeds. The remaining terms of the Series A and Series B warrants were unchanged.

During the quarter ending January 31, 2007 the Company further extended the expiry date of the Series A and Series B warrants referred to in (iii) (v) above to June 30, 2007 and has revised the subscription price in each case to \$0.50. The Company reported a non-cash credit to contributed surplus of \$332,361 during the 3 months ended January 31, 2007 with respect to the repricing of these warrants. In April 2007 the Company again revised the terms of these warrants the term was extended to June 2008 and the strike price was reduced from \$0.50 per warrant to \$0.40 per warrant. The Company reported a non-cash credit to contributed surplus of \$800,299 with respect to the repricing of these warrants.

The fair value of the repricing of these warrants was estimated as of the date of the repricing using the Black Scholes option-pricing model with the following assumptions:

Expected dividends	-
Volatility factor	51% - 97%
Risk-free interest rate	4.5% - 4.75%
Weighted average expected life	1 to 1.5 years

vi)

In May 2006, the Company completed a Unit private placement financing with two investors pursuant to prospectus

and registration exemptions set forth in applicable securities laws. Under the private placement the Company received \$75,000 as subscription proceeds for the sale and issue of 150,000 Units. Each Unit consisted of one common share and one Series A warrant. Each Series A warrant entitle the investor to purchase one common share for \$0.50 until expiry in April 2007. These warrants expired unexercised.

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vii)

In October 2007, the Company completed a series of private placement financings with 8 arms length investors pursuant to prospectus and registration exemptions set forth in applicable securities laws. The Company received a total of \$716,230 subscription proceeds and issued a total of 1,577,368 common shares.

viii)

Subsequent to October 31, 2007 the Company has completed additional private placement financings (Note 17).

F.

Financial advisory agreements

i.

On June 8, 2005 the Company entered into a financial advisory services agreement with an arms length entity and, as consideration, issued 1,000,000 purchase warrants. Each warrant entitled the holder to purchase and subscribe for one common share at \$0.70 per share. These warrants expired unexercised in June 2006. The Company reported a non-cash charge to share capital and an offsetting credit to contributed surplus of \$264,000 representing the estimated fair value with respect to these warrants.

ii.

The Company entered into a second financial advisory services agreement on June 22, 2005 with an arm's length entity and, as consideration, issued 800,000 purchase warrants. Each warrant entitled the holder to purchase and subscribe for one common share at \$0.70 per share on or before June 30, 2007. The Company repriced the 800,000 warrants from \$0.70 per warrant to \$0.40 per warrant in June 2007 and extended the term to June 2008. The Company reported a non-cash charge to share capital and an offsetting credit to contributed surplus of \$193,648 in June 2007 representing the estimated fair value with respect to the repricing of these warrants.

The fair value of the warrants as reported in F(i) and (ii) above was estimated using the Black Scholes option-pricing model with the following assumptions:

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	F(i)	F(ii)
Expected dividends	-	-
Volatility factor	96%	100%
Risk-free interest rate	3.25%	4.25%
Weighted average expected life	1 year	1 year

The outstanding warrants to acquire common shares arising from the 2004-2005 private placements are summarized as below (Note 8(e)):

<b>Financing</b>	<b>Warrants</b>	<b>Number</b>	<b>Exercise Price</b>
December 2004	A	211,317	\$.40
December 2004	B	1,028,334	\$.40
February 2005	A	870,000	\$.40
February 2005	B	1,300,000	\$.40
February 2005	A	4,667	\$.40
February 2005	B	7,000	\$.40
		3,421,328	

In addition 800,000 warrants to acquire common shares at a strike price of \$0.40 per share are outstanding under the terms of a financial advisory services agreement.

On September 16, 2007 the Company secured a 30-day bridge loan from an arm's length investor in the amount of \$505,000. The Company paid a 5% financing fee to arrange the bridge loan and issued 250,000 common share purchase warrants to acquire common shares at a strike price of \$0.50 per share. The Company recorded a non-cash expense of \$85,484 with respect to these warrants, representing the estimated fair value as of the issue date. The warrants have a one-year term and expire in September 2008 if unexercised. The bridge loan was repaid in October 2007.



The fair value of these warrants was estimated using the Black Scholes option-pricing model with the following assumptions:

Expected dividends	-
Volatility factor	51% - 97%
Risk-free interest rate	4.25%
Weighted average expected life	1 year

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MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Expressed in United States dollars)**

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**9.****Contributed Surplus:**

Balance at October 31, 2004	\$18,418,370
Stock compensation expense relating to stock options issued	1,721,742
Balance at October 31, 2005 as originally reported	\$20,140,112
Reclassification from share capital relating to warrants issued for financial advisory services (i)	264,000
Balance at October 31, 2005 as revised	\$20,404,112
Stock compensation expense relating to stock options issued	2,058,560
Balance at October 31, 2006 as originally reported	\$22,462,672
Reclassification to share capital relating to exercise of stock options (ii)	(1,026,738)
Balance at October 31, 2006 as revised	\$21,435,934
Stock compensation expense relating to stock options issued	183,732
Stock options exercised	(340,122)
Common share purchase warrants issued	85,484
Charge relating to repricing of warrants	1,326,308
Balance at October 31, 2007	\$22,691,336

i.

The Company has restated \$264,000 from share capital to contributed surplus as of October 31, 2005 representing the fair value of the warrants issued under a financial advisory services agreement in 2005, estimated using the Black Scholes option-pricing model.

ii.

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The Company has restated \$1,026,738 from contributed surplus to share capital as of October 31, 2006 representing the fair value of the stock options exercised in 2005 - 2006, estimated using the Black Scholes option-pricing model.

The components of contributed surplus as reported at October 31, 2007 include:

	2007	2006
a.	\$ 544,891	\$544,891
Amount relating to loan forgiveness at inception of the Company		
b.	20,734,653	20,627,043
Stock options compensation related		
c.	1,411,792	264,000
Common share purchase warrants		
	\$22,691,336	\$21,435,934

MICROMEM TECHNOLOGIES INC.

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**10.**

**Restructuring and write-down of royalty rights:**

On July 29, 2002, the Company restructured its operations by closing its research and development facility and adopted a plan to focus its current resources to outsource its research and development activities as described in Note 13(a). No major costs were associated with this restructuring.

As a result of the restructuring, the Company determined that there was significant uncertainty that any amounts would be payable to Estancia in the foreseeable future in respect of the Estancia Royalty as described in Note 4, and accordingly, the Estancia Royalty rights acquired in the amount of \$10,000,000 were written off in fiscal 2002.

**11.**

**Income Taxes:**

Once the Company has completed all of its income tax return filings, it will have non-capital losses of approximately \$15.8 million available to reduce future taxable income, the benefit of which has not been recognized in these consolidated financial statements. As at October 31, 2007, the tax losses expire as follows:

	Canada	Other Foreign	Total
2008	1,363,000	-	1,363,000
2009	1,062,000	-	1,062,000

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2010	932,000	265,000	1,197,000
2011	-	208,000	208,000
2014	746,000	-	746,000
2015	2,249,000	-	2,249,000
2016	1,996,000	-	1,996,000
2017	2,371,000	-	2,371,000
2023	-	73,000	73,000
2024	-	173,000	173,000
2025	-	20,000	20,000
2026	1,959,680	-	1,959,680
2027	2,370,915	-	2,370,915
Total losses	\$ 15,049,595	\$739,000	\$15,788,595

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MICROMEM TECHNOLOGIES INC.

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The reconciliation of income tax attributable to continuing operations computed at the statutory tax rates to income tax expense is as follows:

	10/31/07	10/31/06	10/31/05
Consolidated accounting loss before income taxes	\$(2,811,378)	\$(4,058,180)	\$(4,035,483)
Add nondeductible items	<u>440,463</u>	<u>2,098,500</u>	<u>1,764,607</u>
Loss for tax purposes	(2,370,915)	(1,959,680)	(2,270,876)
Statutory rates	36%	36%	36%
Expected income tax recovery	853,529	705,484	817,515
Tax benefit not recognized	(853,529)	705,484	(817,515)
	\$ -	\$ -	\$ -

Future income taxes reflect the net tax effect of temporary differences between carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets and liabilities are as follows:

	10/31/07	10/31/06
Unused capital losses	47,566	47,566
Unused non-capital losses	4,052,162	3,786,154
Other, net	275,571	275,571
Total future tax assets	4,375,299	4,109,291
Valuation allowance	(4,375,299)	(4,109,291)
	\$ -	\$ -

12.

**Management compensation and related party transactions:**

(a) (i)

Between 1999 and 2002, the Company entered into stock-based management compensation arrangements with the Chairman as reported in prior years' audited financial statements.

(ii)

On May 29, 2005, the Company entered into a new employment agreement with the Chairman for a period from January 1, 2005 through September 30, 2009. Under the terms of the agreement, the Chairman has been retained to provide certain management services to the Company. The Company has agreed to provide compensation based on a percentage of the increase of the market capitalization on a year-over year basis commencing as of December 31, 2005 subject to a minimum annual compensation amount of \$150,000 Canadian funds (\$158,800 U.S. funds at October 31, 2007 exchange rates). At the Company's option it can pay cash or issue common shares as compensation providing that the cumulative maximum number of shares that it can issue under the agreement is 2 million common shares. The Company determined that the compensation expense in fiscal 2007 was \$292,542 Canadian funds (\$309,232 U.S. funds at current exchange rates) under this agreement.

MICROMEM TECHNOLOGIES INC.

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The total compensation paid to the Chairman during the year is summarized as follows:

	Cash Compensation	Stock Option Expense
2007	\$ 309,232	\$ -
2006	133,600	416,250
2005	133,600	659,000

b.

In the normal course of business, the Company has entered into cost sharing arrangements with companies where certain senior officers and directors exercise significant influence. These transactions, which were measured at the exchange amount on the date of the transaction, relate to salaries, rent and other expenses. For the fiscal year ended October 31, 2007, the Company paid expenses of approximately \$20,000 in rent (2006: \$1,000) and \$121,000 in salaries (2006: \$154,000) and \$3,000 in other expenses (2006: \$3,000).

c.

Included in professional fees as reported are management and consulting fees paid or payable to individuals (or companies controlled by such individuals) who served as officers and directors of the Company. The total compensation paid to such parties during the three months ended October 31, 2007 is summarized as follows:

	Cash Compensation	Stock Option Expense
2007	\$563,000	\$ 105,000
2006	\$611,000	\$ 1,165,000
2005	\$639,000	\$ 1,044,000



The above-noted compensation has been included in the Consolidated Statement of Operations, Comprehensive Loss and Deficit under the caption Professional, Other fees and Salaries, which total amount reported includes:

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	2007	2006	2005	Sept 3, 1998 to Oct 31, 2007
Professional and other fees	\$1,250,984	\$1,017,859	\$1,303,662	\$6,727,451
Salaries and wages	111,109	172,169	152,628	10,392,835
Stock compensation expense	269,216	2,058,560	1,721,742	21,301,242
	\$1,631,309	\$3,248,588	\$3,178,032	\$38,421,528

**13.****Commitments:**

A.

**Research Collaboration and Infrastructure Agreements**

1.

Materials and Manufacturing Ontario:

On October 24, 2002, Micromem entered into a two year Research Collaboration Agreement with Material and Manufacturing Ontario ( MMO ), a not-for-profit organization funded by the provincial government, the University of Toronto ( U of T ) and a researcher employed by U of T to

fund the research on Magnetic Structure development for Hall effect memory devices.

Under the terms of the agreement, the Company committed to contribute \$87,432 (Cdn \$136,175) and \$18,000 (Cdn \$28,000) in cash and in-kind contribution, respectively, per year to fund the research. The Company has met all of its obligations under this agreement.

On November 12, 2003, Micromem entered into a second research collaboration agreement with MMO and the U of T for research and development associated with magnetic memory devices. Under the second agreement, in the first year and upon renewal in the second year, MMO granted \$58,900 (equivalent to Cdn. \$85,000) in cash funding and Micromem contributed \$56,130 (equivalent to Cdn. \$81,000 in cash funding and additionally made \$30,770 (equivalent to Cdn. \$44,400) of in-kind contributions, all towards the research collaboration, each year. The Company has met all of its obligations under the agreement. Micromem obtained sublicensing rights for the use of any new technology developed ( New Technology ) under this research subject to payment of an annual royalty payable in perpetuity to MMO based on a percentage of revenues from the sale of products incorporating the New Technology.

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2.

University of Toronto:

On November 1, 2002, the Company entered into an Infrastructure Agreement with U of T to fund the assembly of a magnetic memory facility ( MMF ) for research, development and fabrication of magnetic memory. U of T has agreed to use the MMF in connection with, among other things, research to be conducted pursuant to collaborations between Micromem and U of T.

The terms of the agreement provided that Micromem was to contribute \$249,463 (equivalent to Cdn. \$360,000) in cash to fund the direct costs of the MMF. The contribution was made in fiscal 2002-2003 by Micromem and included as a research and development expense in the consolidated statements of operations and deficit.

3.

Communications and Information Technology Ontario:

On December 10, 2002, Micromem entered into a two year Collaborative Research Agreement with Communications and Information Technology Ontario ( CITO ) U of T and Dr. Harry Ruda. For the first year, CITO provided funding of \$106,715 (equivalent to Cdn. \$154,000) and Micromem contributed \$31,875 (equivalent to Cdn. \$46,000). For the second year, CITO provide funding of \$107,715 (equivalent to Cdn. \$154,000) and Micromem provided funding of \$31,875 (equivalent to Cdn. \$46,000). Micromem has further provided \$67,632 (equivalent to Cdn \$97,600) of in-kind contributions to the research collaboration.

4.

Revised License Agreement:

In June 2005, the Company signed a license agreement ( the License Agreement ) with the U of T and the Ontario Centres of Excellence (including MMO and CITO) (collectively OCE ) whereby:

- 

OCE released the Company and the University from the commercialization obligations set forth in all prior research collaboration agreements.

- 

The Company acquired exclusive worldwide rights to the New Technology and technology and patent rights related to the MRAM technology developed at the UofT.

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The Company has agreed to royalties and payments under the terms of the License Agreement as follows:

•

In consideration for the rights and licenses granted, the Company shall pay to the UofT:

i.

4% of net sales until such time as the UofT has received from the Company an aggregate amount of five hundred thousand Canadian dollars (CDN\$500,000);

ii.

1% of net sales thereafter.

•

If the Company sublicenses any rights granted herein to any non-affiliate:

i.

in combination or association with the Company's intellectual property, the UofT shall receive 10% of any net fees and/or net royalties that shall be received by the Company in respect of any licenses involving both the rights granted and such Micromem intellectual property;

ii.

For all other sublicenses of the rights granted to any non-affiliate, the UofT shall receive 20% of any net fees and/or net royalties that may be received by the Company in respect of such sublicenses.

iii.

Net fees and/or net royalties shall be received from the Company until such time as the UofT has received from the Company an aggregate amount of five hundred thousand Canadian dollars (CDN\$500,000); thereafter the Company shall pay half of the amounts as otherwise noted above.

•

At any point after which the Company has paid the UofT five hundred thousand Canadian dollars (CDN\$500,000), the Company may at its option buy out the obligation to pay royalties under the License Agreement by paying to the UofT a single lump sum payment equaling the greater of five hundred thousand Canadian dollars (CDN\$500,000) and an amount equal to the total amount of royalties paid by the Company to the UofT in the preceding twenty-four months. The Company shall be entitled to exercise such option by providing written notice to the UofT along with the required payment, after which time the Company's obligation to pay royalties as otherwise calculated shall be waived by the UofT.

MICROMEM TECHNOLOGIES INC.

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As a condition to entering the License Agreement the Company has agreed to a further Research Agreement with a funding commitment of no less than five hundred thousand Canadian dollars (CDN \$500,000), to continue the further research and development of the inventions and the Company's intellectual property. In August 2005, the Company made an initial payment of CDN \$250,000 (approximately \$200,000 U.S. funds at the then prevailing exchange rates) and, in November 2005, the Company made the second payment of CDN \$250,000 (approximately \$200,000 U.S. funds at the then prevailing exchange rates) under the terms of this Research Agreement.

•

The Company believes that there are substantial market opportunities available for it to commercialize its technology in conjunction with strategic partners and it is currently pursuing such opportunities. The Company plans to complete its research initiatives and enter into agreements with strategic partners so as to commercialize its technology under licensing and other arrangements.

B.

### Technology Development Agreement:

On March 14, 2001, the Company's subsidiary, Pageant, entered into a three-year technology development agreement with Estancia and Lienau to continue the development of the Technology. Under the terms of the agreement, Pageant committed to pay Estancia \$215,000 per year, payable on a monthly basis in arrears, and committed to incur expenditures in connection with the development expenses of up to a maximum of \$500,000 per agreement year.



On April 23, 2002, the technology development agreement was amended to extend its term for an additional eight-month period through November 2004. The go-forward payments were renegotiated as \$62,707 between May October 2002, \$197,086 during fiscal 2003 and \$143,330 during fiscal 2004.

The development efforts under this agreement ceased in July 2002. The Company reports approximately \$289,000 in accounts payable and accrued liabilities with respect to this agreement as of October 31, 2007 (2006: \$289,000).

C.

Operating Leases:

The Company has operating lease commitments which expire in 2010 in respect of its head office. The future minimum annual lease payments are approximately as follows:

2008-2010 (annually)	\$127,000
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MICROMEM TECHNOLOGIES INC.

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D.

Employment and Consulting Contracts:

i.

The Company has entered into an employment agreement with the Chairman through September 30, 2009 as outlined in Note 12 (a)(ii) which stipulates an annual minimum obligation of \$150,000 Canadian funds (\$159,000 U.S. at current exchange rates).

ii.

The Company has entered into short-term contracts with:

a.

A U.S.-based consulting firm whereby it has committed to a monthly payment of approximately \$45,000.

b.

A Canadian-based researcher whereby it has committed to a monthly payment of \$5,000 Canadian funds (\$5,300 U.S. at current exchange rates).

Both of these contacts expire in February 2008.

E.

CTO Contract:

In January 2005, the Company entered into a consulting contract with an arm's length individual for her services as Chief Technology Officer ( CTO ) of the Company. The agreement extended for 2 years with a cancellation clause which could be executed by the Company at any time with 4 months notice provided. The base remuneration stipulated in the contract was \$260,000 per year.

The Company also granted the CTO 100,000 options exercisable at \$0.68 which expired on December 31, 2005; 300,000 options exercisable at \$0.80 per share, which expired in March 2007; 100,000 options exercisable at \$0.72 which expire in May 2008 if unexercised and 200,000 options exercisable at \$0.80 which expire in May 2008 if unexercised.

In October 2006, the Company extended the consulting contract commencing in January 2007 on the same terms, conditions and cancellation clauses. In November 2007, the Company served 4 months notice to terminate the contract effective March 2008.

In February 2008, the former CTO filed a claim, through counsel, with respect to alleged discriminatory employment practices in violation of the Sarbanes Oxley Act of 2002. The Company vigorously denies these allegations. The Company and the CTO, through respective counsel, are now in the process of mediating this dispute the mediation date has been set for April 21, 2008.

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**14.**

**Contingencies:**

The Company has agreed to indemnify its directors and officers and certain of its employees in accordance with the Company's by-laws. The Company maintains insurance policies that may provide coverage against certain claims.

As outlined in Note 4, certain interests under the Agreement with Estancia reverted to Estancia on March 9, 2004. On this basis, to the extent that future revenues are generated by the Company relating directly and specifically to the Vemram Patents, the Company is obligated to pay Estancia 32% of the gross profit realized less expenses agreed to by the parties and 32% of any unit royalties realized less direct expenses.

As outlined in Note 13 (E) in February 2008, the Company's former CTO has filed a claim against the Company alleging discriminatory employment practices in violation of the Sarbanes Oxley Act of 2002.

**15.**

**Financial instruments:**

a.

Fair values

The fair values for all financial assets and liabilities are considered to approximate their carrying values due to their short-term nature.

b.

Foreign currency balances

The consolidated financial statements include balances/transactions that are denominated in Canadian dollars as follows:

	<b>10/31/07</b>	<b>10/31/06</b>
Assets	\$ 303,000	\$ 240,000
Liabilities	1,051,000	136,000
Expenses	1,156,000	1,230,000

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**16.**

**Reconciliation between Canadian GAAP and U.S. GAAP:**

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP which, in the case of the Company, conform in all material respects with U.S. GAAP except for the allocation of proceeds received using the relative fair value method of accounting for Unit private placements.

a.

Research and development expenditures

Under U.S. GAAP all research and development expenditures are expensed as incurred. In that the Company has not deferred any research and development expenditures it is in compliance with U.S. GAAP.

b.

Other recent accounting pronouncements

Financial Accounting Standards Board ( FASB ) Statement No. 154 Accounting Changes and Error Corrections replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to

changes required by an accounting pronouncement in the unusual instance that the pronouncement includes specific transition provisions, those provisions should be followed.

APB Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. SFAS is an amendment to SFAS No. 133 and 140. SFAS No. 155 improves financial reporting by eliminating the exception from applying SFAS No. 133 to interest in securitized financial assets so similar instruments are accounted for similarly regardless of the form of instruments. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of SFAS No. 155 to have an impact on its financial position or results of operation. Also, SFAS No. 156 Accounting for Servicing of Financial Assets was recently issued but has no current applicability to the Company and has no effect on the consolidated financial statements.

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In March 2006, the FASB issued SFAS No. 156. This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This statement is effective as of the beginning of its first fiscal year that begins after September 15, 2006.

An entity should apply the requirements for recognition and initial measurement of servicing assets and servicing liabilities prospectively to all transactions after the effective date of this statement.

In September 2006, the FASB issued SFAS No. 157 and No. 158. Statement No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. However, for some entities, the application of this statement will change current practice.

In July 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes . FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently reviewing the effect, if any, FIN 48 will have on its financial position and operations.



In September 2006, the FASB issued SFAS No. 157, Fair Value Measures . SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ( GAAP ), expands disclosures about fair value measurements, and applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 does not require any new fair value measurements; however, the FASB anticipates that for some entities, the application of SFAS No. 157 will change current practice. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The implementation of SFAS No. 157 is not expected to have a material impact on the Company s results of operations and financial condition.

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In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. This statement requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The provisions of SFAS No. 158 are effective for employers with publicly traded equity securities as of the end of the fiscal year ending after December 15, 2006. The adoption of this statement is not expected to have any effect on the Company's future reported financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement objectives for accounting for financial instruments. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB SFAS No. 157, *Fair Value Measurements*. The Company is currently evaluating the impact of SFAS No. 159 on its financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for the Company for the fiscal year beginning August 1, 2009, with early adoption being prohibited. It is not expected that the new standard will have a material impact on the Company's financial position and results of operations.

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c.

## Valuation of Unit private placements

The Company has adopted the residual value approach in accounting for the value assigned to the common shares and the warrants which it has made available in a number of private placement financings. Under U.S. GAAP, using standards which are analogous, the valuation of the shares and warrants would be determined using the relative fair value approach. There is no change in aggregate shareholders' equity.

A reconciliation of these valuations approach with respect to the Unit private placement financings completed by the Company is as follows:

	Note	Note	Note
	8E(iii)	8E(iv)	8E(v)
Residual value			
Date of private placement	12/04	2/05	2/05
Financing raised	\$617,000	\$845,000	\$10,500
Value assigned to common shares	\$617,000	\$845,000	\$10,500
Value assigned to attached warrants	-	-	-
Relative value			
Value assigned to common shares	\$509,000	\$697,000	\$8,000
Value assigned to attached warrants	\$108,000	\$148,000	\$2,500

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Totals	\$617,000	\$845,00	\$10,500
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A summary of the difference between Canadian and U.S. GAAP in reporting shareholders' equity under these valuation approaches is as follows:

	Share	Contributed
	Capital	Surplus
As reported using residual valuation under Canadian GAAP at October 31, 2007	\$37,166,397	\$22,691,336
Adjustment required under relative value under U.S. GAAP	(258,500)	258,500
Restated to U.S. GAAP at October 31, 2007	\$36,907,897	\$22,949,836

**17.**

**Subsequent Events:**

The following subsequent events are noted:

a.

A total of \$103,702 representing the \$100,000 bridge loan which the Company secured in October 2007 (Note 5 (B)) plus accrued interest was settled through the issuance of common shares at a price of \$0.54 per share in November 2007. The Company thus issued 192,041 common shares as settlement.

b.

\$30,000 representing the bridge loan which the Company secured in September 2007 from a director was settled through the issuance of common shares at a price of \$0.56 per share in February 2007.

c.

Between November 2007 February 2008 the Company completed a series of private placement financings with arms length investors pursuant to prospectus and registration exemptions set forth in applicable securities laws.

The Company received a total of \$933,025 as subscription proceeds and issued a total of 1,871,497 common shares. Additionally, an officer exercised 100,000 stock options and the Company realized \$72,000 of proceeds.

d.

The Company secured a 30 day bridge loan of \$200,000 from an arms length in January 2008. The interest rate on the bridge loan was 4% due in 30 days. As additional consideration, the Company issued 100,000 common share purchase warrants at a strike price of \$0.60 per share. The loan was repaid in February 2008.

MICROMEM TECHNOLOGIES INC.

(A DEVELOPMENT STAGE COMPANY)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in United States dollars)**

October 31, 2007 and 2006

e.

The Company served 4 months notice on November 18, 2007 to the CTO with respect to the termination of the previously executed consulting contract (Note 13(E)). In February 2008, the CTO filed a claim, through counsel, with respect to alleged discriminatory employment practices in violation of the Sarbanes Oxley Act of 2002. The Company vigorously denies these allegations. The Company and the CTO, through respective counsel, are now in the process of mediating this dispute the mediation date has been set for April 21, 2008.

\*\*\*\*\*



Item 18. Financial Statements.

Not Applicable

**Item 19. Exhibits.**

The following exhibits are filed as part of this registration statement and attached hereto:

- Exhibit No. 1.1 Articles of Incorporation of Micromem Technologies Inc. and amendments thereto in effect as of January 11, 2000, (Incorporated herein by reference to the Company's Form 20-F filed with the Commission on January 11, 2000).
- Exhibit No. 1.2 Articles of Incorporation of Amendment of Micromem Technologies Inc. dated as of October 17, 2001 amending the Articles of Incorporation of Micromem Technologies Inc. to increase the number of directors to a minimum of three and a maximum of ten, (Incorporated herein by reference to the Company's Form 20-F filed with the Commission on March 26, 2003);
- Exhibit No. 1.3 Articles of Incorporation of Amendment of Micromem Technologies Inc. dated as of June 24, 2002 amending the Articles of Incorporation of Micromem Technologies Inc. to increase the number of directors to a minimum of 3 and a maximum of 12, (Incorporated herein by reference to the Company's Form 20-F filed with the Commission on March 26, 2003);
- Exhibit No. 1.5 By-Laws of Micromem Technologies Inc. in effect as of January 11, 2002, (Incorporated herein by reference to the Company's Form 20-F filed with the Commission on January 11, 2000);
- Exhibit No. 1.6 Amendment to the By-Laws of Micromem Technologies Inc. approved by shareholders on June 29, 2000, deleting the requirement from the By-Laws that the President shall be appointed from amongst the directors, (Incorporated herein by reference to the Company's Form 20-F filed with the Commission on March 26, 2003);

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Exhibit No. 4.1\* Research Collaboration Agreement by and among Micromem Technologies Inc., the University of Toronto, Dr. Harry Ruda and Materials and Manufacturing Ontario dated October 24, 2002 (referred to in this Annual Report at "Item 4.B Business Overview Recent Developments"), (Incorporated herein by reference to the Company's Form 20-F filed with the Commission on March 26, 2003);

Exhibit No. 4.2 Asset Purchase Agreement by and among Micromem Technologies Inc., Pageant Technologies Incorporated, Estancia Limited and Richard Lienau dated December 10, 2000 (referred to in this Annual Report at "Item 4.A History and Development of Our Company Agreement to Purchase Estancia Limited Interests"), (Incorporated herein by reference to the Company's Form 40-F filed with the Commission on February 2, 2001);

Exhibit No. 4.3 Technology Development Agreement by and among Pageant Technologies Incorporated, Estancia Limited and Richard Lienau dated March 9, 2001 (referred to in this Annual Report at "Item 4.A History and Development of Our Company Agreement to Purchase Estancia Limited Interests"), (Incorporated herein by reference to the Company's Form 40-F filed with the Commission on February 2, 2001);

Exhibit No. 4.4 Infrastructure Agreement by and between Micromem Technologies Inc. and the University of Toronto dated November 1, 2002 (referred to in this Annual Report at "Item 4.B Business Overview Recent Developments"), (Incorporated herein by reference to the Company's Form 20-F filed with the Commission on March 26, 2003);

Exhibit No. 4.5 A second 2-year Research Collaboration Agreement, by and among Micromem Technologies Inc., Materials and Manufacturing Ontario and the University of Toronto dated November 12, 2003 (referred to in this Annual Report at "Item 10.C Material Contracts"), (Incorporated herein by reference to the Company's Form 20-F filed with the Commission on March 19, 2004);

Exhibit No. 4.6 Equipment Transfer Agreement by and between Micromem Technologies Inc. and the Governing Council of the University of Toronto dated March 1, 2003 (referred to in this Annual Report at "Item 10.C Material Contracts"), (Incorporated herein by reference to the Company's Form 20-F filed with the Commission on March 19, 2004);

Exhibit No. 4.7 Collaborative Research Agreement by and among Micromem Technologies Inc., Communications and Information Technology Ontario, the University of Toronto and Dr. Harry Ruda dated December 10, 2002 (referred to in this Annual Report at "Item 10.C Material Contracts"), (Incorporated herein by reference to the Company's Form 20-F filed with the Commission on March 19, 2004);

Exhibit No. 4.8 Revised License Agreement by and between Micromem Technologies Inc. and the University of Toronto dated June 13, 2005. (Incorporated herein by reference to the Company's Form 20-F with Commission on February 28, 2006);

Exhibit No. 4.9 Employment Agreement by and between Micromem Technologies Inc. and Dr. Cynthia Kuper dated January 28, 2005.

Exhibit No. 4.10 Employment Agreement by and between Micromem Technologies, Inc. and Sam Fuda dated May 29, 2005. (Incorporated herein by reference to the Company's Form 20-F filed with the Commission on February 28, 2006);

Exhibit No. 12.1 Officer's Certification pursuant to Section 302 of the Sarbanes Oxley Act, 2002 (filed herewith).

Exhibit No. 12.2 Officer's Certification pursuant to Section 302 of the Sarbanes Oxley Act, 2002 (filed herewith).

Exhibit No. 13.1 Officer's Certification pursuant to Section 906 of the Sarbanes Oxley Act, 2002 (filed herewith).

Exhibit No. 13.2 Officer's Certification pursuant to Section 906 of the Sarbanes Oxley Act, 2002 (filed herewith).

Exhibit No. 14.1 Independent Auditors' Consent of Schwartz Levitsky Feldman LLP.

\*Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on Form 20-F on its behalf.

**MICROMEM TECHNOLOGIES INC.**

By: /s/ Joseph Fuda  
Name: Joseph Fuda  
Title: Chief Executive Officer

By: /s/ Dan Amadori  
Name: Dan Amadori  
Title: Chief Financial Officer

Dated: February 29, 2008