

**BioMS Medical Corp.**  
(A Development Stage Corporation)

Interim Consolidated Financial Statements  
(Unaudited)  
**September 30, 2008**

**BioMS Medical Corp.**  
(A Development Stage Corporation)  
Interim Consolidated Balance Sheets  
(Unaudited)

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(expressed in thousands of Canadian dollars)

	<b>September 30, 2008 \$ (Unaudited)</b>	<b>December 31, 2007 \$</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	96,229	35,428
Short-term investments	2,594	2,528
Goods and services tax recoverable	127	484
Prepaid expenses and other current assets	3,445	5,258
	<hr/>	<hr/>
	102,395	43,698
<b>Licensing costs</b>	6,279	7,382
<b>Property and equipment</b>	511	330
	<hr/>	<hr/>
	109,185	51,410
	<hr/>	<hr/>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	8,361	8,918
Current portion of deferred revenue (note 11)	51,409	-
	<hr/>	<hr/>
	59,770	8,918
<b>Deferred revenue (note 11)</b>	6,660	-
	<hr/>	<hr/>
	66,430	8,918
	<hr/>	<hr/>
<b>Shareholders' Equity</b>		
<b>Share capital</b>	175,863	176,423
<b>Contributed surplus</b>	8,816	6,680
<b>Accumulated deficit</b>	(141,924)	(140,611)
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	42,755	42,492
	<hr/>	<hr/>
	109,185	51,410
	<hr/>	<hr/>

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

# BioMS Medical Corp.

(A Development Stage Corporation)

## Interim Consolidated Statements of Shareholders' Equity

(Unaudited)

(expressed in thousands of Canadian dollars and shares)

	Common shares issued and outstanding		Contributed surplus \$	Accumulated deficit \$	Total shareholders' equity \$
	Number #	Amount \$			
<b>Balance – December 31, 2006</b>	75,240	135,276	4,759	(93,400)	46,635
Common shares and warrants issued	16,100	44,275	-	-	44,275
Share issuance costs	-	(3,332)	-	-	(3,332)
Stock options granted	-	-	1,908	-	1,908
Exercise of stock options	17	51	-	-	51
Repurchase of shares	(17)	(33)	-	(3)	(36)
Net loss	-	-	-	(35,501)	(35,501)
<b>Balance – September 30, 2007</b>	91,340	176,237	6,667	(128,904)	54,000
<b>Balance – December 31, 2007</b>	91,410	176,423	6,680	(140,611)	42,492
Stock options granted	-	-	2,175	-	2,175
Repurchase of shares	(358)	(690)	-	(539)	(1,229)
Exercise of stock options	35	130	(39)	-	91
Net loss	-	-	-	(774)	(774)
<b>Balance – September 30, 2008</b>	91,087	175,863	8,816	(141,924)	42,755

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

# BioMS Medical Corp.

(A Development Stage Corporation)

Interim Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

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

	<b>Cumulative from inception to September 30,</b>	<b>Nine-month period ended September 30,</b>		<b>Three-month period ended September 30,</b>	
	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Research and development</b>					
Revenue earned from collaboration partner	40,097	40,097	-	16,096	-
Research and development expenses	(138,157)	(32,574)	(29,604)	(10,092)	(9,092)
	(98,060)	7,523	(29,604)	6,004	(9,092)
<b>General and administrative expenses</b>	(40,455)	(11,641)	(5,171)	(1,252)	(1,077)
<b>Amortization of licensing costs</b>	(11,387)	(1,104)	(1,104)	(368)	(368)
<b>Amortization of property and equipment</b>	(473)	(81)	(100)	(38)	(34)
<b>Income (loss) from operations</b>	(150,375)	(5,303)	(35,979)	4,346	(10,571)
<b>Other income (expense)</b>					
Investment income	8,219	1,877	1,251	554	351
Foreign exchange gain (loss)	1,803	2,652	(773)	1,413	(633)
	10,022	4,529	478	1,967	(282)
<b>Net income (loss) and comprehensive income (loss)</b>	(140,353)	(774)	(35,501)	6,313	(10,853)
<b>Net income (loss) per common share</b> (note 8) – Basic		(0.01)	(0.43)	0.07	(0.12)
<b>Net income (loss) per common share</b> (note 8) - Diluted		(0.01)	(0.43)	0.07	(0.12)
<b>Shares used in net income (loss) per share calculation</b> – (note 8) - Basic		91,261	82,917	91,112	91,350
<b>Shares used in net income (loss) per share calculation</b> – (note 8) - Diluted		91,261	82,917	91,919	91,350

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

**BioMS Medical Corp.**  
(A Development Stage Corporation)  
Interim Consolidated Statements of Cash Flows  
(Unaudited)

(expressed in thousands of Canadian dollars)

	Cumulative from inception to September 30,	Nine-month period ended September 30,		Three-month period ended September 30,	
	2008	2008	2007	2008	2007
	\$	\$	\$	\$	\$
<b>Cash provided by (used in)</b>					
<b>Operating activities</b>					
Net income (loss)	(140,353)	(774)	(35,501)	6,313	(10,853)
Items not involving cash					
Stock-based compensation	8,855	2,175	1,908	7	107
Amortization of licensing costs	11,387	1,104	1,104	368	368
Amortization of property and equipment	473	81	100	38	34
Foreign exchange (gain) loss	(1,803)	(2,652)	773	(1,413)	633
Loss on write down of property and equipment	7	7	-	-	-
	(121,434)	(59)	(31,616)	5,313	(9,711)
Net change in non-cash working capital items					
Goods and services tax recoverable	(127)	357	283	100	63
Prepaid and other current assets	(3,445)	1,813	(1,588)	1,241	1,288
Accounts payable and accrued liabilities	8,346	(558)	(1,061)	430	(339)
Deferred revenue	58,069	58,069	-	(5,314)	-
Effect of foreign exchange rate fluctuations on non-cash working capital	(508)	732	(119)	(42)	(2)
	(59,099)	60,354	(34,101)	1,728	(8,701)
<b>Investing activities</b>					
Purchase of property and equipment	(991)	(269)	(91)	(241)	(7)
Net (purchase of) proceeds from short-term investments	(2,594)	(66)	1,166	(2,271)	219
Licensing costs	(6,467)	-	-	-	-
	(10,052)	(335)	1,075	(2,512)	212
<b>Financing activities</b>					
Proceeds from issuance of share capital	178,729	91	44,326	-	-
Repurchase of share capital	(3,347)	(1,229)	(36)	(241)	(36)
Share issue costs	(12,312)	-	(3,332)	-	-
	163,070	(1,138)	40,958	(241)	( 36)
<b>Effect of foreign exchange rate fluctuations on cash and cash equivalents</b>	2,310	1,920	(654)	1,456	(631)
<b>Increase (decrease) in cash and cash equivalents</b>	96,229	60,801	7,278	431	(9,156)
<b>Cash and cash equivalents – Beginning of period</b>	-	35,428	37,416	95,798	53,850
<b>Cash and cash equivalents – End of period</b>	96,229	96,229	44,694	96,229	44,694
<b>Cash and cash equivalents consists of</b>					
Bank accounts	1,385	1,385	494	1,385	494
Interest bearing deposits and securities	94,844	94,844	44,200	94,844	44,200
	96,229	96,229	44,694	96,229	44,694

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

# **BioMS Medical Corp.**

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

**(Unaudited)**

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(expressed in thousands of Canadian dollars)

## **1 Nature of business**

BioMS Medical Corp. (the “Corporation” or “BioMS”) is incorporated in Alberta under the Business Corporations Act and is a development stage corporation. BioMS Medical Corp. develops new pharmaceutical technologies through pre-clinical and clinical trial stages, with the primary focus on the development of its drug dirucotide (formerly known as MBP8298) for Multiple Sclerosis.

## **2 Basis of presentation**

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for interim financial statements. Except as described in note 3, the accounting policies used in the preparation of these unaudited interim consolidated financial statements are consistent with the accounting policies used in the Corporation’s year-end audited consolidated financial statements of December 31, 2007. However, these unaudited interim consolidated financial statements do not include all information and footnote disclosures required under Canadian GAAP for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2007.

## **3 Changes in accounting policies**

### a) Capital disclosures (CICA Handbook Section 1535)

Effective January 1, 2008, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1535, Capital Disclosures. This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity’s objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This Section did not have a material effect on the Corporation’s consolidated financial statements. The disclosure requirements pertaining to this new standard are included in note 10 of these unaudited interim consolidated financial statements.

### b) Financial Instruments: Disclosures (CICA Handbook Section 3862)/ Presentation (CICA Handbook Section 3863)

Effective January 1, 2008, the Corporation adopted two new CICA standards, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation, which replaces Section 3861, Financial Instruments – Disclosure and Presentation. The new Disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carries forward the former presentation requirements. The adoption of these Sections did not have a material effect on the Corporation's unaudited interim consolidated financial statements. The new disclosure requirements pertaining to these Sections are contained in note 9 of these unaudited interim consolidated financial statements.

# **BioMS Medical Corp.**

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

**(Unaudited)**

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(expressed in thousands of Canadian dollars)

## **3 Changes in accounting policies (continued)**

### c) Revenue recognition

Revenue from collaboration partners may include non-refundable fees, milestone payments, research and development payments, contract manufacturing fees and royalties based on specified percentages of net product sales.

The Corporation recognizes collaborative research and development revenues as services are performed consistent with the performance requirements of the contract. Revenue from non-refundable fees is deferred and recognized ratably over the development period based on the ratio of costs expended to total estimated development costs. Revenue from performance milestones is recognized upon achievement of the milestones as specified in the agreement, provided payment is proportionate to the effort expended as measured by the ratio of costs expended to total estimated development costs. The period and estimated costs of development are reviewed on a regular basis.

Revenue from contract manufacturing, if earned in the future, may consist of payments received under the terms of supply agreements for the sales of clinical trial material. Such payments would compensate the Corporation for the cost of manufacturing clinical trial material and would be recognized after shipment of the clinical trial material and upon the earlier of the expiration of a specified return period or formal acceptance of the clinical trial material by the customer.

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

### d) Inventories (CICA Handbook Section 3031)

Effective January 1, 2008, the Company adopted CICA Section 3031 "Inventories". This Section prescribes the measurement of inventory at the lower of cost and net realizable value. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. This Section did not have a material effect on the Company's unaudited interim consolidated financial statements.

## **4 Future accounting pronouncements**

### a) Convergence to International Financial Reporting Standards ("IFRS")

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in Canadian GAAP, as used by public entities, being converged with IFRS over a transitional period. The changeover date from current Canadian GAAP to IFRS will be January 1, 2011. The impact of this transition on the Corporation's consolidated financial statements has not yet been determined; however, management continues to monitor these regulatory developments and plan the implementation of IFRS.

# BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

(expressed in thousands of Canadian dollars)

## 5 Share capital

### Authorized and issued

The Corporation is authorized to issue an unlimited number of:

Classes A and B voting, common shares,

Classes C and D non-voting, common shares, and

Classes E, F, G, H and I non-voting, redeemable, retractable, preferred shares

The Corporation had 91,086,323 and 91,410,323 Class A common shares issued and outstanding as at September 30, 2008 and December 31, 2007, respectively.

### Incentive stock option plan

The Corporation's incentive stock option plan permits the grant of stock options to employees, directors, officers and consultants of the Corporation. On May 9, 2008, the Corporation's shareholders approved an increase in the number of common shares reserved for stock options by 4,000,000 common shares. At September 30, 2008, under this plan, 12,000,000 common shares were reserved for stock options. To date 8,201,500 stock options have been granted. At September 30, 2008, the outstanding stock options include an additional 1,065,000 options which were granted prior to the establishment of the stock option plan.

	2008		2007	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding – January 1	7,831,000	3.19	6,526,500	3.17
Granted	1,365,000	3.97	1,397,000	3.25
Exercised	(34,500)	2.65	(17,000)	2.97
Cancelled	-	-	(25,000)	3.19
Outstanding – September 30	9,161,500	3.31	7,881,500	3.18
Exercisable – September 30	9,146,500	3.31	7,881,500	3.18

# BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

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(expressed in thousands of Canadian dollars)

## 5 Share capital (continued)

### Normal course issuer bid

On August 24, 2007, the Corporation received approval for a normal course issuer bid allowing the Corporation to repurchase up to 1,000,000 Class A common shares during the period of August 24, 2007 to August 23, 2008 at the market price at the time of repurchase. The Corporation has acquired 343,300 of its common shares at an average price of \$3.37 per share. 53,300 common shares were repurchased in the three-months ended September 30, 2008 at an average price of \$3.14 per share. For the nine-months ended September 30, 2008 the Corporation repurchased 334,800 common shares at an average price of \$3.45 per share. 8,500 common shares were repurchased in the three-months ended September 30, 2007 at an average price of \$1.84.

On September 8, 2008, the Corporation received approval to renew its normal course issuer bid allowing the Corporation to repurchase up to 1,000,000 Class A common shares during the period of September 8, 2008 to September 7, 2009 at the market price at the time of repurchase. The Corporation has acquired 23,100 of its common shares at an average price \$3.19 per share during the three-months ended September 30, 2008.

All common shares acquired by the Corporation pursuant to the normal course issuer bids were cancelled by the Corporation. The shortfall of the purchase price over the stated capital of the common shares has been credited to the deficit.

## 6 Stock-based compensation expense

The Corporation is following the fair value based method of accounting for stock options. Compensation expense of \$0.0 million and \$2.2 million has been recorded for the three and nine-months ended September 30, 2008 (2007 – \$0.1 and \$1.9 million).

The Corporation used the Black-Scholes option valuation model to estimate the fair value of the options granted during the nine-months ended September 30, using the following weighted average assumptions:

	September 30, 2008 \$	September 30, 2007 \$
Dividend yield	0.0%	0.0%
Volatility factors of expected marketplace	40.5%	45.5%
Risk-free interest rate	3.7%	4.0%
Weighted average expected life of the options	60 months	60 months
Weighted average fair value of options granted	\$1.59	\$1.36

# BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

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(expressed in thousands of Canadian dollars)

## 7 Warrants

The Corporation has issued warrants as follows:

	<u>2008</u>		<u>2007</u>	
	<b>Number of warrants #</b>	<b>Weighted average subscription price \$</b>	<b>Number of warrants #</b>	<b>Weighted average subscription price \$</b>
Outstanding – January 1	26,021,528	4.45	18,604,028	4.63
Granted	-	-	8,050,000	4.00
Expired	-	-	(632,500)	3.98
Outstanding – September 30	<u>26,021,528</u>	<u>4.45</u>	<u>26,021,528</u>	<u>4.45</u>

The expiry dates of warrants outstanding at September 30, 2008 range from December 31, 2009 to December 4, 2010.

## 8 Net loss per common share

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed by giving effect to all dilutive potential common shares, including options and warrants. The numerator and denominator used in the calculation of historical basic and diluted net loss per share are as follows:

# BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

(expressed in thousands of Canadian dollars)

## 8 Net loss per common share (continued)

	For the nine-month period ended September 30,		For the three-month period ended September 30,	
	2008	2007	2008	2007
Numerator				
Net income (loss)	\$ (774)	\$ (35,501)	\$ 6,313	\$ (10,854)
Denominator for net income (loss) per common share-basic				
Weighted average common shares outstanding (000's)	# 91,261	# 82,917	# 91,112	# 91,350
Net income (loss) per common share- basic	\$ (0.01)	\$ (0.43)	\$ 0.07	\$ (0.12)
Denominator for net income (loss) per common share-diluted				
Incremental common shares attributable to exercise of outstanding stock options and warrants	# -	# -	# 807	# -
Weighted average common shares outstanding (000's)	# 91,261	# 82,917	# 91,919	# 91,350
Net income (loss) per common share- diluted	\$ (0.01)	\$ (0.43)	\$ 0.07	\$ (0.12)

Common shares that could potentially dilute basic loss per common share in the future that could be issued from the exercise of stock options or warrants, were not included in the computation of the diluted loss per common share for the nine-months ended September 30, 2008 or the three and nine-months ended September 30, 2007 because to do so would be anti-dilutive.

# BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

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(expressed in thousands of Canadian dollars)

## 9 Financial instruments

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

	September 30, 2008 \$	December 31, 2007 \$
<u>Financial assets</u>		
Cash and cash equivalents, held-for-trading, recorded at fair value	96,229	35,428
Short-term investment, held-for-trading, recorded at fair value	2,594	2,528
GST receivable, loans and receivables, recorded at amortized cost	127	484
	<u>98,950</u>	<u>38,440</u>
<u>Financial liabilities</u>		
Accounts payable and accrued liabilities, other liabilities, recorded at amortized cost	8,361	8,918
	<u>8,361</u>	<u>8,918</u>

The Corporation is required to identify and measure embedded derivatives that require separation from the related host contract and measure those embedded derivatives at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the consolidated statement of loss in the period the change occurs. The Corporation has not identified or measured any embedded derivatives that require separation for the nine-month period ended September 30, 2008 or the year ended December 31, 2007.

The Corporation did not have any available-for-sale financial instruments during the nine-month period ended September 30, 2008 or the year ended December 31, 2007.

The Corporation's financial instruments consist of cash and cash equivalents, short-term investments, goods and services tax recoverable, accounts payable and accrued liabilities.

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

# BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

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(expressed in thousands of Canadian dollars)

## 9 Financial instruments (continued)

### Currency risk

The Corporation is exposed to the financial risk related to the fluctuations in foreign currency exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The expenditures of the Corporation are made in various currencies as required by the agreements made with various suppliers in the countries that the clinical trials are conducted. Approximately forty (40%) percent of the Corporation's expenditures are made in United States dollars ("US\$"), the Euro, British Pounds ("GBP"), Swedish Kroners ("SEK") and Danish Kroners ("DKK") with the remaining sixty per cent (60%) made in Canadian dollars ("CA\$").

At any point in time, the Corporation may use forward contracts to mitigate the exposures associated with fluctuations in foreign currency exchange rates. The Corporation does not enter into derivative financial instruments for speculative or trading purposes.

The Corporation believes that the results of operations and cash flows could be affected by a change in foreign currency exchange rates, but would not materially impair or enhance its ability to pay its foreign exchange obligations.

The following table provides significant items exposed to foreign exchange as at September 30, 2008:

	US\$	Euro	SEK	GBP	DKK
Cash and cash equivalents	36,859	-	-	-	-
Accounts payable and accrued liabilities	(3,081)	(1,855)	(547)	(869)	(94)
Net exposure	33,778	(1,855)	(547)	(869)	(94)

The following exchange rates applied during the three and nine-month periods ended September 30, 2008:

	Average rate for three-months ended September 30, 2008	Average rate for nine-month period ended September 30, 2008	Rate on reporting date of September 30, 2008
US\$ – CA\$	1.042	1.019	1.060
Euro – CA\$	1.562	1.549	1.492
SEK – CA\$	0.165	0.165	0.153
GBP – CA\$	1.967	1.981	1.887
DKK – CA\$	0.209	0.208	0.200

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(Unaudited)

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(expressed in thousands of Canadian dollars)

**9 Financial instruments (continued)**

Based on the Corporation's foreign currency exposures noted above, varying the foreign exchange rates to reflect a five (5%) percent strengthening of the Canadian dollar would have increased (decreased) the impact of unrealized foreign currency translation on net loss as follows, assuming that all other variables remained constant:

	<b>Three-months ended September 30, 2008</b>				
	<b>US\$</b>	<b>Euro</b>	<b>SEK</b>	<b>GBP</b>	<b>DKK</b>
Increase (decrease) net loss in CA\$	1,689	(93)	(27)	(43)	(5)

An assumed five (5%) percent weakening of the Canadian dollar would have had an equal but opposite effect on the above currencies to the amounts shown, on the basis that all other variables remain constant.

**Interest rate risk**

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

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

The Corporation manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Corporation's investment policy limits the investing of excess funds to liquid short term bank acceptances and/or Guaranteed Investment Certificates ("GIC") with maturities of less than 1 year; however the average term to maturity will be approximately 90 days. Based on the net exposures as at September 30, 2008, and assuming that all other variables remain constant, a 1% appreciation or deterioration of the interest rate would result in a decrease/increase of \$657 in the Corporation's net loss for the nine-months ended September 30, 2008.

Accounts payable and accrued liabilities bear no interest.

**Credit risk**

Credit risk is the risk of a financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

# BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

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(expressed in thousands of Canadian dollars)

## 9 Financial instruments (continued)

### Credit risk (continued)

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

### Liquidity risk

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

The Corporation's exposure to liquidity risk is dependent on purchasing commitments and obligations or raising of funds to meet and sustain operations. The Corporation controls its liquidity risk through the management of its capital structure, cash flows and the availability and sourcing of financing.

The Board of Directors and/or the Audit Committee reviews and approves the Corporations operating and capital budgets, as well as any material transactions out of the ordinary course of business.

The following are the contractual maturities of financial liabilities as of September 30, 2008:

	<b>Carrying amount</b>	<b>Less than 1 year</b>
	\$	\$
Accounts payable and accrued liabilities	8,361	8,361

The cash inflow of the Corporation is dependent on external financings and partnering agreements. The Corporation's investment revenue is dependent on changes in market interest rates paid by institutions for the use of the Corporation's funds.

# **BioMS Medical Corp.**

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Notes to Interim Consolidated Financial Statements

**(Unaudited)**

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(expressed in thousands of Canadian dollars)

## **10 Capital disclosure**

The Corporation's objectives when managing capital are:

To safeguard the Corporation's ability to pursue the research and development of its products, complete its clinical trials, meet its ongoing operating expenditures and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable level; and

To provide an adequate return to shareholders commensurate with the level of risk associated with a development stage biotechnology Corporation.

In the management of capital the Corporation includes cash and cash equivalents, short-term investments and the components of shareholders' equity to provide a capital of \$141,145 as at September 30, 2008 (December 31, 2007 - \$80,448).

The Corporation sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. Since inception, the Corporation has financed its liquidity needs through public offerings and private placements of common shares. The Corporation has also met its liquidity needs through non-dilutive sources such as licensing fees from partners and interest income. In order to maintain or adjust the capital structure, the Corporation may adjust the number of shares issued, enter into collaborative and/or licences agreements, enter into mergers and acquisitions, acquire debt or enter into some other form of financing facility.

In order to maximize ongoing research and development of its products, the Corporation does not pay out dividends.

The Corporation expects its current capital resources will be sufficient to carry its research and development plans and operations to completion of its current clinical trials.

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

The Corporation's objectives in managing capital are to ensure a sufficient liquidity position to finance its research and development activities, clinical trials, corporate administration, working capital and overall capital expenditures. The Corporation attempts to manage its liquidity to minimize shareholder dilution whenever possible.

# **BioMS Medical Corp.**

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

**(Unaudited)**

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(expressed in thousands of Canadian dollars)

## **11 Exclusive License and Collaboration Agreement**

On December 17, 2007, the Corporation entered into a licensing and development agreement granting Eli Lilly and Company (“Lilly”) exclusive worldwide rights to its lead Multiple Sclerosis compound dirucotide. Under the terms of the agreement, Lilly and BioMS will collaborate on the development of dirucotide and will also share in certain development costs. The transaction closed on January 23, 2008 and the Corporation received an upfront payment of US\$87 million. BioMS has the potential of receiving development and sales milestones of up to US\$400 million and escalating royalties on sales commensurate with the current stage of development of the product if dirucotide is commercialized. On August 13, 2008 the Corporation received a positive interim analysis from the Data Safety Monitoring Board for the Maestro-01 clinical trial which triggered a US\$10 million milestone payment to BioMS. The payment was received and recorded in the three and nine-months ended September 30, 2008. All upfront and development milestones are non-refundable and non-creditable against any other payments. BioMS is responsible for the costs of the current clinical trials and the manufacture of clinical materials through the completion of the 2008 validation batches of the drug product until the date on which BioMS delivers to Lilly a complete written report of the final results of the Maestro-01 clinical trial.

Lilly shall notify BioMS in writing not later than sixty (60) days following receipt of the final written clinical trial report of the results of the Maestro-01 clinical trial whether Lilly has elected to terminate the agreement on account of the results of the Maestro-01 clinical trial. Lilly may also terminate the agreement at any time on 90 days notice.

Lilly shall bear one hundred percent (100%) of any and all development, manufacturing and marketing costs incurred by the parties once Lilly has accepted the written report of the final results of the Maestro-01 clinical trial and has not elected to terminate the agreement. The agreement will terminate in each country on the expiration of the last-to-expire BioMS Licensed Patent having a valid claim covering the manufacture, use or sale of the product in the field in each country.

The agreement may be terminated at any time during the term upon written notice by either party for material breach under the agreement.

# BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

(expressed in thousands of Canadian dollars)

## 11 Exclusive License and Collaboration Agreement (continued)

The table below presents the accounting treatment of the payments received in respect of the agreements:

	\$
(expressed in thousands of Canadian dollars)	
Deferred revenue balance – January 1, 2008	-
Additional revenues deferred	
Upfront fee received from collaboration partner	87,383
Development milestone for positive interim analysis for the Secondary Progressive Multiple Sclerosis Indication	10,783
Less: Revenue recognized	(40,097)
Deferred revenue – September 30, 2008	58,069
Less: Deferred revenue – current portion	(51,409)
Deferred revenue – long-term	6,660

The completion of the licensing agreement with Lilly resulted in a one-time payment of a licensing bonus to Corporation personnel and related parties. The licensing bonuses paid in February 2008 totalled \$9.0 million of which \$4.2 million was paid to related parties and the balance of \$4.8 million was paid to employees and contracted personnel. The licensing bonuses have been allocated to research and development (\$3.4 million) and general and administrative expense (\$5.6 million) in the financial statements for the nine months ended September 30, 2008. The Compensation Committee, which is comprised of independent directors, together with the Board of Directors reviewed and approved the payment of all bonuses.

## 12 Related party transactions

During the three and nine-months ended September 30, 2008 and 2007, the Corporation paid management services, professional fees, office rent and general administration amounts to companies controlled by directors and officers of the Corporation and professional firms in which certain directors or officers have interests.

	For the three-months ending		For the nine-months ending	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
	\$	\$	\$	\$
Management services	169	163	4,756	488
Office rent	59	45	162	135
Professional fees	54	-	89	217
General administration	25	4	84	58
	306	212	5,091	898

# **BioMS Medical Corp.**

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

**(Unaudited)**

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(expressed in thousands of Canadian dollars)

## **12 Related party transactions (continued)**

The lease for the office space is at a fixed rate ending December 31, 2010 with early termination available upon six months written notice by either party.

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

## **13 Segment Information**

The Corporation operates in one business segment which is the development of pharmaceutical products based on its licensed and proprietary technologies, with all of its operations and long lived assets located in Canada.