

# **BioMS Medical Corp.**

Consolidated Financial Statements  
**December 31, 2009 and 2008**

## Auditors' Report

### To the Shareholders of BioMS Medical Corp.

We have audited the consolidated balance sheets of **BioMS Medical Corp.** as at December 31, 2009 and 2008 and the consolidated statements of shareholders' equity, operations and comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

### Chartered Accountants

Edmonton, Alberta  
March 12, 2010

**BioMS Medical Corp.**  
 Consolidated Balance Sheets  
 As at December 31, 2009 and 2008

(expressed in thousands of Canadian dollars)

	<b>2009</b>	<b>2008</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 24)	48,774	87,826
Short-term investments	2,662	2,614
Goods and services tax recoverable	351	299
Prepaid clinical trial costs	-	2,227
Recoverable expense (note 6)	424	267
Other prepaid expenses	112	54
	<u>52,323</u>	<u>93,287</u>
<b>Prepaid clinical trial costs</b>	-	790
<b>Licensing costs</b> (note 7)	-	5,910
<b>Property and equipment</b> (note 8)	<u>350</u>	<u>517</u>
	<u>52,673</u>	<u>100,504</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 9)	4,822	12,015
Deferred revenue (note 10)	-	45,605
	<u>4,822</u>	<u>57,620</u>
<b>Guarantees</b> (note 11)		
<b>Commitments and contingencies</b> (notes 12 and 13)		
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 14)	175,714	175,714
<b>Contributed surplus</b>	10,937	8,839
<b>Accumulated deficit</b>	<u>(138,800)</u>	<u>(141,669)</u>
	<u>47,851</u>	<u>42,884</u>
	<u>52,673</u>	<u>100,504</u>

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

Approved by the Board of Directors

"W.D. Grace"

Director

"Laine Woollard"

Director

# BioMS Medical Corp.

## Consolidated Statements of Shareholders' Equity

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(expressed in thousands of Canadian dollars and shares)

	<u>Common shares issued and outstanding</u>		<u>Contributed surplus</u> \$	<u>Accumulated deficit</u> \$	<u>Total shareholders' equity</u> \$
	<u>Number #</u>	<u>Amount \$</u>			
<b>Balance – December 31, 2007</b>	91,410	176,423	6,680	(140,611)	42,492
Stock options granted	-	-	2,198	-	2,198
Repurchase of shares	(436)	(839)	-	(595)	(1,434)
Exercise of stock options	35	130	(39)	-	91
Net loss	-	-	-	(463)	(463)
<b>Balance – December 31, 2008</b>	91,009	175,714	8,839	(141,669)	42,884
Stock options granted	-	-	2,098	-	2,098
Net income	-	-	-	2,869	2,869
<b>Balance – December 31, 2009</b>	91,009	175,714	10,937	(138,800)	47,851

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

# BioMS Medical Corp.

## Consolidated Statements of Operations and Comprehensive Loss

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

	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue earned from collaboration partner</b> (note 10)	45,605	52,561
Less: Research and development expenses (note 17)	<u>(28,486)</u>	<u>(46,502)</u>
	17,119	6,059
<b>General and administrative expenses</b>	(7,821)	(13,790)
<b>Amortization of licensing costs</b>	(736)	(1,472)
<b>Amortization of property and equipment</b>	<u>(164)</u>	<u>(125)</u>
<b>Income (loss) from operations</b>	8,398	(9,328)
<b>Other income (expense)</b>		
Investment income	333	2,436
Impairment of licensing costs (note 7)	(5,174)	-
Foreign exchange (loss) gain	<u>(688)</u>	<u>6,429</u>
	(5,529)	8,865
<b>Net income (loss) and comprehensive income (loss)</b>	<u>2,869</u>	<u>(463)</u>
<b>Basic and diluted net income (loss) per common share</b> (note 18)	0.03	(0.01)
<b>Basic and diluted weighted average number of common shares outstanding</b>	91,008,923	91,187,199

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

# BioMS Medical Corp.

## Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)

	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income (loss)	2,869	(463)
Items not involving cash		
Stock-based compensation (note 15)	2,098	2,198
Amortization of licensing costs	736	1,472
Amortization of property and equipment	164	125
Impairment of licensing costs	5,174	-
Loss on disposal of property and equipment	8	11
	<u>11,049</u>	<u>3,343</u>
Net change in non-cash working capital items (note 23)	(49,912)	47,109
	<u>(38,866)</u>	<u>50,452</u>
<b>Investing activities</b>		
Purchase of property and equipment	(7)	(323)
Net purchase of short-term investments	(48)	(86)
Licensing costs	-	-
	<u>(55)</u>	<u>(409)</u>
<b>Financing activities</b>		
Proceeds from issuance of share capital	-	91
Repurchase of share capital	-	(1,434)
	<u>-</u>	<u>(1,343)</u>
<b>Foreign exchange gain (loss) on cash and cash equivalents held in foreign currency</b>	<u>(134)</u>	<u>3,698</u>
<b>(Decrease) increase in cash and cash equivalents</b>	<u>(39,052)</u>	<u>52,398</u>
<b>Cash and cash equivalents – Beginning of year</b>	<u>87,826</u>	<u>35,428</u>
<b>Cash and cash equivalents – End of year</b>	<u>48,774</u>	<u>87,826</u>
<b>Cash and cash equivalents consists of</b>		
Bank accounts	14,855	610
Interest bearing deposits and securities	33,919	87,216
	<u>48,774</u>	<u>87,826</u>

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

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### 1 Nature of business

BioMS Medical Corp., incorporated in Alberta under the Business Corporations Act, is a corporation for the purpose of developing and commercializing pharmaceutical technologies.

### 2 Basis of presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and include the accounts of BioMS Medical Corp. and its wholly owned subsidiaries, BioMS Technology Corp., BioMS Technology US Corp. and BioMS Technology International Ltd. (all referred to jointly as the “Corporation” or “BioMS”). All inter-company balances and transactions have been eliminated on consolidation. Certain of the comparative figures have been reclassified to conform to the current year’s presentation.

### 3 Changes in accounting policies

a) Goodwill and Intangible Assets (CICA Handbook Section 3064)

Effective January 1, 2009, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064, Goodwill and Intangible Assets, which replaces Handbook Section 3062 “Goodwill and Other Intangible Assets” and Handbook Section 3450 “Research and Development Costs”. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Handbook Section 3062. This Section did not have a material effect on the Company’s consolidated financial statements.

### 4 Future accounting pronouncements

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

The Canadian Accounting Standards Board (“AcSB”) ratified a strategic plan that will result in Canadian GAAP, as currently used by Canadian public companies, being evolved and converged with International Financial Reporting Standards (“IFRS”) over a transitional period to be completed by 2011. The official changeover date to IFRS is January 1, 2011 for interim and annual financial statements related to fiscal years commencing on January 1, 2011. The Corporation has established a financial reporting team to review and implement the adoption of IFRS and has engaged an external expert advisor to assist in the implementation. Regulatory developments made by the CICA and the Canadian Securities Administrator that may affect the timing, nature of disclosure of adoption of IFRS are being closely monitored. As a number of the IFRS standards are changing, the Corporation will continue to assess the impact of the proposed standards on the consolidated financial statements and disclosure as additional information becomes available.

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### 4 Future accounting pronouncements (continued)

#### b) Business Combinations (CICA Handbook Section 1582)

In January 2009, the CICA issued new Handbook Section 1582, Business Combinations, replacing Handbook Section 1581, Business Combinations. This new Section establishes the standards for the accounting of business combinations and provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), Business Combinations. This Section provides that all assets and liabilities of an acquired business, obligations for contingent consideration and contingencies will be recorded at fair value at the acquisition date. Acquisition-related costs will be expensed as incurred and restructuring charges will be expensed in the periods after the acquisition date. This Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted.

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

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

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), Consolidated and Separate Financial Statements. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new Sections on the consolidated financial statements.

### 5 Summary of significant accounting policies

#### Use of estimates

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

#### Cash and cash equivalents

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

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### 5 Summary of significant accounting policies (continued)

#### Short-term investments

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

#### Property and equipment

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

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

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

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

#### Licensing costs

Costs incurred to acquire license rights and acquire product and process technology from third parties are capitalized. Capitalized costs are amortized on a straight-line basis over the initial term of the agreement. The Corporation regularly reviews its licensing costs for impairment and records an impairment charge when the carrying amount exceeds fair value.

#### 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.

# **BioMS Medical Corp.**

## **Notes to Consolidated Financial Statements**

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(expressed in thousands of Canadian dollars)

### **5 Summary of significant accounting policies (continued)**

#### **Revenue recognition (continued)**

Consulting revenue is recognized on a fee-for-service basis as the related service is performed.

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.

#### **Research and development costs**

Research costs are expensed as incurred. Significant project development costs are capitalized in accordance with Canadian GAAP once the Corporation has determined that the commercialization criteria concerning the product or process have been met. Amortization of these costs over their estimated useful life commences with the successful commercial production or use of the product or process. Research and development costs include but are not limited to contract research costs associated with clinical trials, manufacturing costs, consulting and regulatory fees, professional fees and licence fees.

As at December 31, 2009 and 2008, no development costs have been capitalized.

#### **Income taxes**

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

#### **Foreign currency translation**

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

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### 5 Summary of significant accounting policies (continued)

#### Stock-based compensation

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

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

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

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

#### Financial instruments

The Corporation classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading, loans and receivables or other financial liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured initially at fair value and subsequently at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in income or loss from operations.

The Corporation has made the following classifications:

Cash and cash equivalents and short-term investments are classified as financial assets held for trading. Gains and losses related to periodical revaluation are recorded in income or loss from operations as they occur.

Accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value and subsequently at amortized cost using the effective interest method.

### 6 Recoverable expense

Recoverable expense from Eli Lilly and Company ("Lilly"), includes disbursements in the amount of \$424 (2008 - \$ 267) made to support research and development activities as required under a licence and collaboration agreement with Lilly and are expected to be recovered from Lilly.

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### 7 Licensing costs

	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Licensing costs, opening balance	17,665	17,665
Accumulated Amortization	(11,755)	(10,283)
Net	5,910	7,382
Amortization expense	(736)	(1,472)
Impairment	(5,174)	-
Net	-	5,910

The licensing costs relate to the acquisition of exclusive licenses to certain patents addressing the treatment of Multiple Sclerosis.

On July 27, 2009, the Corporation announced the results of MAESTRO-01, a pivotal Phase II/III clinical trial in Canada and Western Europe, evaluating the safety and efficacy of dirucotide for the treatment of secondary progressive multiple sclerosis ("SPMS"). The results showed that the drug did not meet the primary or secondary endpoints in the trial. The Corporation discontinued the other dirucotide clinical trials, MAESTRO-02 and MAESTRO-03, and completed final collection of data and records. The value of the license to dirucotide from the University of Alberta and AutoImmune Inc. was directly linked to the expected future cash flows from the licence agreements. Due to the negative results of the MAESTRO-01 clinical trial, the termination of the other ongoing clinical trials and the termination of the exclusive licence and collaboration agreement with Lilly on September 2, 2009, the ability to realize the expected future economic benefit from the licenses is limited. Therefore, the entire unamortized value of the licenses has been recognized as an impairment loss in the consolidated statements of operations and comprehensive loss.

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

### 8 Property and equipment

	<b>2009</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Furniture and equipment	83	59	24
Computer equipment	215	137	78
Leasehold improvements	631	383	248
	<u>929</u>	<u>579</u>	<u>350</u>
	<b>2008</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Furniture and equipment	83	44	39
Computer equipment	240	118	122
Leasehold improvements	631	275	356
	<u>954</u>	<u>437</u>	<u>517</u>

### 9 Accounts payable and accrued liabilities

	<b>2009</b>	<b>2008</b>
	\$	\$
Clinical trial costs	2,209	11,597
General and administrative expenses	57	169
Consultants	22	107
Professional fees	294	74
Salaries and payroll	2,241	68
	<u>4,822</u>	<u>12,015</u>

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### 10 License and Collaboration Agreement

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

	Years ended December 31,	
	2009	2008
	\$	\$
Deferred revenue balance, opening balance	45,605	-
Cash received:		
Upfront fee received from collaboration partner	-	87,383
Development milestone received from collaboration partner	-	10,783
Less: Revenue recognized	(45,605)	(52,561)
Deferred revenue – year ended	-	45,605
Less: Deferred revenue – current portion	-	(45,605)
Deferred revenue – long term	-	-

The completion of the pivotal Phase II/III clinical trial, MAESTRO-01 and the discontinuation of the MAESTRO-02 and MAESTRO-03 clinical trials was announced on July 27, 2009. Revenue was recognized based on management's best estimate of the costs to be incurred for all the clinical trials previously underway up to the completion of the MAESTRO-01 clinical trial including the completion and delivery of the final written report provided to Lilly. On September 2, 2009, the exclusive license and collaboration agreement between BioMS and Lilly was terminated with the effect that all commercial rights to dirucotide have been returned to BioMS. All milestones related to the payments received during the licence and collaboration agreement were achieved with no further service obligations required, therefore all remaining deferred amounts were recognized as revenue during the year ended December 31, 2009.

### 11 Guarantees

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

The Corporation has entered into license and research agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Corporation to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions.

These indemnification provisions may survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay.

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### 11 Guarantees (continued)

Historically, the Corporation has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

### 12 Commitments

- a) The Corporation has a licensing agreement granting the Corporation worldwide exclusivity with respect to certain patents and patent applications in the field of injection to non-mucosal sites for the treatment of multiple sclerosis. The licensing agreement requires payment of a maintenance fee of US\$15,000 per month plus royalties on an escalating scale, based on net sales of licensed products. The royalty obligations continue on a country-by-country basis until there is no longer any valid claim from a licensed patent in the country. As at December 31, 2009 no sales of licensed products have occurred that would have resulted in a royalty payment.
- b) The Corporation has entered into development and supply agreements with third parties to produce and supply a pharmaceutical product. Payment obligations are estimated to be as much as US\$1.0 million in 2010.
- c) In continuing operations, the Corporation periodically enters into long-term contractual arrangements for office facilities and equipment. The following table presents commitments arising from these arrangements over the next five years.

	<b>Total</b> \$	<b>&lt; 1 year</b> \$	<b>1 – 3 years</b> \$	<b>&gt; 3 years</b> \$
Lease for office space	320	320	-	-
Equipment lease	54	14	40	-
	<hr/> 374	<hr/> 334	<hr/> 40	<hr/> -

### 13 Contingencies

The Corporation may, from time to time, be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. As at December 31, 2009, the Corporation was not subject to any claims or legal proceedings.

# **BioMS Medical Corp.**

## **Notes to Consolidated Financial Statements**

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(expressed in thousands of Canadian dollars)

### **14 Share capital**

#### **Authorized and issued**

The Corporation is authorized to issue an unlimited number of:

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

The Corporation had 91,008,923 and 91,009,323 Class A common shares issued and outstanding as at December 31, 2009 and 2008, respectively.

#### **Normal course issuer bid**

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 101,100 of its common shares at an average price \$2.78 per share. 1,000 common shares were repurchased in the year ended December 31, 2009 at an average price of \$2.43 per common share. 100,100 of its common shares were repurchased in the year ended December 31, 2008 at an average price of \$2.78 per common share. The difference between the purchase price and the stated capital of the common shares has been credited to the deficit.

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 \$3.41 per share. During the year ended December 31, 2008 334,800 of its common shares were repurchased at average price of \$3.45 per common share. The difference between the purchase price and the stated capital of the common shares has been credited to the deficit.

All common shares acquired by the Corporation pursuant to the normal course issuer bids were cancelled by the Corporation.

#### **Incentive stock option plan**

The Corporation's incentive stock option plan permits the grant of stock options to employees, directors, officers and consultants of the Corporation. The Board of Directors designates eligible participants to be included under the plan and designates the number of options and share price of the options, subject to applicable securities laws and stock exchange regulations. 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.

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

### 14 Share capital (continued)

Significant terms of the stock option plan include: the aggregate number of common shares issuable under the plan is no greater than 12,000,000; no more than 5% of the outstanding common shares may be reserved for options granted to any one person; no more than 10% of the outstanding common shares may be reserved for options granted to insiders; no more than 10% of the common shares outstanding at the time of issuance may be issued to insiders within one year period; and, no more than 5% of the common shares outstanding may be issued to any one insider and such insider's associates within one year period.

The exercise price of the options is determined by the Board of Directors, but cannot be lower than the market price on the last trading day preceding the grant date

At December 31, 2009, under this plan, 12,000,000 common shares were reserved for stock options. To date 9,606,500 stock options have been granted of which 130,000 have been cancelled and 105,000 have exercised. During the year ended December 31, 2009 - NIL (2008 - 34,500) stock options were exercised and are no longer available to be granted. Under the plan only options that are cancelled without being exercised are used to replenish the total options available to be granted. At December 31, 2009, the outstanding stock options include an additional 1,065,000 options which were granted prior to the establishment of the stock option plan.

	2009		2008	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding – January 1	9,181,500	3.31	7,831,000	3.19
Granted	1,350,000	3.60	1,385,000	3.96
Exercised	-	-	(34,500)	2.65
Cancelled	(95,000)	3.65	-	-
Outstanding – December 31	10,436,500	3.42	9,181,500	3.31
Exercisable – December 31	10,421,500	3.43	9,166,500	3.31

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

### 14 Share capital (continued)

#### Range of exercise prices

Range of exercise prices \$	Number of options #	Options outstanding		Options exercisable	
		Weighted average exercise price \$	Weighted average remaining contractual life (years)	Number of options #	Weighted average exercise price \$
2.35	1,025,000	2.35	6.07	1,025,000	2.35
2.50 to 2.99	1,385,000	2.61	2.40	1,370,000	2.61
3.00 to 3.50	4,011,500	3.33	3.62	4,011,500	3.33
3.51 to 3.99	2,775,000	3.78	8.39	2,775,000	3.78
4.00 to 4.50	1,240,000	4.00	2.80	1,240,000	4.00
	<u>10,436,500</u>			<u>10,421,500</u>	

1,482,000 (2008 - 1,227,000) options are issued to independent directors, 4,565,000 (2008 - 3,995,000) options are issued to non-independent directors, some of whom are officers, and 4,389,500 (2008 - 3,959,500) options are issued to other employees and consultants.

### 15 Stock-based compensation expense

The Corporation is following the fair value based method of accounting for stock options. Compensation expense of \$2.1 million has been recorded for the year ended December 31, 2009 (2008 – \$2.2 million).

The Corporation used the Black-Scholes option valuation model to estimate the fair value of the options granted during the years ended December 31, 2009 and 2008 and using the following weighted average assumptions:

	2009	2008
Volatility	47.3%	40.7%
Risk-free interest rate	1.9%	3.6%
Expected life of the options	60 months	60 months
Dividend yield	0.0%	0.0%
Exercise price	\$3.60	\$3.95
Closing market price on date of grant	\$3.60	\$3.89
Fair value per common share option	\$1.56	\$1.58

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

### 15 Stock-based compensation expense (continued)

The Black-Scholes option valuation model used by the Corporation to determine fair values was developed for use in estimating the fair value of freely traded options that are fully transferable and have no vesting restrictions. This model requires the use of assumptions, including future stock price volatility and expected time until exercise.

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

### 16 Warrants

The Corporation has issued warrants as follows:

	<b>2009</b>		<b>2008</b>	
	<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	26,021,528	4.45
Granted	-	-	-	-
Expired	(11,787,500)	5.00	-	-
Outstanding – December 31	<u>14,234,028</u>	<u>4.00</u>	<u>26,021,528</u>	<u>4.45</u>

The expiry dates of warrants outstanding at December 31, 2009 range from May 22, 2010 to December 4, 2010.

### 17 Research and development

	<b>2009 \$</b>	<b>2008 \$</b>
Clinical trials	24,498	40,395
Research and licensing	2,643	3,397
Regulatory	797	1,592
Drug manufacturing for clinical purposes	548	1,118
	<u>28,486</u>	<u>46,502</u>

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### 17 Research and development (continued)

Research and development costs consist primarily of expenses related to clinical development programs for its MS drug, dirucotide, and associated commercialization expense primarily consisting of product manufacturing initiatives for clinical purposes.

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

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

	For the years ended December 31,	
	2009	2008
Numerator		
Net income (loss)	\$ 2,869	\$ (463)
Denominator for net income (loss) per common share-basic		
Weighted average common shares outstanding (000's)	# 91,009	# 91,009
Net income (loss) per common share-basic	\$ 0.03	\$ (0.01)
Denominator for net income (loss) per common share-diluted		
Incremental common shares attributable to exercise of outstanding stock options and warrants	# -	# -
Weighted average common shares outstanding (000's)	# 91,009	# 91,009
Net income (loss) per common share-diluted	\$ 0.03	\$ (0.01)

In determining diluted net income (loss) common share, the weighted average number of common shares outstanding is adjusted for stock option and warrants eligible for exercise where the average market price of common shares for the year exceeds the exercise price. At December 31, 2009 no stock options or warrants required adjustment to calculated fully diluted net income (loss) per share.

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 year ended December 31, 2008 because to do so would be anti-dilutive.

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

### 19 Income taxes

Future income taxes reflect the net tax affects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Corporation has recognized a valuation allowance for those future tax assets for which it is more likely than not that realization will not occur. Significant components of the Corporation's future tax assets and liabilities as of December 31, 2009 and 2008 are as follows:

	2009 \$	2008 \$
Future income tax assets		
Research and development expenditures	13,726	13,372
Non-refundable research and development tax credits	15,309	15,690
Non-capital losses	20,352	6,616
Property and equipment and licensing costs	4,915	3,394
Share issue costs	538	1,099
Deferred revenue	-	13,225
	<hr/>	<hr/>
	54,840	55,396
Less: valuation allowance	(54,840)	(53,396)
	<hr/>	<hr/>
Net future income tax asset	-	-

As at December 31, 2009, the Corporation has available non-capital income tax losses in the amount of \$81.4 million (2008 - \$26.5 million) in the aggregate to reduce taxable income in future years. The potential income tax benefit of these losses has not been reflected in the financial statements at December 31, 2009.

The losses and credits will expire as follows:

	Federal investment tax credits \$	Research and Development tax credits \$	Non-capital losses carry- forwards \$
2010	-	-	2,569
2011	354	-	-
2012	567	-	-
2013	1,016	-	-
2014	1,456	-	2,000
2015	2,005	-	2,499
2016	3,423	-	-
2026	-	-	4,948
2027	2,110	-	35,536
2028	2,709	-	6,508
2029	1,668	-	27,456
Indefinitely	-	54,906	-
	<hr/>	<hr/>	<hr/>
	15,308	54,906	81,408

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### 19 Income taxes (continued)

As at December 31, 2009, the Corporation has scientific research and experimental development expenditures in the amount of \$54.9 million (2008 – \$53.5 million) available for carry-forward indefinitely to reduce future taxable income. The Corporation has unclaimed investment tax credits of approximately \$15.3 million (2008 – \$15.7 million) available to reduce future income taxes otherwise payable, subject to confirmation by taxation authorities. This estimate is subject to uncertainty and could change by a material amount in the future.

The difference between the computed expected income tax recovery based on a combined federal and provincial tax rate of 29.00% (2008 – 29.50%) and the actual income tax recovery are summarized as follows:

	<b>2009</b>	<b>2008</b>
	\$	\$
Income(loss) before income taxes	2,869	(463)
Expected income tax expense (recovery) at statutory income tax rate	832	(136)
Adjusted for the following:		
Impact of substantially enacted rates	1,685	(1,760)
Non-deductible (non-taxable) items	613	657
Unrecognized benefits of future tax assets	(3,325)	1,196
Expiry of non-capital losses	196	43
	(832)	136
	-	-

### 20 Financial instruments

Financial instruments of the Corporation consist of cash, short-term investments, 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:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
	\$	\$
<u>Financial assets</u>		
Cash and cash equivalents, held-for-trading, recorded at fair value	48,774	87,826
Short-term investments, held-for-trading, recorded at fair value	2,662	2,614
	51,436	90,440

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### 20 Financial instruments (continued)

#### Financial liabilities

Accounts payable and accrued liabilities, other liabilities, recorded at amortized cost	4,822	12,015
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The Corporation's activities are exposed to a variety of financial risks including, 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.

#### **Currency risk**

The Corporation is exposed to financial risk related to fluctuations in foreign currency exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Expenditures of the Corporation are made in various currencies as required by the agreements made with various suppliers in the countries in which the clinical trials are conducted.

Approximately seventy one (71%) percent of the Corporation's expenditures were made in United States dollars ("US\$"), the Euro, British Pounds ("GBP"), Swedish Kroners ("SEK") and Danish Kroners ("DKK") with the remaining twenty nine per cent (29%) 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 did enter into any forward contracts to manage this risk in the year ended December 31, 2009. 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 December 31, 2009:

	US\$	Euro	SEK	GBP	DKK
Cash and cash equivalents	5,476	-	-	-	-
Recoverable from collaboration partner	424	-	-	-	-
Accounts payable and accrued liabilities	<u>(380)</u>	<u>(418)</u>	<u>(266)</u>	<u>(391)</u>	<u>(189)</u>
Net exposure	<u>5,520</u>	<u>(418)</u>	<u>(266)</u>	<u>(391)</u>	<u>(189)</u>

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

### 20 Financial instruments (continued)

#### Currency risk (continued)

The following exchange rates applied during the year ended December 31, 2009:

	Rate on January 1, 2009	Rate on December 31, 2009	Average rate for year ended December 31, 2009
US\$ – CA\$	1.211	1.047	1.141
Euro – CA\$	1.688	1.500	1.585
SEK – CA\$	0.155	0.146	0.149
GBP – CA\$	1.758	1.691	1.780
DKK – CA\$	0.227	0.202	0.213

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:

	Year ended December 31, 2009				
	US\$	Euro	SEK	GBP	DKK
Increase (decrease) net income in CA\$	<u>(287)</u>	<u>31</u>	<u>2</u>	<u>33</u>	<u>2</u>

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 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 attempting to maximize the interest income earned on funds on deposit while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Corporation's investment policy limits the investing of excess funds to liquid, short-term bank acceptances and/or 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 December 31, 2009, and assuming that all other variables remain constant, a 1% appreciation or deterioration of the interest rate would result in a decrease/increase of \$709 in the Corporation's net income for the year ended December 31, 2009.

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### 20 Financial instruments (continued)

#### Interest rate risk

Accounts payable and accrued liabilities bear no interest.

#### Credit risk

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

Financial instruments that potentially expose the Corporation to significant concentrations of credit risk consist principally of cash, cash equivalents 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 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 manages its liquidity risk through the management of its capital structure, cash flows and the availability and sourcing of financing.

The Board of Directors and/or the Audit Committee reviews and approves the Corporation's 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 December 31, 2009:

	<b>Carrying amount</b>	<b>Less than 1 year</b>
	\$	\$
Accounts payable and accrued liabilities	4,822	4,822

# **BioMS Medical Corp.**

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### **20 Financial instruments (continued)**

#### **Liquidity risk (continued)**

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.

### **21 Capital management**

The Corporation's objectives when managing capital are:

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

To provide an adequate return to shareholders commensurate with the level of risk associated with a 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 \$99,287 as at December 31, 2009 ( 2008 - \$133,324).

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 investment into development of its products, technologies and investments, the Corporation does not pay out dividends.

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

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

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

# BioMS Medical Corp.

## Notes to Consolidated Financial Statements

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(expressed in thousands of Canadian dollars)

### 22 Related party transactions

During the years ended December 31, 2009 and 2008, the Corporation paid management services, professional fees, office rent and general administration amounts to companies controlled by directors and officers of the Corporation and to professional firms in which certain directors or officers have interests.

	For the years ended December 31,	
	2009	2008
	\$	\$
Management services	675	5,150
Office rent	382	221
General administration	100	127
Legal fees	118	89
Included in general and administration expenses	<u>1,275</u>	<u>5,587</u>

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

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

The completion of the 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 \$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 these consolidated financial statements. The Compensation Committee, which is comprised of independent directors, together with the Board of Directors reviewed and approved the payment of all bonuses.

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

	Years period ended December 31	
	2009	2008
	\$	\$
Goods and services tax recoverable	(52)	185
Prepaid clinical trial costs	3,017	1,186
Recoverable from collaboration partner	(157)	267
Other current assets	(58)	467
Accounts payable and accrued liabilities	(7,057)	(601)
Deferred revenue	<u>(45,605)</u>	<u>45,605</u>
	<u>(49,912)</u>	<u>47,109</u>

# **BioMS Medical Corp.**

## **Notes to Consolidated Financial Statements**

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(expressed in thousands of Canadian dollars)

### **24 Subsequent event**

On December 17, 2009 the Corporation announced its participation in a syndicated investment financing (the “Financing”) in Spectral Diagnostics Inc. (“Spectral”). Under the terms of the financing BioMS acquired 30,000,000 units (the “Units”) of Spectral at a price of \$0.40 per Unit. On December 17, 2009, \$12 million classified as cash and cash equivalents is held in trust by Valiant Trust Company to fund the investment. Each Unit consists of one common share of Spectral and one half of one common share purchase warrant (each whole common share purchase warrant, “Warrant”) entitling the holder thereof to acquire one common share of Spectral at a price of \$0.60 per common share for a period of four years from closing of the Financing.

As at February 26, 2010 the investment made by BioMS represents approximately 39.6% of the issued and outstanding common shares of Spectral. On a fully diluted basis, the investment represents approximately 40.55% of the potential voting securities of Spectral.

In connection with the Financing, BioMS and Spectral have also agreed to enter into a three year \$3 million services agreement. BioMS will provide clinical, regulatory and capital marketing consulting services to Spectral over the term of the contract.

The Financing, related terms and agreements were approved by the shareholders of Spectral on February 26, 2010.

### **25 Segment Information**

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