

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

Interim Consolidated Financial Statements  
(Unaudited)  
**March 31, 2008**

**BioMS Medical Corp.**  
(A Development Stage Corporation)  
Interim Consolidated Balance Sheets  
(Unaudited)  
**March 31, 2008**

(expressed in thousands of Canadian dollars)

	<b>March 31, 2008 \$ (Unaudited)</b>	<b>December 31, 2007 \$</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	106,446	35,428
Short-term investments	1,416	2,528
Goods and services tax recoverable	574	484
Prepaid expenses and other current assets	4,550	5,258
	<hr/>	<hr/>
	112,986	43,698
<b>Licensing costs</b>	7,014	7,382
<b>Property and equipment</b>	313	330
	<hr/>	<hr/>
	120,313	51,410
	<hr/>	<hr/>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	2,969	3,511
Accrued liabilities	5,055	5,407
Current portion of deferred revenue (note 10)	51,857	-
	<hr/>	<hr/>
	59,881	8,918
<b>Deferred revenue (note 10)</b>	22,757	-
	<hr/>	<hr/>
	82,638	8,918
	<hr/>	<hr/>
<b>Shareholders' Equity</b>		
<b>Share capital</b>	176,404	176,423
<b>Contributed surplus</b>	8,584	6,680
<b>Accumulated deficit</b>	(147,313)	(140,611)
	<hr/>	<hr/>
	37,675	42,492
	<hr/>	<hr/>
	120,313	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)

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(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
Stock options granted	-	-	1,801	-	1,801
Exercise of stock options	17	51	-	-	51
Net loss	-	-	-	(12,898)	(12,898)
<b>Balance – March 31, 2007</b>	<b>75,257</b>	<b>135,327</b>	<b>6,560</b>	<b>(106,298)</b>	<b>35,589</b>
<b>Balance – December 31, 2007</b>	91,410	176,423	6,680	(140,611)	42,492
Stock options granted	-	-	1,904	-	1,904
Repurchase of shares	(10)	(19)	-	(17)	(36)
Net loss	-	-	-	(6,685)	(6,685)
<b>Balance – March 31, 2008</b>	<b>91,400</b>	<b>176,404</b>	<b>8,584</b>	<b>(147,313)</b>	<b>37,675</b>

*(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 Loss (Unaudited)

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

	<b>Cumulative from inception to March 31,</b>	<b>Three-month period ended March 31,</b>	
	<b>2008</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Research and development</b>			
Revenue earned from collaboration partner	12,769	12,769	-
Research and development expenses	(118,726)	(13,143)	(10,274)
	(105,957)	( 374)	(10,274)
<b>General and administrative expenses</b>	(37,510)	(8,695)	(2,628)
<b>Amortization of licensing costs</b>	(10,651)	(368)	(368)
<b>Amortization of property and equipment</b>	(404)	(12)	(33)
<b>Loss from operations</b>	(154,522)	(9,449)	(13,303)
<b>Other income</b>			
Investment income	7,072	729	405
Foreign exchange gain	1,186	2,035	-
	8,258	2,764	405
<b>Net loss and comprehensive loss</b>	(146,264)	(6,685)	(12,898)
		<b>\$</b>	<b>\$</b>
<b>Basic and diluted net loss per common share</b> (note 7)		(0.07)	(0.17)
		<b>#</b>	<b>#</b>
<b>Basic and diluted weighted average number of common shares outstanding</b>		91,405	75,243

(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 March 31,	Three-month period ended March 31,	
	2008 \$	2008 \$	2007 \$
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net loss	(146,264)	(6,685)	(12,898)
Items not involving cash			
Stock-based compensation	8,584	1,904	1,801
Amortization of licensing costs	10,651	368	368
Amortization of property and equipment	404	12	33
Foreign exchange gain	(1,186)	(2,035)	-
Loss on write down of property and equipment	5	5	-
	(127,806)	(6,431)	(10,696)
Net change in non-cash working capital items			
Goods and services tax recoverable	(574)	(90)	284
Prepaid and other current assets	(4,550)	708	465
Accounts payable and accrued liabilities	8,009	(894)	1,024
Deferred revenue	74,614	74,614	-
	(50,307)	67,907	(8,923)
<b>Investing activities</b>			
Purchase of property and equipment	(722)	-	(49)
Proceeds from (purchase of) short-term investments	(1,416)	1,112	997
Licensing costs	(6,467)	-	-
	(8,605)	1,112	948
<b>Financing activities</b>			
Proceeds from issuance of share capital	178,638	-	51
Repurchase of share capital	(2,154)	(36)	-
Share issue costs	(12,312)	-	-
	164,172	( 36)	51
<b>Effect of foreign exchange rate fluctuations on cash and cash equivalents</b>	1,186	2,035	-
<b>Increase in cash and cash equivalents</b>	106,446	71,018	(7,924)
<b>Cash and cash equivalents – Beginning of period</b>	-	35,428	37,416
<b>Cash and cash equivalents – End of period</b>	106,446	106,446	29,492
<b>Cash and cash equivalents consists of</b>			
Bank accounts	519	519	1,271
Interest bearing deposits and securities	105,927	105,927	28,221
	106,446	106,446	29,492

(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)

**March 31, 2008**

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## **1 Nature of business**

BioMS Medical Corp. (the "Corporation") 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 ("GAAP") for interim financial statements 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"). All intercompany balances and transactions have been eliminated on consolidation. Except as described in note 3, the accounting policies used in the preparation of these 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 interim consolidated financial statements do not include all information and footnote disclosures required under Canadian GAAP for annual financial statements. Accordingly, these 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**

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 standard was adopted on January 1, 2008. The disclosure requirements pertaining to this new standard is included in note 9.

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Notes to Interim Consolidated Financial Statements

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b) Financial instruments – Disclosure and Financial Instruments – Presentation

Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing the Corporation's disclosure requirements, and carrying forward unchanged the Corporation's presentation requirements. Disclosure requirements pertaining to Section 3862 are contained in note 8. Adoption of Section 3863 had no impact on the Corporation's presentation of financial instruments.

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 sale 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.

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**4 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 91,400,523 and 91,410,323 Class A common shares issued and outstanding as at March 31, 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. At March 31, 2008, under this plan, 8,000,000 common shares were reserved for stock options. To date 8,006,500 stock options have been granted, resulting in an overgrant of 6,500 stock options. The recipient of the 6,500 stock options was not permitted to exercise these stock options until such time as the shareholders approve the resolution increasing the maximum number of Class A common shares available for issuance pursuant to the Plan (see note 11). At March 31, 2008, the outstanding stock options include an additional 1,065,000 options which were granted prior to the establishment of the stock option plan.

	<b>2008</b>		<b>2007</b>	
	<b>Number of options #</b>	<b>Weighted average exercise price \$</b>	<b>Number of options #</b>	<b>Weighted average exercise price \$</b>
Outstanding – January 1	7,831,000	3.19	6,526,500	3.17
Granted	1,170,000	3.97	1,312,000	3.29
Exercised	-	-	(17,000)	2.97
Outstanding – March 31	9,001,000	3.29	7,821,500	3.19
Exercisable – March 31	8,981,000	3.29	7,821,500	3.19

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**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 18,300 of its common shares at an average price of \$2.84 per share. 9,800 shares were repurchased in the current quarter at an average price of \$3.71 per share. All common shares acquired by the Corporation pursuant to the normal course issuer bid 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.

**5 Stock-based compensation expense**

The Corporation is following the fair value based method of accounting for stock options. Compensation expense of \$1.9 million has been recorded for the quarter ended March 31, 2008 (2007 – \$1.8 million).

The Corporation used the Black-Scholes option valuation model to estimate the fair value of the options granted during the quarter using the following weighted average assumptions:

	<b>Quarter ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Dividend yield	0.0%	0.0%
Volatility factors of expected marketplace	40.5%	40.8%
Risk-free interest rate	3.7%	4.0%
Weighted average expected life of the options	60 months	60 months

The weighted average fair value per share of options granted during the quarters ended March 31, 2008 and 2007 was \$1.63 and \$1.37, respectively.

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**6 Warrants**

The Corporation has issued warrants as follows:

	<b>2008</b>		<b>2007</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	18,604,028	4.63
Expired	-	-	(632,500)	3.98
Outstanding – March 31	26,021,528	4.45	17,971,528	4.66

The expiry dates of warrants outstanding at March 31, 2008 range from March 23, 2009 to December 4, 2010.

On March 18, 2008, the expiry date of 10,801,500 warrants was extended from March 23, 2009 to December 31, 2009.

Subsequent to March 31, 2008, the expiry date of 986,000 warrants was extended from March 23, 2009 to December 31, 2009 (see note 11).

**7 Net loss per common share**

The outstanding number and type of securities that would potentially dilute basic loss per common share in the future and which were not included in the computation of diluted loss per share, because to do so would have reduced the net loss per common share (anti-dilutive) for the quarters presented, are as follows:

	<b>Quarter ended March 31,</b>	
	<b>2008 #</b>	<b>2007 #</b>
Stock options	9,001,000	7,821,500
Warrants	26,021,528	17,971,528
	35,022,528	25,793,028

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**8 Financial instruments**

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

**Financial risk management**

The Corporation's activities are exposed to a variety of financial risks: price risk, credit risk, liquidity risk and cash flow 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**

Foreign currency risk arises from 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 trials are conducted. Approximately seventy five (75%) percent of expenditures are made in United States dollars, the Euro, British Pounds ("GBP") and Swedish Kroners ("SEK") with the remaining twenty five per cent (25%) made in Canadian dollars.

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 impair or enhance its ability to pay its foreign exchange obligations.

The following table provides significant items exposed to foreign exchange as at March 31, 2008:

	US\$	Euro	SEK	GBP
Cash and cash equivalents	75,801,000	-	-	-
Accounts payable	(1,167,000)	(257,000)	(111,000)	(75,000)
Accrued liabilities	(1,556,000)	(807,000)	-	-
Net exposure	<u>73,078,000</u>	<u>(1,064,000)</u>	<u>(111,000)</u>	<u>(75,000)</u>

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The following exchange rates applied during the three month period ended March 31, 2008:

	<b>Average rate Q1 2008</b>	<b>Reporting date rate March 31, 2008</b>
US\$ – CAN\$	1.002	1.028
Euro – CAN\$	1.556	1.624
SEK – CAN\$	0.165	0.173
GBP – CAN\$	2.006	2.041

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

	<b>Quarter ended March 31, 2008</b>			
	<b>US\$</b>	<b>Euro</b>	<b>SEK</b>	<b>GBP</b>
Increase (decrease) net loss in Canadian dollars	3,654,000	(53,000)	(5,000)	(4,000)

An assumed 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 increase as the amount of cash and cash equivalents and short-term investments the Corporation holds increases.

Accounts payable and accrued liabilities bear no interest.

**Market risk**

The Corporation's exposure to financial market risk is limited as there are no financial instruments which fluctuate as a result of changes in market prices.

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**Credit risk**

The Corporation is exposed to credit risk through its cash and cash equivalents and short-term investments. 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**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to fund the programs and commitments that the Corporation has planned. The Corporation manages its liquidity risk through the management of its capital structure. It also manages liquidity risk by continuously monitoring actual and projected cash flows. 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 Corporation invests its cash and cash equivalents in short term bankers acceptances and guaranteed investment certificates with up to 90 day maturities to ensure the Corporation's liquidity needs are met.

The following are the contractual maturities of financial liabilities as of March 31, 2008:

	<b>Carrying amount \$</b>	<b>Less than 1 year \$</b>
Accounts payable and accrued liabilities	<u>8,024,000</u>	<u>8,024,000</u>

**Cash flow risk**

The cash inflow of the Corporation is dependant 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.

**Carrying value and fair value**

The carrying value of short-term investments, accounts payable and accrued liabilities approximate their fair value due to the immediate or short-term maturity of these financial instruments.

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**9 Capital disclosure**

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. The Corporation defines capital as net equity, comprised of issued common shares, warrants, contributed surplus and deficit.

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. To meet future requirements, the Corporation, if necessary, will raise cash or improve liquidity through some or all of the following: public or private equity and collaborative and licensing agreements.

The Corporation is not subject to any externally imposed capital requirements. There have been no changes to the Corporation's objectives and what it manages as capital since the prior fiscal period.

**10 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\$410 million and escalating royalties on sales commensurate with the current stage of development of the product if dirucotide is commercialized. All upfront and development milestones are non-refundable and non-creditable against any other payments. BioMS is responsible for the manufacture of clinical materials through the completion of the 2008 validation batches of the drug product and the costs of the current trials until the date on which BioMS delivers to Lilly a complete written report of the final results of the Maestro-01 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 trial whether Lilly has elected to terminate the agreement on account of the results of the Maestro-01 trial. Lilly may also terminate the agreement at any time on 90 days notice.

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

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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 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 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
Less: Revenue recognized	<u>(12,769)</u>
Deferred revenue – March 31, 2008	74,614
Less: Deferred revenue – current portion	<u>(51,857)</u>
Deferred revenue – long-term	<u><u>22,757</u></u>

The completion of the licensing agreement with Lilly resulted in a one time payment of a licensing bonus to Corporation personnel. 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 three months ended March 31, 2008. The Compensation Committee, which is comprised of independent directors, together with the Board of Directors reviewed and approved the payment of all bonuses.

## **11 Subsequent events**

### **Stock option plan**

On May 9, 2008, the Corporation's shareholders approved an increase in the number of common shares reserved for stock options in the Corporation's incentive stock option plan by 4,000,000 common shares to 12,000,000 common shares.

### **Warrants**

On May 9, 2008, the Corporation's shareholders approved an extension of the expiry date of 986,000 warrants from March 23, 2009 to December 31, 2009.

