

BioMS Medical Corp.
(A Development Stage Corporation)

Interim Consolidated Financial Statements
(Unaudited)
June 30, 2006

BioMS Medical Corp.
(A Development Stage Corporation)
Interim Consolidated Balance Sheets
(Unaudited)
As at June 30, 2006

| | June 30, 2006 \$ (Unaudited) | December 31, 2005 \$ (Restated) |
|--|---|--|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 34,284,480 | 34,526,582 |
| Short-term investments | 5,535,117 | 3,509,061 |
| Accounts receivable | 137,369 | 191,233 |
| Prepaid expenses | 766,262 | 2,452,509 |
| | <hr/> | <hr/> |
| | 40,723,228 | 40,679,385 |
| Licensing costs | 9,589,998 | 10,325,869 |
| Property and equipment | 363,654 | 353,907 |
| | <hr/> | <hr/> |
| | 50,676,880 | 51,359,161 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 6,071,392 | 3,451,080 |
| | <hr/> | <hr/> |
| Commitments (note 6) | | |
| Shareholders' Equity | | |
| Share capital (note 3) | 110,220,598 | 96,688,272 |
| Contributed surplus (note 3) | 4,496,323 | 3,637,864 |
| Deficit | (70,111,433) | (52,418,055) |
| | <hr/> | <hr/> |
| | 44,605,488 | 47,908,081 |
| | <hr/> | <hr/> |
| | 50,676,880 | 51,359,161 |
| | <hr/> | <hr/> |

See accompanying notes to the financial statements.

BioMS Medical Corp.
(A Development Stage Corporation)
Interim Consolidated Statements of Deficit
(Unaudited)

| | Cumulative from inception to June 30, | Six-month period ended June 30, | |
|---|--|--|-----------------------------------|
| | 2006 \$ | 2006 \$ | 2005 \$ (Restated) |
| Balance – Beginning of period | | | |
| As previously reported | - | 52,418,055 | 33,785,225 |
| Adjusted for stock-based compensation (note 3) | - | - | 945,677 |
| <hr/> | | | |
| As restated | - | 52,418,055 | 34,730,902 |
| Net loss for the period | 69,092,705 | 17,639,384 | 6,885,574 |
| Excess of repurchase price of common shares over stated capital (note 3) | 1,018,728 | 53,994 | 255,744 |
| <hr/> | | | |
| Balance – End of period | 70,111,433 | 70,111,433 | 41,872,220 |
| <hr/> | | | |

See accompanying notes to the financial statements.

BioMS Medical Corp.

(A Development Stage Corporation)

Interim Consolidated Statements of Operations

(Unaudited)

| | Cumulative from inception to June 30, | Six-month period ended June 30, | | Three-month period ended June 30, | |
|--|--|------------------------------------|--------------------------|--------------------------------------|--------------------------|
| | 2006 \$ | 2006 \$ | 2005 \$ (Restated) | 2006 \$ | 2005 \$ (Restated) |
| Expenses | | | | | |
| Research and development | 45,063,551 | 14,426,249 | 2,827,085 | 7,882,470 | 1,765,528 |
| General and administrative | 15,192,056 | 2,067,674 | 1,998,970 | 974,471 | 1,020,415 |
| Amortization of licensing costs | 8,075,288 | 735,871 | 735,871 | 367,936 | 367,936 |
| Stock-based compensation (note 3) | 4,496,323 | 858,459 | 1,751,391 | - | 715,241 |
| Amortization of property and equipment | 198,875 | 53,472 | 28,471 | 26,548 | 14,338 |
| | 73,026,093 | 18,141,725 | 7,341,788 | 9,251,425 | 3,883,458 |
| Less: Investment income | 3,933,388 | 502,341 | 456,214 | 138,371 | 364,590 |
| Net loss for the period | 69,092,705 | 17,639,384 | 6,885,574 | 9,113,054 | 3,518,868 |
| Basic and diluted loss per share (note 4) | | 0.28 | 0.12 | 0.14 | 0.06 |

See accompanying notes to the financial statements.

BioMS Medical Corp.

(A Development Stage Corporation)

Interim Consolidated Statements of Cash Flows

(Unaudited)

| | Cumulative from inception to June 30, | Six-month period ended June 30, | | Three-month period ended June 30, | |
|---|--|------------------------------------|--------------------------|--------------------------------------|--------------------------|
| | 2006 \$ | 2006 \$ | 2005 \$ (Restated) | 2006 | 2005 \$ (Restated) |
| Cash provided by (used in) | | | | | |
| Operating activities | | | | | |
| Net loss for the period | (69,092,705) | (17,639,384) | (6,885,574) | (9,113,054) | (3,518,868) |
| Items not affecting cash | | | | | |
| Stock-based compensation | 4,496,323 | 858,459 | 1,751,391 | - | 715,241 |
| Amortization of licensing costs | 8,075,288 | 735,871 | 735,871 | 367,936 | 367,936 |
| Amortization of property and equipment | 198,875 | 53,472 | 28,471 | 26,548 | 14,338 |
| | (56,322,219) | (15,991,582) | (4,369,841) | (8,718,570) | (2,421,353) |
| Net change in non-cash working capital items (note 5) | 5,153,605 | 4,360,423 | (1,873,563) | 2,972,810 | (1,222,348) |
| | (51,168,614) | (11,631,159) | (6,243,404) | (5,745,760) | (3,643,701) |
| Investing activities | | | | | |
| Purchase of property and equipment | (562,530) | (63,219) | (9,231) | (24,055) | (4,126) |
| (Purchase) disposal of short-term investments | (5,535,117) | (2,026,056) | (12,467,316) | 127,028 | (2,198,532) |
| Licensing costs | (6,467,434) | - | - | - | - |
| | (12,565,081) | (2,089,275) | (12,476,547) | 102,973 | (2,202,658) |
| Financing activities | | | | | |
| Repurchase of share capital | (2,057,808) | (144,325) | (554,112) | - | (518,532) |
| Share issue costs | (6,901,997) | (1,404,531) | (3,322,005) | (1,404,531) | (11,800) |
| Proceeds from issuance of share capital | 106,977,975 | 15,027,188 | 41,627,200 | 15,027,188 | 8,700 |
| | 98,018,170 | 13,478,332 | 37,751,083 | 13,622,657 | (521,632) |
| (Decrease) increase in cash and cash equivalents | 34,284,475 | (242,102) | 19,031,132 | 7,979,870 | (6,367,991) |
| Cash and cash equivalents – Beginning of period | 5 | 34,526,582 | 12,385,258 | 26,304,610 | 37,784,381 |
| Cash and cash equivalents – End of period | 34,284,480 | 34,284,480 | 31,416,390 | 34,284,480 | 31,416,390 |
| Cash and cash equivalents consists of | | | | | |
| Bank and trust accounts | 1,680,881 | 1,680,881 | 437,880 | 1,680,881 | 437,880 |
| Interest bearing deposits and securities | 32,603,599 | 32,603,599 | 30,978,510 | 32,603,599 | 30,978,510 |
| | 34,284,480 | 34,284,480 | 31,416,390 | 34,284,480 | 31,416,390 |

See accompanying notes to the financial statements.

BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2006

1 Nature of business

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

2 Basis of presentation

These interim consolidated financial statements include the accounts of the Corporation, its wholly owned subsidiaries, BioMS Technology Corp. and BioMS Technology International Ltd. and a variable interest entity (“VIE”) for which the Corporation is the primary beneficiary, BioCyDex Inc. The Corporation has a 49% interest in BioCyDex Inc. All inter-company balances and transactions have been eliminated.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim consolidated financial statements and do not include all of the disclosures found in the Corporation’s annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2005. 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, 2005.

BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2006

3 Share capital

Authorized

Unlimited number of Classes A and B voting, common shares

Unlimited number of Classes C and D non-voting, common shares

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

Issued

| | <u>Common shares issued and outstanding</u> | | <u>Contributed surplus</u> |
|--|---|--------------------|--------------------------------|
| | <u>Class A common shares #</u> | <u>\$</u> | <u>\$ (Restated)</u> |
| Balance – December 31, 2005 | 62,938,166 | 96,688,272 | 1,326,154 |
| Adjusted for stock-based compensation | - | - | 2,311,710 |
| As restated | 62,938,166 | 96,688,272 | 3,637,864 |
| Repurchase pursuant to normal course issuer bid | (58,800) | (90,331) | - |
| Issue of stock options | - | - | 858,459 |
| Private placement issued for cash | 4,406,800 | 15,027,188 | - |
| Share issued costs | - | (1,404,531) | - |
| Balance – June 30, 2006 | <u>67,286,166</u> | <u>110,220,598</u> | <u>4,496,323</u> |

Shares issued

In relation to a private placement that closed May 31, 2006, 4,406,800 units of the Corporation were issued at a price of \$3.41 per unit to raise gross proceeds of \$15,027,188. Each unit consists of one Class A common share of the Corporation and one-half share purchase warrant. Each full warrant entitles the holder to purchase one Class A common share at a price of \$4.00 per share on or before May 30, 2010. These are legend shares and warrants and are non-tradeable and non-transferable until October 1, 2006. The warrants have an estimated fair value of \$1,651,000 and have been included as part of share capital.

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(Unaudited)

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Normal course issuer bid

On August 15, 2005, 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 15, 2005 to August 14, 2006 at the market price at the time of repurchase. The Corporation has acquired 230,600 of its common shares at an average price of \$2.61 per share, including 58,800 shares acquired in the six-month period ended June 30, 2006, at an average price of \$2.45 per share. All common shares acquired by the Corporation pursuant to the normal course issuer bid were cancelled by BioMS Medical Corp. The excess of the purchase price over the stated capital of the common shares has been charged to the deficit.

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 June 30, 2006, 8,000,000 Class A common shares were reserved for stock options, of which 5,222,500 had been granted under this plan. The remaining 2,777,500 stock options are available for grant in the future under the plan. At June 30, 2006, the outstanding stock options also include 1,112,000 options which were issued prior to the establishment of the stock option plan. Transactions during the six months ended June 30, 2006 were as follows:

| | Number of options # | Weighted average exercise price \$ |
|-----------------------------|---------------------------|--|
| Balance – December 31, 2005 | 5,284,500 | 3.34 |
| Granted | 1,050,000 | 2.35 |
| Exercised | - | - |
| | <hr/> | <hr/> |
| Balance – June 30, 2006 | 6,334,500 | 3.17 |

On January 24, 2006, the Corporation granted options to acquire 1,050,000 Class A common shares of the Corporation to certain employees, officers and directors of the Corporation. The options vested immediately, are exercisable at \$2.35 per share and expire January 23, 2016.

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June 30, 2006

| Range of exercise prices \$ | Options outstanding | | | Options exercisable | |
|--------------------------------|------------------------|---------------------------------------|--|------------------------|---------------------------------------|
| | Number of options # | Weighted average exercise price \$ | Weighted average remaining contractual life (years) | Number of options # | Weighted average exercise price \$ |
| 2.35 | 1,050,000 | 2.35 | 9.6 | 1,050,000 | 2.35 |
| 2.50 to 2.97 | 1,372,000 | 2.60 | 6.1 | 1,372,000 | 2.60 |
| 3.08 to 3.50 | 2,507,500 | 3.35 | 8.2 | 2,502,700 | 3.31 |
| 3.65 | 60,000 | 3.65 | 6.8 | 60,000 | 3.65 |
| 4.00 to 4.14 | 1,315,000 | 4.00 | 6.2 | 1,315,000 | 4.00 |
| 5.75 | 30,000 | 5.75 | 0.4 | 30,000 | 5.75 |
| | 6,334,500 | 3.17 | 7.5 | 6,329,700 | 3.16 |

3,730,000 options are issued to directors, some of whom are officers, and 2,604,500 options are issued to employees and consultants.

Stock-based compensation expense

The Corporation has adjusted stock-based compensation expense of prior periods to record the compensation as an expense over the period in which the options vest. Previously, the compensation was recorded as an expense over the estimated life of the options. This change has been made retroactively and prior periods have been restated.

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In addition, on April 27, 2005 the life of 202,000 options was extended from March 24, 2007 to March 24, 2012 and the life of 880,000 options was extended from July 23, 2006 to July 23, 2011. The incremental value associated with this modification has been calculated as the difference between the fair value of the options as calculated on the date of modification and the fair value of the original options as calculated on the date immediately preceding the modification. The following assumptions were used in the Black-Scholes option pricing model for valuation of the options:

| | Modified option | Original option |
|-----------------------------|----------------------------|----------------------------|
| Risk free interest rate | 3.72% | 3.07% |
| Dividend yield | 0.00% | 0.00% |
| Expected life of the option | 6.4 years | 1.4 years |
| Volatility | 36.63% | 32.48% |

As the modified options vested immediately the full incremental value of the modified options should have been expensed in the second quarter of 2005. This change has been made retroactively and prior periods have been restated.

The following accounts were increased to reflect these prior period adjustments:

| | Six-month period ended June 30, 2005 \$ | Three-month period ended June 30, 2005 \$ |
|----------------------------------|--|--|
| Contributed surplus | 2,504,039 | 1,562,913 |
| Deficit – January 1, 2005 | 945,677 | 945,677 |
| Stock-based compensation | 1,558,362 | 617,236 |
| Basic and diluted loss per share | 0.03 | 0.01 |

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The Corporation follows the fair value method of accounting for stock options which resulted in compensation expense of \$nil for the three-month period ended June 30, 2006 (2005 – \$715,241) and \$858,459 for the six-month period ended June 30, 2006 (2005 – \$1,751,391). The following weighted average assumptions were used in the Black-Scholes option pricing model for valuation of the 1,050,000 stock options granted during the six-month period.

| | |
|-----------------------------|---------|
| Risk free interest rate | 3.92% |
| Dividend yield | 0.00% |
| Expected life of the option | 5 years |
| Volatility | 31.35% |

Warrants

As at June 30, 2006, the Corporation had 14,623,400 warrants outstanding. Of the issued warrants, 11,787,500 entitle the holder to purchase one Class A common share on or before March 23, 2009 at an exercise price of \$5.00 per share, 632,500 of the warrants entitle the holder to purchase one Class A common share on or before March 23, 2007 at an exercise price of \$3.98 per share and 2,203,400 of the warrants entitle the holder to purchase one Class A common share on or before May 30, 2010 at an exercise price of \$4.00 per share.

4 Loss per share

Loss per share has been calculated on the weighted average number of common shares outstanding during the period. For the three-month period ended June 30, 2006 the weighted average number of common shares outstanding was 64,380,584 (2005 – 63,273,191) and for the six-month period ended June 30, 2006, the weighted average number of common shares was 63,639,060 (2005 – 58,088,511).

The effect of potentially exercisable options and warrants was anti-dilutive at June 30, 2006 and June 30, 2005.

BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2006

5 Net change in non-cash working capital items

| | <u>Six-month period ended June 30,</u> | | <u>Three-month period ended June 30,</u> | |
|---|--|--------------------|--|--------------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| | | (Restated) | | (Restated) |
| Accounts receivable | 53,864 | 47,798 | 66,113 | 32,983 |
| Prepaid expenses | 1,686,247 | (1,110,778) | (239,463) | (969,623) |
| Accounts payable and accrued liabilities | 2,620,312 | (810,583) | 3,146,160 | (285,708) |
| | <u>4,360,423</u> | <u>(1,873,563)</u> | <u>2,972,810</u> | <u>(1,222,348)</u> |

6 Commitments

The Corporation has entered into a licensing agreement to cover patent claims related to Medical Technology for the treatment of Multiple Sclerosis. The licensing agreement requires payment of a monthly maintenance fee plus royalties on an escalating scale based on net sales of the licensed product.

The Corporation has entered into a licensing agreement to cover certain patent claims relating to new medical technology for mobilizing hematopoietic cells in humans. This licensing agreement requires payment of an initial licensing fee to be made concurrently with execution of the Clinical Research Program Agreement, additional payments upon reaching certain objectives and royalties on an escalating scale based on net sales of the licensed product.

During the quarter ended March 31, 2006, the Corporation entered into agreements with certain contractors and employees. These agreements commit the Corporation to make a bonus payment to the contractors and employees when a licensing agreement is entered into, for any indication, between the Corporation and a third party in respect of the development of MBP8298 technology, including pre-clinical and clinical studies, manufacturing, regulatory applications and/or marketing. The total payment is equivalent to a portion of the upfront milestone payment received by the Corporation with a minimum payment of \$6.1 million and a maximum payment of \$8.3 million. The payment may be made in cash, stock or other equivalent compensation at the discretion of the Board of Directors.

BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2006

7 Financial instruments

Financial instruments of the Corporation consist of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities. As at June 30, 2006 and December 31, 2005, there are no significant differences between the carrying amounts of these items and their estimated fair values due to their short maturities.

8 Related party transactions

The Corporation paid management and administration amounts of \$212,500 for the three-month period ended June 30, 2006 and \$425,000 for the six-month period ended June 30, 2006 (\$162,500 for the three-month period ended June 30, 2005 and \$325,000 for the six-month period ended June 30, 2005) and office rent in the amount of \$45,000 for the three-month period ended June 30, 2006 and \$90,000 for the six-month period ended June 30, 2006 (2005 – \$30,000 for the three-month period ended and \$60,000 for the six-month period ended) to companies controlled by directors and officers of the Corporation.

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.

9 Comparative figures

Certain comparative figures have been reclassified to conform with the current period presentation

