

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

Interim Consolidated Financial Statements  
**(Unaudited) June 30, 2009**

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

(expressed in thousands of Canadian dollars)

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	\$	\$
	<b>(Unaudited)</b>	
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	64,864	87,826
Short-term investments	2,652	2,614
Goods and services tax recoverable	65	299
Prepaid clinical trial costs	1,914	2,227
Other current assets	664	321
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	70,159	93,287
<b>Prepaid clinical trial costs</b>	495	790
<b>Licensing costs</b>	5,174	5,910
<b>Property and equipment</b>	438	517
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	76,266	100,504
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	10,564	12,015
Deferred revenue (note 5)	20,615	45,605
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	31,179	57,620
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 6)	175,714	175,714
<b>Contributed surplus</b>	10,937	8,839
<b>Accumulated deficit</b>	(141,564)	(141,669)
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	45,087	42,884
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	76,266	100,504

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

# BioMS Medical Corp.

(A Development Stage Corporation)

## Interim Consolidated Statements of Shareholders' Equity

(Unaudited)

(expressed in thousands of Canadian dollars and shares)

	Common shares issued and outstanding		Contributed surplus \$	Accumulated deficit \$	Total shareholders' equity \$
	Number #	Amount \$			
<b>Balance – December 31, 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	-	-	-	105	105
<b>Balance – June 30, 2009</b>	91,009	175,714	10,937	(141,564)	45,087

*(The accompanying notes are an integral part of these unaudited interim 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 June 30,</b>	<b>Six-month period ended June 30,</b>		<b>Three-month period ended June 30,</b>	
	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue earned from collaboration partner</b> (note 5)	77,551	24,990	24,000	11,933	11,231
Less: Research and development expenses	(171,732)	(19,647)	(22,482)	(8,138)	(9,339)
	(94,181)	5,343	1,518	3,795	1,892
<b>General and administrative expenses</b>	(47,215)	(4,610)	(10,388)	(1,762)	(1,693)
<b>Amortization of licensing costs</b>	(12,491)	(736)	(736)	(368)	(368)
<b>Amortization of property and equipment</b>	(602)	(85)	(43)	(42)	(31)
<b>Income (loss) from operations</b>	(154,489)	(88)	(9,649)	1,623	(200)
<b>Other income (expense)</b>					
Investment income	9,045	266	1,323	96	594
Foreign exchange gain (loss)	5,507	(73)	1,239	(215)	(796)
	14,552	193	2,562	(119)	(202)
<b>Net income (loss) and comprehensive income (loss)</b>	(139,937)	105	(7,087)	1,504	(402)
<b>Basic and diluted net income (loss) per common share</b> (note 7)		0.00	(0.08)	0.02	0.00
<b>Basic weighted average number of common shares outstanding</b>		91,009	91,311	91,009	91,217
<b>Diluted weighted average number of common shares outstanding</b>		91,563	91,311	91,356	91,217

(The accompanying notes are an integral part of these unaudited interim 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 June 30,	Six-month period ended June 30,		Three-month period ended June 30,	
	2009 \$	2009 \$	2008 \$	2009 \$	2008 \$
<b>Cash provided by (used in)</b>					
<b>Operating activities</b>					
Net income (loss)	(139,937)	105	(7,087)	1,504	(402)
Items not involving cash					
Stock-based compensation (note 8)	10,976	2,098	2,168	-	264
Amortization of licensing costs	12,491	736	736	368	368
Amortization of property and equipment	602	85	43	42	31
Loss on disposal of property and equipment	11	-	7	-	2
	(115,857)	3,024	(4,133)	1,914	263
Net change in non-cash working capital items (note 10)	23,628	(27,491)	61,986	(14,135)	(10,317)
	(92,229)	(24,467)	57,853	(12,221)	(10,054)
<b>Investing activities</b>					
Purchase of property and equipment	(1,052)	(7)	(29)	(6)	(29)
Net (purchase of) proceeds from short- term investments	(2,652)	(38)	2,205	(19)	1,093
Licensing costs	(6,467)	-	-	-	-
	(10,171)	(45)	2,176	(25)	1,064
<b>Financing activities</b>					
Proceeds from issuance of share capital	178,729	-	91	-	91
Repurchase of share capital	(3,552)	-	(989)	-	(953)
Share issue costs	(12,312)	-	-	-	-
	162,865	-	(898)	-	(862)
<b>Foreign exchange gain on cash and cash equivalents held in foreign currency</b>	4,399	1,550	1,239	1,381	(796)
<b>(Decrease) increase in cash and cash equivalents</b>	64,864	(22,962)	60,370	(10,865)	(10,648)
<b>Cash and cash equivalents – Beginning of period</b>	-	87,826	35,428	75,729	106,446
<b>Cash and cash equivalents – End of period</b>	64,864	64,864	95,798	64,864	95,798
<b>Cash and cash equivalents consists of</b>					
Bank accounts	1,282	1,282	1,261	1,282	1,261
Interest bearing deposits and securities	63,582	63,582	94,537	63,582	94,537
	64,864	64,864	95,798	64,864	95,798

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

# **BioMS Medical Corp.**

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

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(expressed in thousands of Canadian dollars)

## **1 Nature of business**

BioMS Medical Corp. is incorporated in Alberta under the Business Corporations Act and is a development stage corporation as it continues to develop 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 (“MS”).

## **2 Basis of presentation**

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for interim financial statements 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”). Except as described in note 3, the accounting policies used in the preparation of these unaudited interim consolidated financial statements are consistent with the accounting policies used in the Corporation’s year-end audited consolidated financial statements of December 31, 2008. However, these unaudited interim consolidated financial statements do not include all information and footnote disclosures required under Canadian GAAP for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2008. 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 unaudited interim consolidated financial statements.

# **BioMS Medical Corp.**

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

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(expressed in thousands of Canadian dollars)

## **4 Future accounting pronouncements**

### a) 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 considerations and contingencies will be recorded at fair value at the acquisition date. Acquisition-related costs will be expensed as incurred and that 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.

### b) 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.

# BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

(expressed in thousands of Canadian dollars)

## 5 Exclusive License and Collaboration Agreement

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

	Six-month period ended June 30, 2009 \$ (unaudited)	Six-month period ended June 30, 2008 \$ (unaudited)	Three-month period ended June 30, 2009 \$ (unaudited)	Three-month period ended June 30, 2008 \$ (unaudited)	Year ended December 31, 2008 \$
Deferred revenue balance, opening balance	45,605	-	32,548	74,614	-
Cash received:					
Upfront fee received from collaboration partner	-	87,383	-	-	87,383
Development milestone received from collaboration partner	-	-	-	-	10,783
Less: Revenue recognized	(24,990)	(24,000)	(11,933)	(11,231)	(52,561)
Deferred revenue – period ended	20,615	63,383	20,615	63,383	45,605
Less: Deferred revenue – current portion	(20,615)	(48,020)	(20,615)	(48,020)	(45,605)
Deferred revenue – long term	-	15,363	-	15,363	-

Management believes that completion of the Maestro-01 clinical trial will occur in the second half of fiscal 2009, therefore the Corporation expects to recognize all deferred amounts related to the upfront fee and milestone payments already received during fiscal 2009.

Revenue is recognized based on management's best estimate of the costs to be incurred for all the current clinical trials currently underway up to the completion of the Maestro-01 clinical trial including the completion and delivery of the final written report to be provided to Lilly. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be material.

## 6 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

# BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

(expressed in thousands of Canadian dollars)

## 6 Share capital (continued)

The Corporation had 91,008,923 and 91,009,323 Class A common shares issued and outstanding as at June, 2009 and December 31, 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 three-months ended June 30, 2009 at an average price of \$2.43 per common share. 100,100 were repurchased in the year ended December 31, 2008 at an average price of \$2.78 per common share. The shortfall of the purchase price over the stated capital of the common shares has been credited 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. 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. At March 31, 2009, under this plan, 12,000,000 common shares were reserved for stock options. To date 9,571,500 stock options have been granted. At June 30, 2009, the outstanding stock options include an additional 1,065,000 options which were granted prior to the establishment of the stock option plan.

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.

	<u>2009</u>	
	<b>Number of options #</b>	<b>Weighted average exercise price \$</b>
Outstanding – January 1	9,181,500	3.31
Granted	1,350,000	3.60
Exercised	-	-
Cancelled	-	-
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Outstanding – June 30	10,531,500	3.35
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Exercisable – June 30	10,516,500	3.35

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Notes to Interim Consolidated Financial Statements

(Unaudited)

(expressed in thousands of Canadian dollars)

## 7 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 dilutive potential 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 six-month period ended June 30,		For the three-month period ended June 30,	
	2009	2008	2009	2008
Numerator				
Net income (loss)	\$ 105	\$ (7,087)	\$ 1,504	\$ (402)
Denominator for net income (loss) per common share-basic				
Weighted average common shares outstanding (000's)	# 91,009	# 91,311	# 91,009	# 91,217
Net income (loss) per common share- basic	\$ 0.00	\$ (0.08)	\$ 0.02	\$ (0.00)
Denominator for net income (loss) per common share-diluted				
Incremental common shares attributable to exercise of outstanding stock options and warrants	# 554	# -	# 347	# -
Weighted average common shares outstanding (000's)	# 91,563	# 91,311	# 91,356	# 91,217
Net income (loss) per common share- diluted	\$ 0.00	\$ (0.08)	\$ 0.02	\$ (0.00)

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 three and six-months ended June 30, 2009 or the three and six-months ended June 30, 2008 because to do so would be anti-dilutive.

# BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Interim Consolidated Financial Statements

(Unaudited)

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(expressed in thousands of Canadian dollars)

## 8 Stock-based compensation expense

The Corporation is following the fair value based method of accounting for stock options. Compensation expense of \$nil and \$2.1 million has been recorded for the three and six-months ended June 30, 2009 (2008 – \$0.3 and \$2.2 million).

The Corporation used the Black-Scholes option valuation model to estimate the fair value of the options granted during the three and six-months ended June 30, 2009 and 2008 and using the following weighted average assumptions:

	2009	2008
Volatility	47.3%	40.6%
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	\$3.97
Closing market price on date of grant	\$3.60	\$3.91
Fair value per common share option	\$1.56	\$1.59

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.

# BioMS Medical Corp.

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Notes to Interim Consolidated Financial Statements

(Unaudited)

(expressed in thousands of Canadian dollars)

## 9 Warrants

The Corporation has issued warrants as follows:

	<u>2009</u>	
	<b>Number of warrants #</b>	<b>Weighted average subscription price \$</b>
Outstanding – January 1	26,021,528	4.45
Granted	-	-
Expired	(287,500)	5.00
Outstanding – June 30	<u>25,734,028</u>	<u>4.45</u>

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

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

	<b>Cumulative from inception to June 30, 2009 \$</b>	<b>Six-month period ended June 30,</b>		<b>Three-month period ended June 30</b>	
		<b>2009 \$</b>	<b>2008 \$</b>	<b>2009 \$</b>	<b>2008 \$</b>
Goods and services tax recoverable	(65)	234	257	26	347
Other current assets	(2,890)	(342)	(125)	(486)	120
Prepaid clinical trial costs	(182)	608	697	445	(256)
Accounts payable and accrued liabilities	6,150	(3,001)	(2,226)	(2,187)	703
Deferred revenue	20,615	(24,990)	63,383	(11,933)	(11,231)
	<u>23,628</u>	<u>(27,491)</u>	<u>61,986</u>	<u>(14,135)</u>	<u>(10,317)</u>

## 11 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.