

BioMS Medical Corp.
(A Development Stage Corporation)
Consolidated Financial Statements
(Unaudited)
September 30, 2006

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

	September 30, 2006	December 31, 2005
	\$	\$
	(Unaudited)	(Restated)
Assets		
Current assets		
Cash and cash equivalents	26,891,018	34,526,582
Short-term investments	5,646,645	3,509,061
Accounts receivable	160,281	191,233
Prepaid expenses	677,401	2,452,509
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	33,375,345	40,679,385
Licensing costs	9,222,063	10,325,869
Property and equipment	356,425	353,907
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	42,953,833	51,359,161
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Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	7,309,487	3,451,080
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Commitments (note 6)		
Shareholders' Equity		
Share capital (note 3)	110,196,564	96,688,272
Contributed surplus (note 3)	4,759,216	3,637,864
Deficit	(79,311,434)	(52,418,055)
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	35,644,346	47,908,081
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	42,953,833	51,359,161
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See accompanying notes to the financial statements.

BioMS Medical Corp.

(A Development Stage Corporation)

Consolidated Statements of Deficit

(Unaudited)

	Cumulative from inception to September 30, 2006	Nine-month period ended September 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
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As restated	-	52,418,055	34,730,902
Net loss for the period	78,292,706	26,839,385	10,736,322
Excess of repurchase price of common shares over stated capital (note 3)	1,018,728	53,994	375,570
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Balance – End of period	79,311,434	79,311,434	45,842,794

See accompanying notes to the financial statements.

BioMS Medical Corp.

(A Development Stage Corporation)

Consolidated Statements of Operations

(Unaudited)

	Cumulative from inception to September 30, 2006	Nine-month period ended September 30		Three-month period ended September 30	
	2006 \$	2006 \$	2005 \$ (Restated)	2006 \$	2005 \$ (Restated)
Expenses					
Research and development	53,055,833	22,418,531	6,031,347	7,992,282	3,204,259
General and administrative	16,154,288	3,029,906	2,750,330	962,232	751,360
Amortization of licensing costs	8,443,223	1,103,806	1,103,806	367,935	367,935
Stock- based compensation (note 3)	4,759,216	1,121,352	1,751,392	262,893	-
Amortization of property and equipment	227,650	82,247	46,385	28,775	17,914
	82,640,210	27,755,842	11,683,260	9,614,117	4,341,468
Less: Investment income	4,347,504	916,457	946,938	414,116	490,724
Net loss for the period	78,292,706	26,839,385	10,736,322	9,200,001	3,850,744
Basic and diluted loss per share (note 4)		0.41	0.18	0.14	0.06

See accompanying notes to the financial statements.

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

	Cumulative from inception to September 30, 2006	Nine-month period ended September 30		Three-month period ended September 30	
	2006	2006	2005	2006	2005
	\$	\$	\$ (Restated)	\$	\$ (Restated)
Cash provided by (used in)					
Operating activities					
Net loss for the period	(78,292,706)	(26,839,385)	(10,736,322)	(9,200,001)	(3,850,744)
Items not affecting cash					
Stock-based compensation	4,759,216	1,121,352	1,751,392	262,893	-
Amortization of licensing costs	8,443,223	1,103,806	1,103,806	367,935	367,935
Amortization of property and equipment	227,650	82,247	46,385	28,775	17,914
	(64,862,617)	(24,531,980)	(7,834,739)	(8,540,398)	(3,464,895)
Net change in non-cash working capital items (note 5)	6,457,653	5,664,467	(1,750,652)	1,304,044	122,908
	(58,404,964)	(18,867,513)	(9,585,391)	(7,236,354)	(3,341,987)
Investing activities					
Purchase of property and equipment	(584,075)	(84,765)	(80,738)	(21,546)	(71,507)
(Purchase) disposal of short-term investments	(5,646,645)	(2,137,584)	(3,617,193)	(111,528)	8,850,123
Licensing costs	(6,467,434)	-	-	-	-
	(12,698,154)	(2,222,349)	(3,697,931)	(133,074)	8,778,616
Financing activities					
Repurchase of share capital	(2,057,808)	(144,325)	(860,383)	-	(306,270)
Share issue costs	(6,926,031)	(1,428,565)	(3,322,005)	(24,034)	-
Proceeds from issuance of share capital	106,977,975	15,027,188	41,627,200	-	-
	97,994,136	13,454,298	37,444,812	(24,034)	(306,270)
(Decrease) increase in cash and cash equivalents	26,891,013	(7,635,564)	24,161,490	(7,393,462)	5,130,359
Cash and cash equivalents – Beginning of period	5	34,526,582	12,385,259	34,284,480	31,416,390
Cash and cash equivalents – End of period	26,891,018	26,891,018	36,546,749	26,891,018	36,546,749
Cash and cash equivalents consists of					
Bank and trust accounts	2,364,027	2,364,027	1,726,575	2,364,027	1,726,575
Interest bearing deposits and securities	24,526,991	24,526,991	34,820,174	24,526,991	34,820,174
	26,891,018	26,891,018	36,546,749	26,891,018	36,546,749

See accompanying notes to the financial statements.

BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Consolidated Financial Statements

(Unaudited) September 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., BioMS Technology International Ltd. and BioMS Technology US Corp. 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 for the year ended December 31, 2005. In the opinion of management, all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the financial position, results of operations and cash flows of these interim periods, have been included.

BioMS Medical Corp.

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Notes to Consolidated Financial Statements

(Unaudited) September 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	-	-	1,121,352
Private placement issued for cash	4,406,800	15,027,188	-
Share issued costs	-	(1,428,565)	-
Balance – September 30, 2006	<u>67,286,166</u>	<u>110,196,564</u>	<u>4,759,216</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 which has been included as part of share capital.

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Notes to Consolidated Financial Statements

(Unaudited) September 30, 2006

Normal course issuer bid

On August 15, 2006, 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, 2006 to August 14, 2007 at the market price at the time of repurchase. The corporation has not acquired any of its common shares under this 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 nine-month period ended September 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 the Corporation. 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 September 30, 2006, 8,000,000 Class A common shares were reserved for stock options, of which 5,444,500 had been granted under this plan. The remaining 2,555,500 stock options are available for grant in the future under the plan. At September 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 nine months ended September 30, 2006 were as follows:

	Number of options #	Weighted average exercise price \$
Balance – December 31, 2005	5,284,500	3.34
Granted	1,272,000	2.53
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Balance – September 30, 2006	6,556,500	3.18

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.

On September 22, 2006 the Corporation granted options to acquire 222,000 Class A common shares of the Corporation to certain employees, officers and directors of the Corporation. 192,000 of the options vested immediately, are exercisable at \$3.38 per share and expire September 21, 2011.

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Notes to Consolidated Financial Statements

(Unaudited) September 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	9.3	1,050,000	2.35
2.50 to 2.97	1,372,000	2.60	5.8	1,372,000	2.60
3.08 to 3.50	2,729,500	3.36	7.7	2,699,500	3.36
3.65	60,000	3.65	6.4	60,000	3.65
4.00 to 4.14	1,315,000	4.00	6.0	1,315,000	4.00
5.75	30,000	5.75	0.1	30,000	5.75
	<u>6,556,500</u>	<u>3.18</u>	<u>7.2</u>	<u>6,526,500</u>	<u>3.18</u>

3,842,000 options are issued to directors, some of whom are officers, and 2,714,500 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 (decreased) to reflect these prior period adjustments:

	Nine-month period ended September 30, 2005 \$	Three-month period ended September 30, 2005 \$
Contributed surplus	2,407,875	849,512
Deficit – January 1, 2005	945,677	945,677
Stock-based compensation	1,462,198	(96,165)
Basic and diluted loss per share	0.02	0.00

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(Unaudited) September 30, 2006

The Corporation follows the fair value method of accounting for stock options which resulted in compensation expense of \$262,893 for the three-month period ended September 30, 2006 (2005 – \$ nil) and \$1,121,352 for the nine-month period ended September 30, 2006 (2005 – \$1,751,392). The following weighted average assumptions were used in the Black-Scholes option pricing model for valuation of the 1,272,000 stock options granted during the nine-month period.

Risk free interest rate	3.91%
Dividend yield	0.00%
Expected life of the option	5 years
Volatility	31.43%

Warrants

As at September 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 based on the weighted average number of common shares outstanding during the period. For the three-month period ended September 30, 2006 the weighted average number of common shares outstanding was 67,286,166 (2005 – 63,193,952) and for the nine-month period ended September 30, 2006, the weighted average number of common shares was 64,877,794 (2005 – 59,788,861).

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

BioMS Medical Corp.

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Notes to Consolidated Financial Statements

(Unaudited) September 30, 2006

5 Net change in non-cash working capital items

	Nine-month period ended September 30		Three-month period ended September 30	
	2006 \$	2005 \$ (Restated)	2006 \$	2005 \$ (Restated)
Accounts receivable	30,952	156,679	(22,913)	108,881
Prepaid expenses	1,775,108	(1,119,731)	88,861	(8,956)
Accounts payable and accrued liabilities	3,858,407	(787,600)	1,238,096	22,983
	<u>5,664,467</u>	<u>(1,750,652)</u>	<u>1,304,044</u>	<u>122,908</u>

6 Commitments

The Corporation has entered into a licensing agreement for patents 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 certain patents 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.

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Notes to Consolidated Financial Statements

(Unaudited) September 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 September 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 September 30, 2006 and \$637,500 for the nine-month period ended September 30, 2006 (\$162,500 for the three-month period ended September 30, 2005 and \$487,500 for the nine-month period ended September 30, 2005) and office rent in the amount of \$45,000 for the three-month period ended September 30, 2006 and \$135,000 for the nine-month period ended September 30, 2006 (2005 – \$35,000 for the three-month period ended and \$95,000 for the nine-month period ended) to companies controlled by the Chairman, President and Chief Financial Officer 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

