

BioMS Medical Corp.
(A Development Stage Corporation)

Consolidated Financial Statements
December 31, 2006

Auditors' Report

**To the Shareholders of
BioMS Medical Corp.**

We have audited the consolidated balance sheet of **BioMS Medical Corp.** as at December 31, 2006 and the consolidated statements of operations, shareholders' equity and cash flows for the year 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 audit.

We conducted our audit 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements of the Company as of December 31, 2005, for the year then ended, and for the period from inception to December 31, 2005, other than the restatement of stock-based compensation expense for the year ended December 31, 2005 disclosed in note 8, were audited by other independent auditors whose report dated February 1, 2006 expressed an unqualified opinion on those statements. We have audited the restatement of stock-based compensation expense for the year ended December 31, 2005 as described in note 8. In our opinion, such restatement is appropriate and has been properly applied.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

Edmonton, Alberta
February 19, 2007

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

(expressed in thousands of Canadian dollars)

	December 31, 2006 \$	December 31, 2005 \$ (Restated – Note 8)
Assets		
Current assets		
Cash and cash equivalents	37,416	34,527
Short-term investments	5,677	3,509
Goods and services tax recoverable	456	191
Prepaid expenses and other current assets (note 3)	2,711	2,453
	<hr/>	<hr/>
	46,260	40,680
Licensing costs (note 4)	8,854	10,326
Property and equipment (note 5)	355	354
	<hr/>	<hr/>
	55,469	51,360
	<hr/>	<hr/>
Liabilities		
Current liabilities		
Accounts payable	3,826	2,407
Accrued liabilities (note 6)	5,008	1,045
	<hr/>	<hr/>
	8,834	3,452
	<hr/>	<hr/>
Commitments (note 13)		
Shareholders' Equity		
Share capital (note 7)	135,276	96,688
Contributed surplus	4,759	3,638
Accumulated deficit	(93,400)	(52,418)
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	46,635	47,908
	<hr/>	<hr/>
	55,469	51,360
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(The accompanying notes are an integral part of these consolidated financial statements.)

Approved by the Board of Directors

(Signed) "Kevin A. Giese"

Director

(Signed) "W. D. Grace"

Director

BioMS Medical Corp.
(A Development Stage Corporation)
Consolidated Statements of Shareholders' Equity

(expressed in thousands of Canadian dollars and shares)

	Common shares Issued and outstanding		Contributed surplus \$	Accumulated deficit \$	Total shareholders' equity \$
	Number #	Amount \$			
Balance – December 31, 1999	-	-	-	-	-
Issuance of common shares	2,900	460	-	-	460
Share issue costs	-	(77)	-	-	(77)
Net loss	-	-	-	(465)	(465)
Balance – December 31, 2000	2,900	383	-	(465)	(82)
Reverse takeover by Rycor Technology Investment	38,431	30,105	-	-	30,105
Exercise of stock options	3,267	9,070	-	-	9,070
Issuance of common shares	3,300	8,250	-	-	8,250
Share issue costs	-	(971)	-	-	(971)
Net loss	-	-	-	(4,777)	(4,777)
Balance – December 31, 2001	47,898	46,837	-	(5,242)	41,595
Exercise of warrants	659	2,635	-	-	2,635
Issued under private placement	150	615	-	-	615
Exercise of stock options	3	9	-	-	9
Share issue costs	-	(15)	-	-	(15)
Net loss	-	-	-	(7,803)	(7,803)
Balance – December 31, 2002	48,710	50,081	-	(13,045)	37,036
Exercise of warrants	330	825	-	-	825
Repurchase of shares	(52)	(54)	-	(106)	(160)
Stock options issued	-	-	259	-	259
Net loss	-	-	-	(7,640)	(7,640)
Balance – December 31, 2003	48,988	50,852	259	(20,791)	30,320
Issued under private placement	2,844	9,387	-	-	9,387
Exercise of stock options	126	53	-	-	53
Repurchase of shares	(137)	(157)	-	(298)	(455)
Share issue costs	-	(1,042)	-	-	(1,042)
Stock options issued	-	-	1,300	-	1,300
Consolidation of BioCyDex (variable interest entity)	-	-	-	(189)	(189)
Net loss	-	-	-	(12,507)	(12,507)
Balance – December 31, 2004	51,821	59,093	1,559	(33,785)	26,867
Retroactive adjustment for stock-based compensation	-	-	-	(946)	(946)
Balance – December 31, 2004 (restated – note 6)	51,821	59,093	1,559	(34,731)	25,921
Issued under private placement	11,500	41,400	-	-	41,400
Exercise of stock options	53	38	-	-	38
Exercise of warrants	47	189	-	-	189
Repurchase of shares (note 7)	(483)	(738)	-	(561)	(1,299)
Share issue costs	-	(3,294)	-	-	(3,294)
Stock options issued	-	-	2,079	-	2,079
Net loss	-	-	-	(17,126)	(17,126)
Balance – December 31, 2005	62,938	96,688	3,638	(52,418)	47,908
Private placement issued for cash	12,368	42,175	-	-	42,175
Repurchase of shares (note 7)	(66)	(104)	-	(65)	(169)
Share issue costs	-	(3,483)	-	-	(3,483)
Stock options issued	-	-	1,121	-	1,121
Net loss	-	-	-	(40,917)	(40,917)
Balance – December 31, 2006	75,240	135,276	4,759	(93,400)	46,635

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

BioMS Medical Corp.
(A Development Stage Corporation)
Consolidated Statements of Operations

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

	Cumulative from inception to December 31,	Years ended December 31,	
	2006 \$	2006 \$	2005 \$ (Restated – Note 8)
Revenue	-	-	-
Expenses			
Research and development	66,676	35,185	10,829
General and administrative	21,325	5,416	5,917
Amortization of licensing costs	8,811	1,472	1,472
Amortization of property and equipment	258	112	71
	<u>97,070</u>	<u>42,185</u>	<u>18,289</u>
Loss from operations	(97,070)	(42,185)	(18,289)
Investment income	4,699	1,268	1,163
Net loss	<u>(92,371)</u>	<u>(40,917)</u>	<u>(17,126)</u>
		\$	\$
Basic and diluted net loss per common share		<u>0.62</u>	<u>0.28</u>
		#	#
Basic and diluted weighted average number of common shares outstanding		<u>66,236</u>	<u>60,603</u>

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

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

(expressed in thousands of Canadian dollars)

	Cumulative from inception to December 31,	Years ended December 31,	
	2006 \$	2006 \$	2005 \$ (Restated – Note 8)
Cash provided by (used in)			
Operating activities			
Net loss	(92,371)	(40,917)	(17,126)
Items not involving cash			
Stock-based compensation	4,759	1,121	2,079
Amortization of licensing costs	8,811	1,472	1,472
Amortization of property and equipment	258	112	71
	(78,543)	(38,212)	(13,504)
Net change in non-cash working capital items (note 11)	5,652	4,859	342
	(72,891)	(33,353)	(13,162)
Investing activities			
Purchase of property and equipment	(613)	(113)	(221)
Purchase of short-term investments	(5,677)	(2,168)	(1,509)
Licensing costs	(6,467)	-	-
	(12,757)	(2,281)	(1,730)
Financing activities			
Repurchase of share capital	(2,082)	(169)	(1,299)
Share issue costs	(8,980)	(3,483)	(3,294)
Proceeds from issuance of share capital	134,126	42,175	41,627
	123,064	38,523	37,034
Increase in cash and cash equivalents	37,416	2,889	22,142
Cash and cash equivalents – Beginning of year	-	34,527	12,385
Cash and cash equivalents – End of year	37,416	37,416	34,527
Cash and cash equivalents consists of			
Bank accounts	508	508	3,026
Interest bearing deposits and securities	36,908	36,908	31,501
	37,416	37,416	34,527

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

BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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

1 Nature of business

BioMS Medical Corp. (the "Corporation") is incorporated in Alberta under the 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 Summary of significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include the accounts of the Corporation, its wholly owned subsidiaries, BioMS Technology Corp., BioMS Technology US Corp., 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 intercompany balances and transactions have been eliminated on consolidation.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation. Such reclassifications had no effect on its consolidated statements of operations or shareholders' equity.

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 includes balances with banks, term deposits and investments, which are highly liquid interest bearing marketable securities or deposits with a maturity of three months or less when purchased.

Short-term investments

Short-term investments include securities and a term deposit with an original maturity of greater than three months and less than twelve months. Investments are carried at book value plus accrued interest with unrealized losses recognized as investment income.

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Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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

Property and equipment

Property and equipment is recorded at cost less amortization. Property and equipment is amortized over the estimated useful life using the straight-line method at an annual rate of 20%. 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 if the net recoverable amount falls below the carrying amount of the asset in which case the asset is written down to fair value. The fair value is determined by the sum of the undiscounted cash flows expected to result from its use and eventual disposition.

Licensing costs

Costs incurred to acquire license rights and acquire product and process technology are capitalized. Capitalized costs are being amortized on the straight-line method over the initial term of the license agreement, being 12 years. The Corporation regularly reviews its licensing costs for impairment and records an impairment charge when the carrying amount exceeds fair value.

Research and development costs

Research and development costs are expensed as incurred unless they meet generally accepted accounting criteria of deferral and amortization. The Corporation reassesses whether it has met the relevant criteria for deferral and amortization at each reporting date. To date, 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 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 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. 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 statement of operations.

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Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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

Stock-based compensation

The Corporation grants stock options to employees, directors and consultants pursuant to a stock option plan described in note 5. The Corporation uses the fair value method of accounting for all stock-based awards granted since January 1, 2003.

Loss per share

Loss per share has been allocated on the weighted average number of common shares outstanding for the year of 66,236 (2005 – 60,603).

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

	2006 #	2005 #
Stock options	6,526,500	5,284,500
Warrants	18,604,028	12,420,000
	<hr/> 25,130,528	<hr/> 17,704,500

3 Prepaid expenses and other current assets

Prepaid expenses and other current assets include prepaid clinical trial costs of \$2,572 as at December 31, 2006. These costs will be expensed as research and development expenses as services are provided pursuant to the contract research agreements.

4 Licensing costs

	2006 \$	2005 \$
Cost	17,665	17,665
Accumulated amortization	8,811	7,339
Net	<hr/> 8,854	<hr/> 10,326

The licensing costs relate to patents the Corporation has acquired with respect to the treatment of Multiple Sclerosis. There was no impairment of licensing costs recorded during the year ended December 31, 2006.

BioMS Medical Corp.

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Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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

5 Property and equipment

	2006		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Furniture and equipment	62	16	46
Computer equipment and software	171	75	96
Leasehold improvements	343	130	213
	576	221	355
	2005		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Furniture and equipment	23	5	18
Computer equipment and software	156	75	81
Leasehold improvements	320	65	255
	499	145	354

6 Accrued liabilities

Accrued liabilities include amounts of \$4,993 and \$1,045 at December 31, 2006 and 2005, respectively, for clinical trial costs. The accruals for clinical trial costs are based on management's best estimate of the number of patients, patient's progression through the trial and costs incurred to date. 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 significant.

BioMS Medical Corp.

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Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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

7 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 75,239,923 and 62,938,166 Class A common share issued and outstanding as at December 31, 2006 and 2005 respectively.

Shares issued during the year

Private placements closed on May 31, 2006 with 4,406,800 units issued, November 24, 2006 with 6,128,957 units issued and December 4, 2006 with 1,832,300 units issued for a total of 12,368,057 units of the Corporation issued at a price of \$3.41 per unit to raise gross proceeds of \$42,175. Each unit consisted 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. 2,203,400 warrants expire May 31, 2010. 3,064,478 warrants expire on November 24, 2010 and 916,150 expire on December 4, 2010.

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 acquired 230,600 of its common shares at an average price of \$2.61 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.

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 acquired 7,500 of its common shares at an average price of \$3.22 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.

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Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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

Incentive stock option plan

The Corporation's incentive stock option plan permits the grant of stock options to employees, directors, officer and consultants of the Corporation. The Options shall be in full force and effect and exercisable only so long as the Optionee shall continue to be an Eligible Person and if the Optionee ceases to be an Eligible Person for any reason including, without limitation, death, for a period of twelve months after the Optionee ceases to be an Eligible Person (the "Termination Date"). These Options shall terminate and shall therefore not be exercisable by the Optionee after 5:00 p.m. (Edmonton time) on the earlier of the Expiry Date and the Termination Date. In the event that the Optionee dies during the term of the Options, any unexercised portion of the Options shall be available for exercise by the Optionee's heirs or administrators until the earlier of the Expiry Date and the Termination Date. At December 31, 2006, under this plan, 8,000,000 common shares were reserved for stock options, of which 5,444,500 have been granted. At December 31, 2006, the outstanding stock options include an additional 1,082,000 options which were granted prior to the establishment of the stock option plan.

	December 31, 2006		December 31, 2005	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding – Beginning of year	5,284,500	3.34	4,040,500	3.36
Granted	1,272,000	2.53	1,297,500	3.15
Cancelled	-	-	-	-
Expired	(30,000)	5.75	-	-
Exercised	-	-	(53,500)	0.72
Outstanding – End of year	<u>6,526,500</u>	3.17	<u>5,284,500</u>	<u>3.34</u>

BioMS Medical Corp.

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Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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

Range of exercise prices

Range of exercise prices \$	Number of options #	Options outstanding and exercisable	
		Weighted average exercise price \$	Weighted average remaining contractual life (years)
2.35	1,050,000	2.35	9.06
2.50 to 2.97	1,372,000	2.60	5.59
3.08 to 3.50	2,729,500	3.36	7.41
3.65	60,000	3.65	6.25
4.00 to 4.14	1,315,000	4.00	5.71
	<u>6,526,500</u>	3.34	7.57

1,052,000 options are issued to independent directors, 2,790,000 options are issued to non-independent directors, some of whom are officers, and 2,684,500 options are issued to other employees and consultants.

8 Stock-based compensation expense

During the year ended December 31, 2006, 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.

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%

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December 31, 2006 and 2005

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

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:

	December 31, 2005
	\$
Contributed surplus	2,312
Deficit – January 1, 2005	946
Stock-based compensation	1,366
Basic and diluted loss per share	0.02

As the Corporation is following the fair value based method of accounting for stock options, compensation expense of \$1,121 has been recorded for the year ended December 31, 2006 (2005 – \$2,079).

The Corporation used the Black-Scholes option valuation model to estimate the fair value of the options for the year ended December 31, 2006 and using the following weighted average assumptions:

	2006	2005
Dividend yield	0.00%	0.00%
Volatility factors of expected marketplace	31.40%	25.60%
Risk-free interest rate	3.91%	3.80%
Weighted average expected life of the options	60 months	69 months

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, the valuation model calculates the expected stock price volatility based on highly subjective assumptions. Because the Corporation's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing model does not necessarily provide a reliable single measure of the fair value of its employee stock options.

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Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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

9 Warrants

The Corporation has issued warrants as follows:

	Weighted average number of warrants #	Subscription price \$
Outstanding – December 31, 2004	3,237,248	4.00
Issued during the year	11,787,500	5.00
Issued during the year	632,500	3.98
Exercised during the year	(47,200)	4.00
Expired during the year	<u>(3,190,048)</u>	4.00
Outstanding – December 31, 2005	12,420,000	
Issued during the year	6,184,028	4.00
Exercised during the year	-	
Expired during the year	<u>-</u>	
Outstanding – December 31, 2006	<u>18,604,028</u>	

In connection with the issuance of shares under the private placements on May 31, 2006, November 24, 2006, and December 4, 2006, the Company issued warrants to purchase 6,184,028 Class A common shares at a price of \$4.00 per share. 2,203,400 of the warrants expire on May 31, 2010, 3,064,478 warrants expire on November 24, 2010 and 916,150 expire on December 4, 2010. The warrants have an estimated fair value of \$9,165 and have been included as part of share capital.

In connection with the issuance of shares under the private placement on March 14, 2005, the Company issued warrants to purchase 12,420,000 Class common shares. The warrants expire on March 23, 2009. The estimated fair value of warrants and have been included as part of share capital.

The fair value of the warrants was calculated using the Black-Scholes option valuation model and the following weighted average assumptions for the years ended December 31, 2006 and 2005:

	2006	2005
Share and subscription price	\$4.00	\$4.95
Dividend yield	0.00%	0.00%
Volatility factors of expected marketplace	31.69%	21.00%
Risk-free interest rate	4.01%	2.83%
Contract life of the warrants	48 months	48 months

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

10 Research and development expenses

Research and development costs consist primarily of expenses related to clinical development programs for MBP8298 and associated commercialization expense primarily consisting of product manufacturing initiatives.

Currently, BioMS is conducting three clinical trials for MBP8298:

- MAESTRO-01: A pivotal phase II/III trial in Canada and Western Europe evaluating MBP8298 for the treatment of secondary progressive MS (SPMS). The trial involves over 550 patients (fully recruited as of January 2007) at 48 trial sites in 10 countries, who are being administered either MBP8298 or placebo every six months for a period of two years. To date, there have been six positive safety reviews from the Data Safety Monitoring Board.
- MAESTRO-03: BioMS recently received clearance from the FDA to conduct a pivotal phase III U.S. trial evaluating MBP8298 for the treatment of SPMS. The trial will be a randomized, double-blind study enrolling approximately 510 patients at 50 sites in the United States.
- MINDSET-01: A phase II trial in Europe evaluating MBP8298 for the treatment of relapsing remitting MS (RRMS). The trial is a randomized, double-blind study enrolling up to 215 patients.

11 Net change in non-cash working capital items

	2006	2005
	\$	\$
Goods and service tax recoverable	(265)	43
Prepaid and other current assets	(258)	(2,014)
Accounts payable and accrued liabilities	5,382	2,313
	<hr/>	<hr/>
	4,859	342
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(expressed in thousands of Canadian dollars, except per share amounts)

12 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, 2006 are as follows:

	2006 \$	2005 \$
Future income tax assets		
Research and development expenditures	16,234	7,108
Non-refundable research and development tax credits	12,366	5,399
Non-capital losses	7,438	6,653
Property and equipment and licensing costs	3,005	2,952
Share issue costs	1,591	-
	<hr/>	<hr/>
	40,634	22,112
Less: valuation allowance	<hr/> (40,634)	<hr/> (22,112)
Net future income tax asset	<hr/> -	<hr/> -

As at December 31, 2006, the Corporation has scientific research and experimental development expenditures in the amount of \$55,978 (2005 – \$21,143) available for carry-forward indefinitely to reduce future taxable income. The Corporation has unclaimed investment tax credits of approximately \$12,366 (2005 – \$5,399) available to reduce future income taxes otherwise payable.

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

The Corporation also has non-capital income tax losses in the amount of \$25,646 in the aggregate available as at December 31, 2006 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, 2006. These losses and credits will expire as follows:

	Federal investment tax credits \$	R & D carry- forwards \$	Non-capital losses carry- forwards \$
2007	-	-	643
2008	-	-	3,056
2009	-	-	6,078
2010	-	-	3,144
2011	354	-	-
2012	567	-	-
2013	1,016	-	-
2014	1,456	-	3,467
2015	2,005	-	4,311
2016	6,968	-	-
2026	-	-	4,947
Indefinitely	-	55,978	-
	<u>12,366</u>	<u>55,978</u>	<u>25,646</u>

The difference between the computed expected income tax recovery based on a combined federal and provincial tax rate of 32.49% (2005 – 33.62%) and the actual income tax recovery are summarized as follows:

	2006 \$	2005 \$
Loss before income taxes	<u>40,917</u>	<u>17,126</u>
Expected income tax recovery at statutory income tax rate	13,294	5,788
Adjusted for the following:		
Impact of substantially enacted rates	(3,606)	-
Non-deductible items	(372)	(746)
Unrecognized benefits of future tax assets	<u>(9,316)</u>	<u>(5,042)</u>
	<u>-</u>	<u>-</u>

BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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

13 Commitments

- a) The Corporation has entered into a licensing agreement to cover certain patent claims related to Medical Technology for the treatment of Multiple Scleroses. The licensing agreement requires a payment of a monthly maintenance fee plus royalties on an escalating scale based on net sales of the licensed product.
- b) The Corporation has entered into a licensing agreement to cover certain patent claims relating to new medical technology for mobilizing hematopoetic 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.
- c) The Corporation has entered into development and supply agreements with third parties to produce and supply a pharmaceutical during the development and commercial period. In addition to the commitment to pay for the supply of pharmaceutical provided, the Corporation has also committed to make certain milestone payments as they are achieved by the third parties.

14 Financial instruments

Fair values

Financial instruments of the Corporation consist mainly of cash and cash equivalents, short-term investments, accounts payable and accrued liabilities. As at December 31, 2006, there are no significant differences between the carrying amounts of these items and their estimated fair values because of their near term maturity.

Interest rate risk

The Corporation has reduced its exposure to interest rate risk by holding short-term deposits.

Credit risk

The Corporation has no exposure to credit risk as no sales have yet occurred.

BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Consolidated Financial Statements

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

15 Related party transactions

On January 1, 2006, the Corporation entered into service agreements with individuals or companies controlled by individuals to obtain the services of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Vice-President Corporate Affairs and Vice-President Drug Development. In addition to annual remuneration for services, these contracts commit the Corporation to a total minimum annual grant of 75,000 stock options and, in the event a licensing agreement is entered into between the Corporation and a third party in respect of the development of MBP8298, the contracts also commit the Corporation to a one time payment of a minimum of \$2,832 and a maximum of \$4,582.

During 2006, the Corporation paid management and administration amounts of \$1,463 (2005 – \$1,195) to companies controlled by directors and officers. Office rent and general administrative expenses in the amount of \$304 (2005 – \$231) were also paid to a company controlled by a director 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.

16 Segment information

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

