

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

Consolidated Financial Statements  
**December 31, 2007 and 2006**

**Auditors' Report**

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

We have audited the consolidated balance sheets of **BioMS Medical Corp.** as at December 31, 2007 and 2006 and the consolidated statements of shareholders' equity, operations and comprehensive loss and cash flows for the years 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 audits.

We conducted our audits 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants**

Edmonton, Alberta  
March 19, 2008

**BioMS Medical Corp.**  
(A Development Stage Corporation)  
Consolidated Balance Sheets  
December 31, 2007 and 2006

(expressed in thousands of Canadian dollars)

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	35,428	37,416
Short-term investments	2,528	5,677
Goods and services tax recoverable	484	456
Prepaid expenses and other current assets (note 6)	5,258	2,711
	<hr/>	<hr/>
	43,698	46,260
<b>Licensing costs</b> (note 7)	7,382	8,854
<b>Property and equipment</b> (note 8)	330	355
	<hr/>	<hr/>
	51,410	55,469
	<hr/>	<hr/>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	3,511	3,826
Accrued liabilities (note 9)	5,407	5,008
	<hr/>	<hr/>
	8,918	8,834
	<hr/>	<hr/>
<b>Commitments and contingencies</b> (notes 16 and 17)		
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 10)	176,423	135,276
<b>Contributed surplus</b>	6,680	4,759
<b>Accumulated deficit</b>	(140,611)	(93,400)
	<hr/>	<hr/>
	42,492	46,635
	<hr/>	<hr/>
	51,410	55,469
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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"  
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Director

(Signed) "W.D. Grace"  
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Director

# BioMS Medical Corp.

(A Development Stage Corporation)

## Consolidated Statements of Shareholders' Equity

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(expressed in thousands of Canadian dollars and shares)

	Common shares Issued and outstanding		Contributed surplus \$	Accumulated deficit \$	Total shareholders' equity \$
	Number #	Amount \$			
<b>Balance – December 31, 2005</b>	62,938	96,688	3,638	(52,418)	47,908
Private placements issued for cash	12,368	42,175	-	-	42,175
Repurchase of shares	(66)	(104)	-	(65)	(169)
Share issue costs	-	(3,483)	-	-	(3,483)
Stock options granted	-	-	1,121	-	1,121
Net loss	-	-	-	(40,917)	(40,917)
<b>Balance – December 31, 2006</b>	75,240	135,276	4,759	(93,400)	46,635
Private placement issued for cash	16,100	44,275	-	-	44,275
Repurchase of shares	(17)	(33)	-	(3)	(36)
Share issue costs	-	(3,332)	-	-	(3,332)
Stock options granted	-	-	1,921	-	1,921
Exercise of stock options	87	237	-	-	237
Net loss	-	-	-	(47,208)	(47,208)
<b>Balance – December 31, 2007</b>	91,410	176,423	6,680	(140,611)	42,492

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

# BioMS Medical Corp.

(A Development Stage Corporation)

## Consolidated Statements of Operations and Comprehensive Loss

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

	<b>Cumulative from inception to December 31,</b>	<b>Years ended December 31,</b>	
	<b>2007</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>	-	-	-
<b>Expenses</b>			
Research and development (note 13)	105,583	38,907	35,185
General and administrative	28,815	7,490	5,416
Amortization of licensing costs	10,283	1,472	1,472
Amortization of property and equipment	392	134	112
	<u>145,073</u>	<u>48,003</u>	<u>42,185</u>
<b>Loss from operations</b>	(145,073)	(48,003)	(42,185)
<b>Other income (expense)</b>			
Investment income	6,343	1,644	1,268
Foreign exchange loss	(849)	(849)	-
<b>Net loss and comprehensive loss</b>	<u>(139,579)</u>	<u>(47,208)</u>	<u>(40,917)</u>
		<b>\$</b>	<b>\$</b>
<b>Basic and diluted net loss per common share</b> (note 15)		<u>(0.56)</u>	<u>(0.62)</u>
		<b>#</b>	<b>#</b>
<b>Basic and diluted weighted average number of common shares outstanding</b>		<u>85,042</u>	<u>66,236</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,	
	2007 \$	2007 \$	2006 \$
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net loss	(139,579)	(47,208)	(40,917)
Items not involving cash			
Stock-based compensation	6,680	1,921	1,121
Amortization of licensing costs	10,283	1,472	1,472
Amortization of property and equipment	392	134	112
Foreign exchange loss	849	849	-
	(121,375)	(42,832)	(38,212)
Net change in non-cash working capital items			
Goods and services tax recoverable	(484)	(28)	(265)
Prepaid and other current assets	(5,258)	(2,547)	(258)
Accounts payable and accrued liabilities	8,903	84	5,382
	(118,214)	(45,323)	(33,353)
<b>Investing activities</b>			
Purchase of property and equipment	(722)	(109)	(113)
Proceeds from (purchase of) short-term investments	(2,528)	3,149	(2,168)
Licensing costs	(6,467)	-	-
	(9,717)	3,040	(2,281)
<b>Financing activities</b>			
Proceeds from issuance of share capital	178,638	44,512	42,175
Repurchase of share capital	(2,118)	(36)	(169)
Share issue costs	(12,312)	(3,332)	(3,483)
	164,208	41,144	38,523
<b>Effect of foreign exchange rate fluctuations on cash and cash equivalents</b>	(849)	(849)	-
<b>Increase in cash and cash equivalents</b>	35,428	(1,988)	2,889
<b>Cash and cash equivalents – Beginning of period</b>	-	37,416	34,527
<b>Cash and cash equivalents – End of period</b>	35,428	35,428	37,416
<b>Cash and cash equivalents consists of</b>			
Bank accounts	1,139	1,139	508
Interest bearing deposits and securities	34,289	34,289	36,908
	35,428	35,428	37,416

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

**BioMS Medical Corp.**  
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**December 31, 2007 and 2006**

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**1 Nature of business**

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

**2 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 BioMS Medical Corp. and its wholly owned subsidiaries, BioMS Technology Corp., BioMS Technology US Corp. and BioMS Technology International Ltd. (all referred to jointly as the "Corporation"). All intercompany balances and transactions have been eliminated on consolidation.

**3 Changes in accounting policies**

Effective January 1, 2007, the Corporation adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"), three of which related to financial instruments. These accounting policy changes were adopted on a retroactive basis with no impact on the prior period financial statements other than disclosure. The new standards and accounting policy changes are as follows:

a) Financial Instruments – Recognition and Measurement (CICA Handbook Sections 3855 and 3861)

In accordance with these new standards, the Corporation now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading, loans and receivables or other financial liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of loss.

The Corporation has made the following classifications:

- Cash and cash equivalents and short-term investments are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net income.
- Accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value. Subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

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Derivatives may be embedded in other financial instruments (host instruments). Prior to the adoption of the new standards, such embedded derivatives were not accounted for separately from the host instrument. Under the new standards, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument and the terms of the embedded derivatives are measured at fair value with subsequent changes recognized in operations. In accordance with CICA Handbook Section 3855, the Company conducted a search for embedded derivatives in all contractual arrangements and did not identify any embedded features that require separate presentation from the related host contract.

The adoption of this Section had no impact other than disclosure in the consolidated financial statements of the Corporation.

b) Comprehensive Income (CICA Handbook Section 1530)

Comprehensive income (loss) is the change in shareholders' equity, which results from transactions and events from sources other than the Corporation's shareholders. These transactions and events include changes in the currency translation adjustment relating to self-sustaining foreign operations, and unrealized gains and losses resulting from changes in fair value of certain financial instruments.

As at the adoption date, and for the year ended December 31, 2007, the Corporation does not have any items that should be presented as other comprehensive income (loss). Therefore, net loss for the year is equivalent to comprehensive loss for the year.

c) Hedges (CICA Handbook Section 3865)

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. The Corporation does not have any hedging items.

d) Accounting changes (CICA Handbook Section 1560)

The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retroactively unless doing so is impracticable, requires prior period errors to be corrected retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Corporation's results of operations and financial condition will depend on the nature of future accounting changes. The adoption of Section 1506 was effective January 1, 2007 and had no impact on these consolidated financial statements other than additional disclosure provided in note 4.

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**4 Recent Canadian accounting pronouncements issued and not yet adopted**

a) Capital disclosures (CICA Handbook Section 1535)

This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Corporation. The adoption of this standard is not expected to have a significant impact on the consolidated financial statements.

b) Financial instruments – Disclosure and Presentation (CICA Handbook Sections 3862 and 3863)

This standard requires an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Corporation. The adoption of this standard is not expected to have a significant impact on the consolidated financial statements.

c) Goodwill and Intangible Assets (CICA Handbook Section 3064)

In November 2007, the AcSB approved new Section 3064, Goodwill and Intangible Assets, replacing Sections 3062, Goodwill and Other Intangible Assets, and 3450 Research and Development Costs. New Section 3064 incorporates material from IAS 38, Intangible Assets, addressing when an internally developed intangible asset meets the criteria for recognition as an asset. The AcSB also approved amendments to Section 1000, Financial Statement Concepts, and Accounting Guideline AcG-11, Enterprises in the Development Stage. The amendments to AcG-11 provide consistency with Section 3064. EIC-27, Revenues and Expenditures, during the Pre-operating Period, will not apply to entities that have adopted Section 3064. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted.

d) International Financial Reporting Standards

The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards ("IFAS") over a transition period that is expected to end in 2011. The impact of the transition to IFRS on our consolidated financial statements has not yet been determined.

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**5 Summary of significant accounting policies**

**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 term deposits with an original maturity of greater than three months and less than twelve months. Investments are carried at fair value with gains and losses related to periodical revaluation recorded in net loss.

**Property and equipment**

Property and equipment are recorded at cost less amortization. Property and equipment are amortized over the estimated useful life of the specific asset 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 from third parties are capitalized. Capitalized costs are being amortized on the straight-line method over the initial term of the license agreement, being twelve years. The Corporation regularly reviews its licensing costs for impairment and records an impairment charge when the carrying amount exceeds fair value.

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**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 or substantive 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. Foreign currency denominated 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 and comprehensive loss.

**Stock-based compensation**

Awards of stock options to employees are accounted for in accordance with the fair value method of accounting for stock-based compensation and result in compensation expense and contributed surplus. The fair value is measured at the date the options are granted using the Black Scholes method. Any consideration paid on the exercise of stock options is credited to share capital.

**Net loss per common share**

Net loss per common share is based on the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the deemed proceeds from the exercise of dilutive securities are considered to be used to acquire common shares at the average market price during the year.

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**6 Prepaid expenses and other current assets**

Prepaid expenses and other current assets include prepaid clinical trial costs of \$5.1 million (2006 – \$2.6 million). These costs will be expensed as research and development expenses as services are provided pursuant to the contract research agreements.

**7 Licensing costs**

	<b>2007</b>	<b>2006</b>
	\$	\$
	(thousands of Canadian dollars)	
Cost	17,665	17,665
Accumulated amortization	10,283	8,811
	<hr/>	<hr/>
Net	7,382	8,854
	<hr/>	<hr/>

The licensing costs relate to the acquisition of exclusive licenses to certain patents addressing the treatment of Multiple Sclerosis. No impairment of licensing costs was recorded during the years ended December 31, 2007 and 2006.

**8 Property and equipment**

	<b>2007</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	\$	amortization	\$
	(thousands of Canadian dollars)		
Furniture and equipment	71	30	41
Computer equipment and software	308	162	146
Leasehold improvements	343	200	143
	<hr/>	<hr/>	<hr/>
	722	392	330
	<hr/>	<hr/>	<hr/>

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	<b>2006</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
	(thousands of Canadian dollars)		
Furniture and equipment	62	16	46
Computer equipment and software	171	75	96
Leasehold improvements	343	130	213
	<b>576</b>	<b>221</b>	<b>355</b>

## 9 Accrued liabilities

Accrued liabilities includes \$5.2 million (2006 – \$5.0 million) 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.

## 10 Share capital

### Authorized and issued

The Corporation is authorized to issue an unlimited number of:

- Classes A and B voting, common shares,
- Classes C and D non-voting, common shares, and
- Classes E, F, G, H and I non-voting, redeemable, retractable, preferred shares

The Corporation had 91,410,323 Class A common shares issued and outstanding as at December 31, 2007 (2006 – 75,239,923).

**BioMS Medical Corp.**  
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**Shares issued during the 2007 fiscal year**

	<b>Units #</b>	<b>Price \$</b>	<b>Proceeds \$</b>	<b>Warrants #</b>	<b>Warrant expiry</b>
May 23, 2007	<u>16,100,000</u>	2.75	<u>44,275,000</u>	<u>8,050,000</u>	May 22, 2010

**Shares issued during the 2006 fiscal year**

	<b>Units #</b>	<b>Price \$</b>	<b>Proceeds \$</b>	<b>Warrants #</b>	<b>Warrant expiry</b>
May 31, 2006	4,406,800	3.41	15,027,000	2,203,400	May 31, 2010
November 24, 2006	6,128,957	3.41	20,900,000	3,064,478	November 24, 2010
December 4, 2006	<u>1,832,300</u>	3.41	<u>6,248,000</u>	<u>916,150</u>	December 4, 2010
	<u>12,368,057</u>		<u>42,175,000</u>	<u>6,184,028</u>	

On May 23, 2007, the Company issued 16,100,000 units of the Corporation at a price of \$2.75 per unit to raise gross proceeds of \$44,275,000. 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 and expires on May 22, 2010 (note 12).

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 \$42,175,000. 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 (note 12).

**Normal course issuer bid**

On August 24, 2007, the Corporation received approval for a normal course issuer bid allowing the Corporation to repurchase up to 1,000,000 Class A common shares during the period of August 24, 2007 to August 23, 2008 at the market price at the time of repurchase. The Corporation has acquired 8,500 of its common shares at an average price of \$1.84 per share. All common shares acquired by the Corporation pursuant to the normal course issuer bid were cancelled by the Corporation. The shortfall of the purchase price over the stated capital of the common shares has been credited to the deficit.

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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 acquired 16,100 of its common shares at an average price of \$2.75 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.

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.

**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. Significant terms of the stock option plan include: the aggregate number of common shares issuable under the plan is no greater than 8,000,000; no more than 5% of the outstanding common shares may be reserved for options granted to any one person; no more than 10% of the outstanding common shares may be reserved for options granted to insiders; no more than 10% of the common shares outstanding at the time of issuance may be issued to insiders within one year period; and no more than 5% of the common shares outstanding may be issued to any one insider and such insider's associates within one year period. 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. At December 31, 2007, under this plan, 8,000,000 common shares were reserved for stock options, of which 6,766,000 have been granted. At December 31, 2007, the outstanding stock options include an additional 1,065,000 options which were granted prior to the establishment of the stock option plan.

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**Option activity**

	<b>Number of options #</b>	<b>Weighted average exercise price \$</b>
Outstanding – December 31, 2005	5,284,500	3.34
Granted	1,272,000	2.53
Expired	<u>(30,000)</u>	5.75
Outstanding – December 31, 2006	6,526,500	3.17
Granted	1,427,000	3.25
Exercised	(87,500)	2.71
Cancelled	<u>(35,000)</u>	3.24
Outstanding – December 31, 2007	<u>7,831,000</u>	3.19

**Range of exercise prices**

<b>Range of exercise prices \$</b>	<b>Options outstanding</b>			<b>Options exercisable</b>	
	<b>Number of options #</b>	<b>Weighted average exercise price \$</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Number of options #</b>	<b>Weighted average exercise price \$</b>
2.35	1,045,000	2.35	8.06	1,045,000	2.35
2.50 to 2.97	1,399,500	2.60	4.44	1,379,500	2.60
3.08 to 3.50	4,011,500	3.33	5.62	4,011,500	3.33
3.65	60,000	3.65	5.25	60,000	3.65
4.00 to 4.14	<u>1,315,000</u>	4.00	4.80	<u>1,315,000</u>	4.00
	<u>7,831,000</u>			<u>7,811,000</u>	

1,087,000 options are issued to independent directors, 3,425,000 options are issued to non-independent directors, some of whom are officers, and 3,319,000 options are issued to other employees and consultants.

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**11 Stock-based compensation expense**

The Corporation follows the fair value based method of accounting for stock options. Compensation expense of \$1.9 million has been recorded for the year ended December 31, 2007 (2006 – \$1.1 million).

The Corporation used the Black-Scholes option valuation model to estimate the fair value of the options granted during the years ended December 31, 2007 and 2006 and using the following weighted average assumptions:

	<b>2007</b>	<b>2006</b>
Dividend yield	0.0%	0.0%
Volatility factors of expected marketplace	43.5%	31.4%
Risk-free interest rate	4.0%	3.9%
Weighted average expected life of the options	60 months	60 months

The weighted average fair value per share of options granted during the years ended December 31, 2007 and 2006 was \$1.36 and \$0.80, respectively.

**12 Warrants**

The Corporation has issued warrants as follows:

	<b>Number of warrants #</b>	<b>Weighted average subscription price \$</b>
Outstanding – December 31, 2005	12,420,000	4.95
Granted	<u>6,184,028</u>	4.00
Outstanding – December 31, 2006	18,604,028	4.63
Granted	8,050,000	4.00
Expired	<u>(632,500)</u>	3.98
Outstanding – December 31, 2007	<u>26,021,528</u>	4.45

In connection with the issuance of shares on May 23, 2007, the Company issued warrants to purchase 8,050,000 Class A common shares. The warrants expire on May 22, 2010. The share proceeds were allocated to the common shares and warrants based on their relative fair values. The fair value attributed to the warrants was \$7.3 million and has been included as part of share capital.

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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 \$9.2 million and has been included as part of share capital.

In connection with the issuance of shares under the private placement on March 23, 2005, the Company issued warrants to purchase 11,787,500 common shares at an exercise price of \$5.00 per share to expire March 23, 2009, and warrants to purchase 632,500 common shares at an exercise price of \$3.98 to expire March 23, 2007. The estimated fair value of these warrants has 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, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Subscription price	\$4.00	\$4.00
Share	\$2.64	\$3.35
Dividend yield	0.0%	0.0%
Volatility factors of expected marketplace	72.3%	31.7%
Risk-free interest rate	4.5%	4.0%
Contract life of the warrants	36 months	48 months

### **13 Research and development**

The Corporation is in the development stage and conducts research and development in the area of biopharmaceutical products primarily for the treatment of multiple sclerosis.

Research and development costs consist primarily of expenses related to clinical development programs for its Multiple Sclerosis drug, MBP8298, and associated commercialization expense primarily consisting of product manufacturing initiatives for clinical purposes.

	<b>2007</b>	<b>2006</b>
	\$	\$
	(thousands of Canadian dollars)	
Multiple Sclerosis clinical trials	31,775	22,800
Drug manufacturing for clinical purposes	5,087	10,146
Regulatory	815	691
Research and licensing	1,230	1,548
	<hr/>	<hr/>
	38,907	35,185
	<hr/>	<hr/>

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**14 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, 2007 and 2006 are as follows:

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
	(thousands of Canadian dollars)	
Future income tax assets		
Research and development expenditures	16,866	16,234
Non-refundable research and development tax credits	14,663	12,366
Non-capital losses	14,853	7,438
Property and equipment and licensing costs	2,992	3,005
Share issue costs	1,803	1,591
	<hr/>	<hr/>
	51,177	40,634
Less: valuation allowance	<hr/> (51,177)	<hr/> (40,634)
Net future income tax asset	<hr/> -	<hr/> -

As at December 31, 2007, the Corporation has scientific research and experimental development expenditures in the amount of \$67.5 million (2006 – \$56.0 million) available for carry-forward indefinitely to reduce future taxable income. The Corporation has unclaimed investment tax credits of approximately \$14.7 million (2006 – \$12.3 million) available to reduce future income taxes otherwise payable, subject to confirmation by taxation authorities. This estimate is subject to uncertainty and could change by a material amount in the future.

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The Corporation also has non-capital income tax losses in the amount of \$59.4 million in the aggregate available as at December 31, 2007 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, 2007. The losses and credits will expire as follows:

	<b>Federal investment tax credits</b>	<b>R &amp; D carry- forwards</b>	<b>Non-capital losses carry- forwards</b>
	\$	\$	\$
	(thousands of Canadian dollars)		
2008	-	-	3,057
2009	-	-	6,078
2010	-	-	3,144
2011	354	-	-
2012	567	-	-
2013	1,016	-	-
2014	1,456	-	3,467
2015	2,005	-	4,302
2016	6,968	-	-
2017	-	-	-
2026	-	-	4,947
2027	2,297	-	34,418
Indefinitely	-	67,465	-
	<u>14,663</u>	<u>67,465</u>	<u>59,413</u>

The difference between the computed expected income tax recovery based on a combined federal and provincial tax rate of 32.12% (2006 – 32.49%) and the actual income tax recovery are summarized as follows:

	<b>2007</b>	<b>2006</b>
	\$	\$
	(thousands of Canadian dollars)	
Loss before income taxes	<u>47,208</u>	<u>40,917</u>
Expected income tax recovery at statutory income tax rate	<u>15,163</u>	<u>13,294</u>
Adjusted for the following:		
Impact of substantially enacted rates	(6,968)	(3,606)
Non-deductible items	(626)	(372)
Unrecognized benefits of future tax assets	(7,407)	(9,316)
Expiry of non-capital losses	<u>(162)</u>	<u>-</u>
	<u>(15,163)</u>	<u>(13,294)</u>
	<u>-</u>	<u>-</u>

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**15 Net loss per common share**

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

	<b>2007</b>	<b>2006</b>
	#	#
Stock options	7,831,000	6,526,500
Warrants	26,021,528	18,604,028
	<u>33,852,528</u>	<u>25,130,528</u>

**16 Commitments**

- a) The Corporation has entered into a licensing agreement granting the Corporation worldwide exclusivity with respect to certain patents and patent applications in the field of injection to non-mucosal sites for the treatment of multiple sclerosis. The licensing agreement requires a payment of a monthly maintenance fee of \$15,000 per month plus royalties on an escalating scale, based on net sales of the licensed products. The royalty obligations continue on a country-by-country basis until there is no longer any valid claim from a licensed patent in the country.
- b) The Corporation has entered into development and supply agreements with third parties to produce and supply a pharmaceutical product. Payment obligations are estimated to be as much as \$2.0 million in the next year before additional development costs.
- c) In continuing operations, the Corporation periodically enters into long-term contractual arrangements for equipment and office facilities. The following table presents commitments arising from these arrangements over the next five years.

	<b>Total</b>	<b>&lt; 1 year</b>	<b>1 – 3 years</b>	<b>&gt; 3 years</b>
	\$	\$	\$	\$
Lease for office space	90,000	90,000	-	-
Equipment lease	46,000	10,000	20,000	16,000
	<u>136,000</u>	<u>100,000</u>	<u>20,000</u>	<u>16,000</u>

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**17 Contingencies**

- a) The Corporation may, from time to time, be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Corporation.
- b) The Corporation has entered into indemnification agreements with all officers and directors. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Corporation does maintain liability insurance to limit the exposure of the Corporation.
- c) The Corporation has entered into license and research agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Corporation to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. These indemnification provisions may survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Corporation has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

**18 Financial instruments**

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

**Financial risk management**

The Corporation's activities are exposed to a variety of financial risks: price risk, credit risk, liquidity risk and cash flow risk. The Corporation's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Corporation's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance.

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**Price risk**

There are three types of price risk: currency risk, interest rate risk and market risk.

a) Currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The expenditures of the Corporation are made in various currencies as required by the agreements made with various suppliers in the countries that the trials are conducted. Approximately seventy five (75%) percent of expenditures are made in United States dollars, European Euros, British Pounds and Swedish Kroners with the remaining twenty five per cent (25%) made in Canadian dollars.

At any point in time, the Corporation may use forward contracts to mitigate the exposures associated with fluctuations in foreign currency exchange rates. The Corporation does not enter into derivative financial instruments for speculative or trading purposes.

During the year, the Corporation entered into forward contracts to purchase a total of 1.0 million US dollars and 1.5 million Euros. The Corporation settled these forward contracts during the year, realizing a foreign exchange loss of \$137,000. As of December 31, 2007, the Corporation does not have any forward contracts.

At December 31, 2007, foreign denominated cash and cash equivalents and short-term investments amounted to \$9.5 million (2006 – \$0.04 million).

b) Interest rate risk

The Corporation's funds are invested in interest bearing securities that are subject to interest rate fluctuation and the degree of volatility in these rates. The impact of interest rate fluctuations will increase as the amount of cash and cash equivalents and short-term investments the Corporation increases.

c) Market risk

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

**Credit risk**

The Corporation is exposed to credit risk through its cash and cash equivalents and short-term investments. The Corporation has deposited the cash and cash equivalents and short-term investments with reputable financial institutions, from which management believes the risk of loss is remote.

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**Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to fund the programs and commitments that the Corporation has planned.

**Cash flow risk**

The cash inflow of the Corporation is dependant on external financings and partnering agreements. The Corporation's investment revenue is dependent on changes in market interest rates paid by institutions for the use of the Corporation's funds.

**Fair value**

The fair values of accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these financial instruments.

**19 Related party transactions**

During the year, the Corporation paid management services, office rent and general administration amounts to companies controlled by the Chairman of the Board and/or the President and Chief Executive Officer of the Corporation in accordance with independent contractor agreements as follows:

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
	(thousands of Canadian dollars)	
Management services	875	755
Office rent	193	180
General administration	116	132
	<hr/>	<hr/>
	1,184	1,067
	<hr/>	<hr/>

These agreements also commit the Corporation to a total minimum annual grant of 400,000 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 commit the Corporation to a one time payment of a minimum of \$2.0 million and a maximum of \$4.3 million (note 21). In 2007, the Corporation granted 535,000 options to these companies and individuals with a fair value of \$0.7 million, which has been recorded as stock-based compensation expense.

The lease for the office space is at a fixed rate ending December 31, 2010 with early termination available upon six months written notice by either party (note 16).

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All transactions with related parties have been reviewed by the independent directors, 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.

## **20 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.

## **21 Subsequent event**

### **Exclusive License and Collaboration Agreement**

On December 17, 2007, the Corporation entered into a licensing and development agreement granting Eli Lilly and Company ("Lilly") exclusive worldwide rights to its lead Multiple Sclerosis compound MBP8298. Under the terms of the agreement, Lilly and BioMS will collaborate on the development of MBP8298 and will also share in certain development costs with Lilly being responsible for future research and development, manufacturing and marketing activities. The transaction closed on January 25, 2008 with the receipt of the upfront payment of US\$87 million. BioMS has the potential of receiving development and sales milestones up to US\$410 million and escalating royalties on sales commensurate with the current stage of development of the product if MBP8298 is commercialized. All upfront and development milestones are non-refundable and non-creditable against any other payments. BioMS will continue to oversee the current trials until the date on which BioMS delivers to Lilly a complete written report of the final results of the Maestro-01 trial and the manufacture of clinical materials through the completion of the 2008 validation batches of the drug product.

Lilly shall notify BioMS in writing not later than sixty (60) days following receipt of the final written clinical trial report of the results of the Maestro-01 trial whether Lilly has elected to terminate the agreement on account of the results of the Maestro-01 trial. Lilly may also terminate the agreement at any time on 90 days notice.

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

Lilly shall bear one hundred percent (100%) of any and all development costs incurred by the parties once Lilly has accepted the written report and has not elected to terminate the agreement. The agreement will terminate in each country on the expiration of the last-to-expire BioMS Licensed Patent having a valid claim covering the manufacture, use or sale of the product in the field in each country.

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The completion of the licensing agreement with Lilly resulted in a one time payment of a licensing bonus to Corporation personnel. The licensing bonuses paid in February 2008 totalled \$9.0 million of which \$4.2 million was paid to related parties and the balance of \$4.8 million was paid to employees and contracted personnel. The Compensation Committee, which is comprised of independent directors, together with the Board of Directors reviewed and approved the payment of all bonuses.

