



**BioMS Medical Corp.**

**Management Discussion and Analysis  
of Financial Condition And Results of Operations**

**For the Year Ended December 31, 2009**

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to help the reader of the audited consolidated financial statements understand BioMS Medical Corp. together with its subsidiaries ("BioMS" or the "Corporation"), the operations and our present business environment as of March 16, 2010. This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes for the year December 31, 2009. The audited consolidated financial statements and comparative information have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless otherwise indicated, all amounts shown are in Canadian dollars. This document is current in all material respects as of March 16, 2010.

### **Forward – Looking Statements**

In order to provide investors of BioMS with an understanding of our current results and future prospects, our communications often include written or oral forward-looking statements. This report and other materials filed with the Canadian securities regulators contain statements that are forward looking. These statements represent BioMS' intentions, plans, expectations and beliefs and are based on our experience and our assessment of historical and future trends and the application of key assumptions relating to future events and circumstances. These statements may include, but are not limited to, comments about our objectives and priorities for 2010 and beyond, strategies and targets, expectations for our financial condition, and the outlook for our operations and external factors that may impact results.

Forward-looking statements require assumptions and involve risks and uncertainties related to our business and the general economic environment, many of which are beyond our control. There is significant risk that the predictions, forecasts, conclusions or projections we make will not prove to be accurate and that may cause our actual results to be materially different from the targets, expectations, estimates or intentions expressed in the forward-looking statements. We caution readers of this report not to place undue reliance on our forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic conditions in the countries in which we operate; currency fluctuations; our ability to execute projects; our ability to execute our strategic plans; our ability to attract and retain qualified employees; our ability to contain expenses; technology changes and research and development; availability of financial resources to carry out our strategy; our ability to protect our intellectual and intangible properties; legal claims; critical accounting estimates; the possible effects on our activities of war or terrorist activities; disease or illness that affects local, national or international economies; and disruptions to public infrastructure, such as transportation, communications, power or water supply. We caution that this list is not exhaustive of all possible factors.

When relying on forward-looking statements to make decisions with respect to BioMS, investors should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Unless required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Corporation or on its behalf.

## **Company Overview and Outlook**

BioMS is a corporation that was founded in 2000, for the purpose of developing and commercializing pharmaceutical technologies.

The Corporation's focus has not been on earnings, but rather that it had adequate financial resources to fund development programs it participates in. As at December 31, 2009 the Corporation had \$48.8 million in cash and cash equivalents.

BioMS is listed on the Toronto Stock Exchange ("TSX") under the trading symbol "MS" and at December 31, 2009 there were 91,008,923 (December 31, 2008 - 91,009,323) Class "A" common shares of the Corporation issued and outstanding.

### **Investment**

On December 17, 2009 the Corporation announced its participation in a syndicated investment financing (the "Financing") in Spectral Diagnostics Inc. ("Spectral"). Under the terms of the financing BioMS acquired 30,000,000 units (the "Units") of Spectral at a price of \$0.40 per Unit. Each Unit consists of one common share of Spectral and one half of one common share purchase warrant (each whole common share purchase warrant, "Warrant") entitling the holder thereof to acquire one common share of Spectral at a price of \$0.60 per common share for a period of four years from closing of the Financing.

At February 26, 2010 the investment made by BioMS represents approximately 39.6% of the issued and outstanding common shares of Spectral. On a fully diluted basis, the investment represents approximately 40.55% of the potential voting securities of Spectral.

On March 11, 2010 under the terms of the Financing, Kevin Giese and Laine Woollard, two BioMS nominated directors were named to the Spectral Board of Directors.

In connection with the Financing, BioMS and Spectral have also agreed to enter into a three year \$3 million services agreement. BioMS will provide clinical, regulatory and capital marketing consulting services to Spectral over the term of the contract.

The Financing, related terms and agreements were approved by the shareholders of Spectral on February 26, 2010.

### **About Spectral Diagnostics Inc.**

Spectral obtained exclusive rights for the Toraymyxin™ therapeutic device in the United States ("US" or "U.S.") from Toray Industries Inc., of Japan, in March of 2009 and anticipates initiating a pivotal US clinical trial in the first half of 2010. Toraymyxin™ has been used in more than 70,000 patients globally and has demonstrated in clinical trials that it safely and effectively removes endotoxin and reduces mortality in patients with severe sepsis.

Spectral's Endotoxin Activity Assay ("EAA™") is the only US Food and Drug Administration ("FDA") cleared assay for the measurement of endotoxin in the bloodstream.

Toraymyxin™ is a therapeutic hemoperfusion device that removes endotoxin from the bloodstream. The anticipated US pivotal trial will use Spectral's EAA™ to identify patients with severe sepsis who have elevated endotoxin in the blood and will most likely benefit from treatment with Toraymyxin™.

BioMS Medical Corp.  
Management Discussion and Analysis of Financial Condition and Results of Operations  
For the Year Ended December 31, 2009

---

Sepsis affects approximately 750,000 patients in the US each year of which approximately 250,000 patients develop severe sepsis. These patients currently face a high risk of mortality with limited treatment options. Sepsis accounts for approximately 1 in 10 Intensive Care Unit admissions in the US and is the 10th most common cause of death, ahead of acute heart attacks and breast cancer.

Results of a randomized controlled trial (the EUPHAS trial) were recently published in the Journal of the American Medical Association (JAMA. 2009; Vol. 301 No. 23, 2445-2452). The results demonstrated that Toraymyxin™ absorbs endotoxin from the bloodstream, and when added to conventional therapy, significantly improved hemodynamics and organ dysfunction, and reduced 28-day mortality in patients with severe sepsis and septic shock in comparison to those patients in the conventional therapy group.

#### Dirucotide

On July 27, 2009, the Corporation announced the results of MAESTRO-01 that showed dirucotide did not meet the primary endpoint. In addition, there were no statistical significant differences between dirucotide and placebo on the secondary endpoints of the study. The Corporation also discontinued ongoing clinical trials, MAESTRO-02 and MAESTRO-03. The clinical trial was conducted and based on licenses and related agreements from the University of Alberta and AutoImmune, Inc.

The Corporation completed its substantive review of the data from the discontinued late-stage trials for dirucotide, MAESTRO-01, MAESTRO-02, MAESTRO-03 and MINDSET-01 for its drug candidate for the treatment of multiple sclerosis (“MS”). The Corporation currently is not intending to pursue further late stage clinical trials with dirucotide in MS and is exploring a compassionate access and research program.

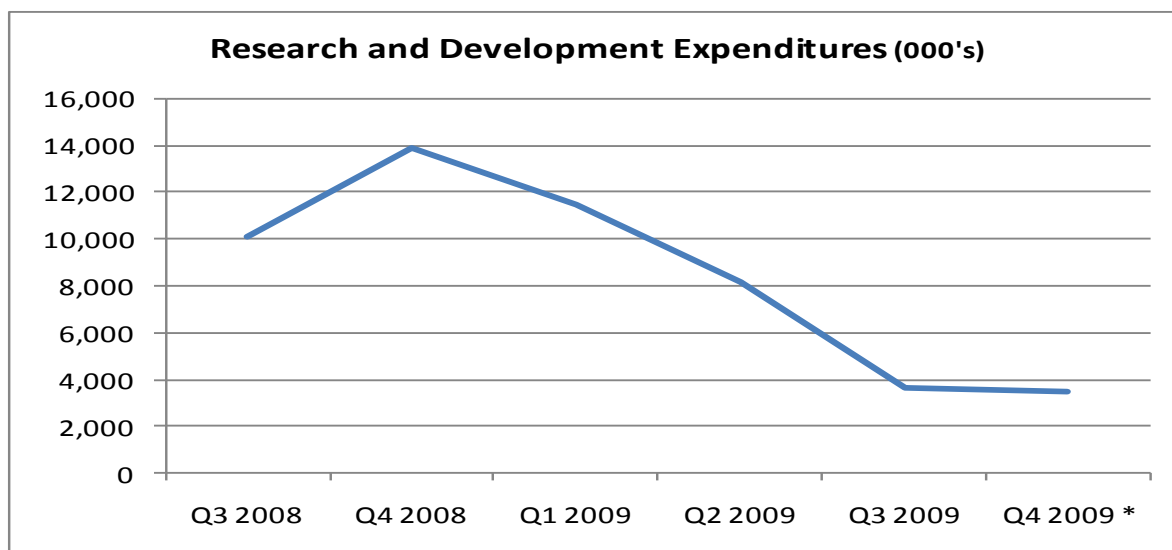
#### Corporate

The Corporation has reduced its headcount by approximately 50% to 15 and incurred approximately \$2.2 million in related termination payments that have been recorded in result of operations for the year ended December 31, 2009.

BioMS Technology Corp., a wholly owned subsidiary of BioMS Medical Corp., licensed a synthetic peptide technology, dirucotide, for the treatment of MS on an exclusive worldwide basis. On September 2, 2009, the exclusive license and collaboration agreement between BioMS and Eli Lilly and Company (“Lilly”) was terminated with the effect that all commercial rights to dirucotide have been returned to BioMS. The Corporation is engaged in the reassignment of certain clinical development responsibilities from Lilly, as part of the termination of the license and collaboration agreement.

### Dirucotide Clinical Trial Programme Expenditures

Expenditures associated with the completed clinical development program were reduced in the fourth quarter, and further reductions are expected to be completed by the end of the first quarter of 2010 as the trials are concluded and final costs are incurred. The Corporation has sufficient cash to cover the expected costs to complete the process.



\*Research and Development Expenditures are shown net of restructuring and severance costs of approximately \$1.7 million associated with the completion of the clinical trial programme.

Further discussion and analysis of the clinical trial costs is provided in the “Discussion of Operations and Financial Condition” section of this MD&A.

### Selected Annual Information

The following is selected financial information for the three most recent fiscal years:

(expressed in 000's of Canadian dollars except per share amounts)	Years ended December 31,		
	2009	2008	2007
Revenue earned from collaboration partner	<b>\$45,605</b>	\$52,561	-
Research and development expense	<b>28,486</b>	46,502	\$38,907
General and administrative expense	<b>7,821</b>	13,790	7,490
Amortization expense	<b>900</b>	1,597	1,606
Impairment of licensing costs	<b>5,174</b>	-	-
Total expenses	<b>\$42,381</b>	\$61,889	\$48,003
Investment Income	<b>333</b>	2,436	1,644
Foreign Exchange (gain) loss	<b>688</b>	(6,429)	849
Net income (loss)	<b>\$2,869</b>	(\$463)	(\$47,208)
Net income (loss) per common share – Basic and diluted	<b>\$0.03</b>	(\$0.01)	(\$0.56)
Cash and cash equivalents	<b>\$48,774</b>	\$87,826	\$35,428
Short-term investments	<b>\$2,662</b>	\$2,614	\$2,528
Total assets	<b>\$52,673</b>	\$100,504	\$51,410
Cash dividends	-	-	-

BioMS Medical Corp.  
Management Discussion and Analysis of Financial Condition and Results of Operations  
For the Year Ended December 31, 2009

---

The decrease in revenue as well as cash and cash equivalents from 2009 compared to 2008 is the result of the clinical trial activity related to dirucotide. The increase in revenue as well as cash and cash equivalents from 2009 and 2008 compared to 2007 is a result of recognizing a portion of the upfront payment and development milestone for the positive interim analysis related to the MAESTRO-01 clinical trial received from the licensing agreement with Lilly (see "Licensing and Development Agreement with Eli Lilly and Company").

### **Licensing and Development Agreement with Eli Lilly and Company**

On September 2, 2009, the licensing and development agreement (the "Agreement") between the Corporation and Lilly granting Lilly exclusive worldwide rights to its lead MS compound, dirucotide was terminated. All commercial rights to dirucotide have been returned to BioMS and BioMS has been overseeing the termination of the clinical trials.

The \$87.4 million (US\$ 87 million) upfront payment and the \$10.8 million (US\$ 10 million) development milestone received were non-refundable and the Corporation has no further commitments or obligations pursuant to the Agreement.

### **Discussion of Operations and Financial Condition**

The consolidated net income of the Corporation for the year ended December 31, 2009 was \$2.9 million or \$0.03 per share compared with a consolidated net loss of \$(0.5) million or \$(0.01) per share for the previous year. The results for the year ended December 31, 2009 included the recognition as revenue of \$45.6 million from the licensing agreement with Lilly. Research and development expenditures decreased by \$18.0 million, general and administrative expenses decreased by \$6.0 million and investment income decreased by \$2.1 million in the year ended December 31, 2009 compared to the same period in the previous year.

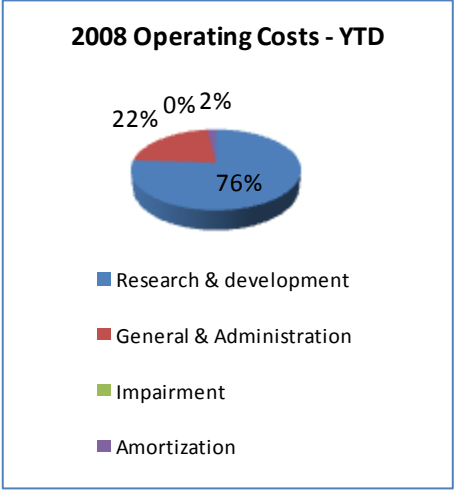
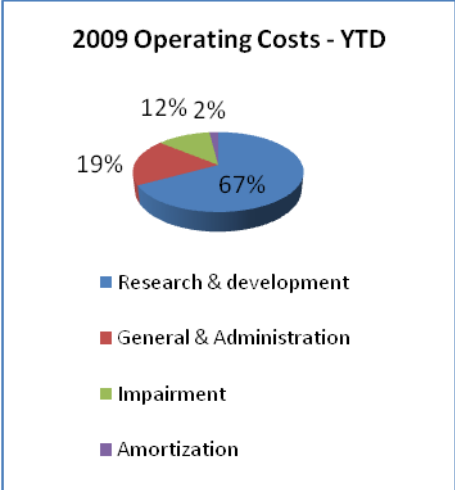
#### **Revenue and deferred revenue**

Revenue earned from the collaboration agreement in the amount of \$45.6 million for the year ended December 31, 2009 compared to \$52.6 million December 31, 2008.

The revenue represents the amortization of deferred revenue from the US\$87 million upfront licensing fee payment and the US\$10 million development milestone payment received from Lilly from the Agreement that was terminated on September 2, 2009. Deferred revenue is recorded as revenue as the Corporation met the required milestones, incurred the costs and has no further commitments or obligations pursuant to the Agreement.

#### **Expenses**

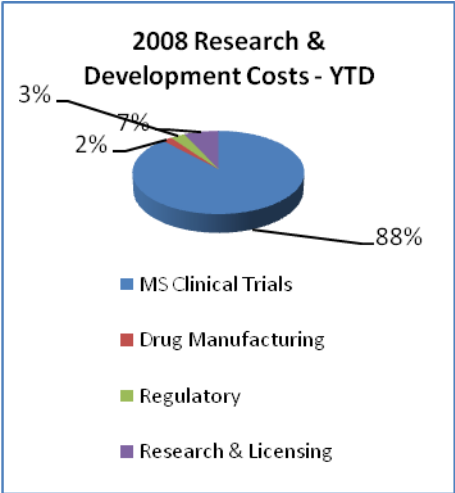
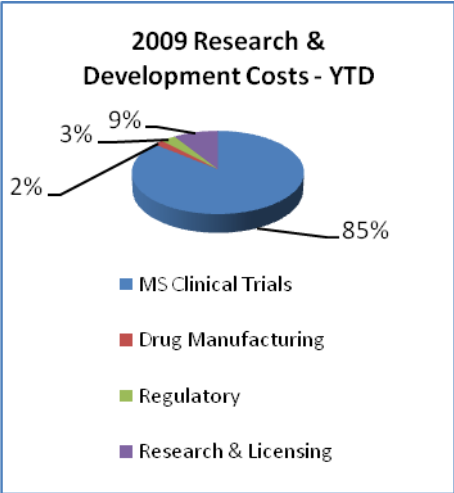
Total consolidated expenses for the year ended December 31, 2009 were \$42.4 million as compared with \$61.9 million in the year December 31, 2008. Expenses related to the Corporation's direct research and development efforts accounted for \$28.5 million or 67% of all expenses as compared with \$46.5 million or 76% in 2008.



**Research and development**

The decrease of \$18.0 million for the year ended December 31, 2009 is attributable to a combination of factors the most significant being:

- a \$10.3 million decrease in the clinical trial expenses related to the MAESTRO-01 trial due to the completion of the trial;
- a \$2.8 million decrease in clinical trial expense related to the discontinuation of the MAESTRO-03 trial;
- a \$2.1 million decrease in the clinical trial management expense related to oversight of the clinical program;
- a cost recoveries of \$1.6 million for intellectual property expenditures and certain research costs as contemplated by the Agreement with Lilly; and
- a decrease of \$1.2 million related to drug manufacturing, regulatory support and additional research expenses.



BioMS Medical Corp.  
 Management Discussion and Analysis of Financial Condition and Results of Operations  
 For the Year Ended December 31, 2009

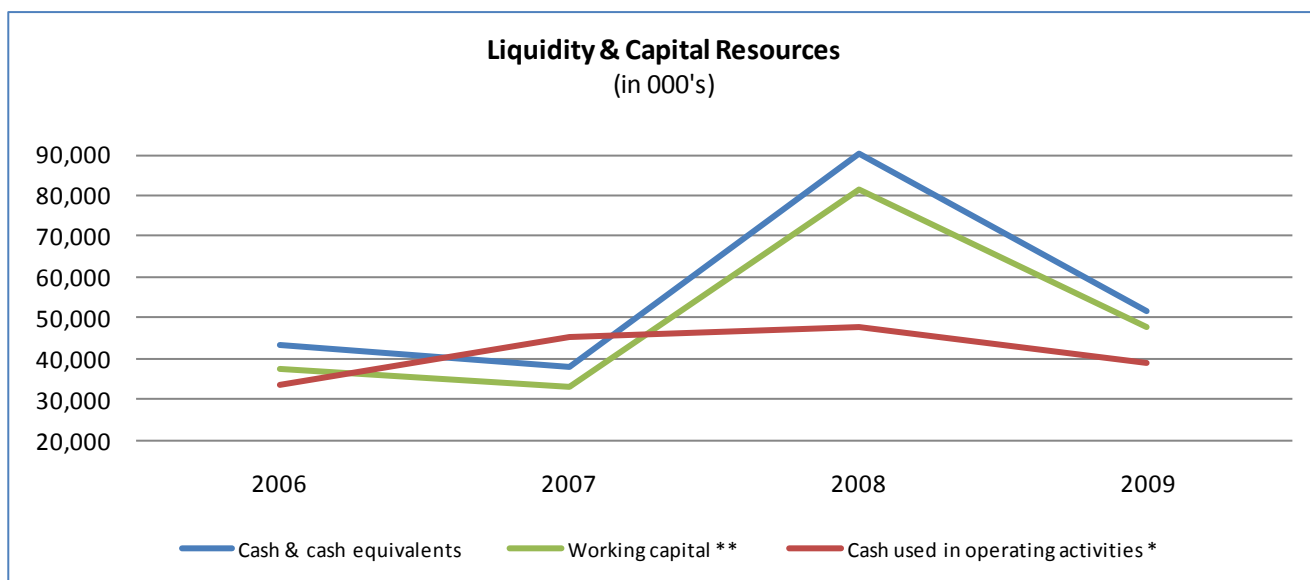
**General and administrative**

General and administrative expenses decreased to \$7.8 million for the year ended December 31, 2009 from \$13.8 million in the year ended December 31, 2008. The decrease of \$6.0 million was primarily the result of a one-time licensing bonuses of \$5.6 million paid in 2008 to corporate administrative personnel, costs associated with the completion of the licensing agreement and a general increase in expenses over the previous year. General and administrative expenses represented approximately 19% of total gross expenses for the Corporation in 2009 compared with approximately 22% in 2008.

**Investment Income**

Investment income earned on funds invested was \$0.3 million for the year ended December 31, 2009, as compared to \$2.4 million in the previous year. The investment income is earned from the short-term investment of cash reserves in low risk term deposits and bankers' acceptance notes. The Corporation expects that investment income will continue to fluctuate in relation to prevailing interest rates and amount of cash reserves invested.

**Liquidity and Solvency**



\*Cash used in operating activities is shown net of deferred revenue and revenue recognized for amounts received from licensing partner and is a non-GAAP measure

\*\*Working capital is defined as current assets less current liabilities (excluding current portion of deferred revenue which does not represent a cash obligation). The Corporation uses working capital as a supplemental financial measure of its liquidity and operational performance. Working capital is a non-GAAP measure.

From inception, the Corporation has financed its research and development programs, its operations and required capital expenditures from public and private sales of equity, the exercise of warrants and stock options, interest earned on cash and cash equivalents and short-term investments and up-front fees and milestone payments from its licensing partner.

To maximize value from its capital resources and ensure overall financial stability, the Corporation has developed financial planning, budgeting, monitoring and governance systems to ensure that the Corporation is fiscally responsible.

BioMS Medical Corp.  
Management Discussion and Analysis of Financial Condition and Results of Operations  
For the Year Ended December 31, 2009

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The Corporation's capital needs consist of funding its research and development activities, investments, corporate administration, working capital and capital expenditures.

**Adequacy of financial resources**

At December 31, 2009, cash and cash equivalents and short-term investments totaled \$51.4 million as compared to \$90.4 million at December 31, 2008. At December 31, 2009, the Corporation had working capital of \$47.5 million as compared to \$81.3 million at December 31, 2008. The Corporation has sufficient working capital to meet its obligations.

The Corporation had a decrease in cash and cash equivalents of \$39.0 million for the year ended December 31, 2009 as compared to an increase of \$52.4 million in the year ended December 31, 2008. The decrease in cash and cash equivalents in the year ended December 31, 2009 is the net result of expenses incurred in the operation of the Corporation. The increase in 2008 was the net result of the receipt of the upfront licensing fee payment of US\$87 million and development milestone payment for positive interim analysis of \$US10 million received from Lilly and the expenses incurred in the operation of the Corporation.

**Cash used in investing activities**

BioMS has implemented a disciplined approach to the management of liquidity, capital and overall stability. The Corporation invests its cash reserves primarily in liquid short term bank acceptances and Guaranteed Investment Certificates ("GIC") with maturities of less than 1 year; however, the average term to maturity will be approximately 90 days. The interest rates carried on investments varies from 0.06% to 1.50% depending on length and amount of investment or carrying balance. Cash and cash equivalents and short-term investments are on deposit with Canadian chartered banks.

The Corporation manages its interest rate risk by attempting to maximize the interest income earned on funds on deposit while maintaining the liquidity necessary to conduct operations on a day-to-day basis.

To date the Corporation has not invested in any asset-backed commercial paper or similar investment vehicles and there are no plans to invest in these types of investments.

**Cash used in financing activities**

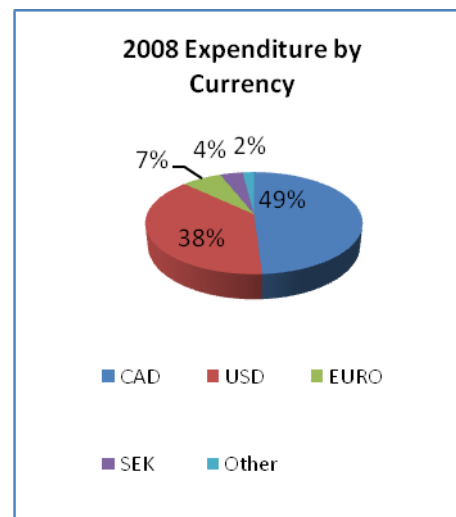
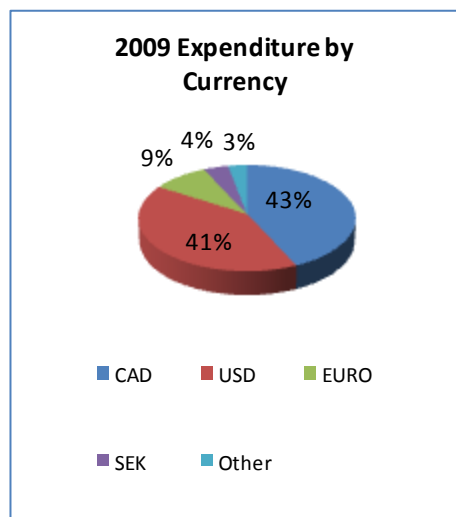
On September 8, 2008, the Corporation received approval to renew its normal course issuer bid allowing the Corporation to repurchase up to 1,000,000 Class A common shares during the period of September 8, 2008 to September 7, 2009 at the market price at the time of repurchase. The Corporation has acquired 101,100 of its common shares at an average price \$2.78 per share. 1,000 common shares were repurchased in the year ended December 31, 2009 at an average price of \$2.43 per common share. 100,100 were repurchased in the year ended December 31, 2008 at an average price of \$2.78 per common share. The difference between the purchase price and the stated capital of the common shares has been credited to the deficit.

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. During the three and nine months ended December 31, 2008, the Corporation acquired 9,800 of its common shares at an average price of \$3.71 per share. The difference between the purchase price and the stated capital of the common shares has been credited to the deficit.

All common shares acquired by the Corporation pursuant to the normal course issuer bids were cancelled by the Corporation.

### **Currency Risk and Foreign Exchange**

The Corporation's functional currency is the Canadian dollar. The Corporation recorded a foreign exchange loss of (\$0.7) million for the year ended December 31, 2009, compared with a gain of \$6.4 million for the year ended December 31, 2008. The foreign exchange loss was the result of an increase in the value of the US dollar and the EURO against the Canadian dollar. The Corporation expects to continue to experience fluctuating gains and losses on currency translations as costs are incurred in foreign currencies that are in constant movement in relation to the Canadian dollar.



United States dollars ("USD"), European Euro ("EURO"), Swedish Kroners ("SEK")

At December 31, 2009 the Corporation had approximately US\$ 5.3 million included in cash and cash equivalents.

During the three and nine months ended December 31, 2009 the Corporation did not enter into or use forward contracts or hedging instruments, although at any point in time, the Corporation may use forward contracts to mitigate the exposures associated with fluctuations in foreign currency exchange rates. As at March 16, 2010, the Corporation has not entered into any forward contracts or hedging instruments.

The Corporation believes that the results of operations and cash flows could be affected by a change in foreign currency exchange rates, but would not materially impair or enhance its ability to pay its foreign exchange obligations.

### **Off-Balance Sheet Arrangements**

As of December 31, 2009, the Corporation did not have any off-balance sheet arrangements other than those listed and described under the Contractual Obligations and Commitments section and those disclosed in Note 12 to the audited consolidated financial statements for the year ended December 31, 2009.

### **Financial Instruments**

The Corporation is required to identify and measure embedded derivatives that require separation from the related host contract and measure those embedded derivatives at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the consolidated statement of loss in the period the change occurs.

BioMS Medical Corp.  
Management Discussion and Analysis of Financial Condition and Results of Operations  
For the Year Ended December 31, 2009

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The Corporation has not identified or measured any embedded derivatives that require separation for the years ended December 31, 2009 and 2008. The Corporation has classified its financial instruments as follows:

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
	<b>\$</b>	<b>\$</b>
<u>Financial assets</u>		
Cash and cash equivalents, held-for-trading, recorded at fair value	48,774	87,826
Short-term investments, held-for-trading, recorded at fair value	2,662	2,614
	<u>51,436</u>	<u>90,440</u>
<u>Financial liabilities</u>		
Accounts payable and accrued liabilities, other liabilities, recorded at amortized cost	4,822	12,015
	<u>4,822</u>	<u>12,015</u>

The Corporation did not have any available-for-sale financial instruments during the years ended December 31, 2009 and 2008.

The Corporation does not enter into derivative financial instruments for speculative or trading purposes.

**Related Party Transactions**

During the years ended December 31, 2009 and 2008, the Corporation paid management services, professional fees, office rent and general administration amounts to companies controlled by directors and officers of the Corporation and professional firms in which certain directors or officers have interests.

(expressed in thousands of Canadian dollars)

	<b>For the years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Management services	675	5,150
Office rent	382	221
General administration	100	127
Legal fees	118	89
	<u>1,275</u>	<u>5,587</u>

BioMS Medical Corp.  
Management Discussion and Analysis of Financial Condition and Results of Operations  
For the Year Ended December 31, 2009

The lease for the office space is on a month to month basis with the lease cost fixed until December 31, 2013 with early termination available upon six (6) months written notice by either party.

The completion of the Agreement with Lilly resulted in a one-time payment of a licensing bonus to Corporation personnel and related parties.

The licensing bonuses paid in February 2008 totaled \$9.0 million of which \$4.2 million was paid to related parties and \$4.8 million was paid to employees and contracted personnel.

The licensing bonuses have been allocated to research and development (\$3.4 million) and general and administrative expense (\$5.6 million) in these consolidated financial statements. The Compensation Committee, which is comprised of independent directors, together with the Board of Directors reviewed and approved the payment of all bonuses.

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.

### **Contractual Obligations and Commitments**

In continuing operations, the Corporation has periodically entered into short and long-term contractual arrangements for office facilities and equipment. The following table presents commitments arising from these arrangements currently in force over the next five years:

Description	Total	< 1 year	1-3 years	> 3 years
Lease for Office Space	\$319,992	\$319,992	\$ -	\$ -
Equipment Lease	54,000	14,000	40,000	-
Total Contractual Obligations	\$373,992	\$333,992	\$40,000	\$ -

Upon termination of the clinical trials as announced on September 2, 2009 the previously entered into Clinical Research Services Agreements with specific clinical research organizations (“CRO”) to conduct the MAESTRO-01, MAESTRO-02, MAESTRO-03 and MINDSET-01 trials are now being completed and systematically terminated. Obligations to complete and close clinical trials are estimated to be approximately \$1.0 million which have been accrued and are included in the consolidated operating results of the Corporation for the year ended December 31, 2009.

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 US\$1.0 million in 2010 before additional development costs.

On August 1, 2000, the Corporation 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 patents address and describe technology related to dirucotide. The licensing agreement requires a payment of a monthly maintenance fee of US\$15,000 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. The last licensed patent expires on March 21, 2017 at which time no further maintenance fees will be payable or required. As at December 31, 2009 no sales of the licensed products have yet occurred that would have resulted in a royalty payment.

BioMS Medical Corp.  
Management Discussion and Analysis of Financial Condition and Results of Operations  
For the Year Ended December 31, 2009

**Share Information**

As at March 16, 2010, the following class of shares and equity securities potentially convertible into common shares were outstanding:

	March 16, 2010	December 31, 2009	December 31, 2008
Class A common shares	91,008,923	91,008,923	91,009,323
Convertible equity securities			
Warrants	14,234,028	14,234,028	26,021,528
Stock options	11,946,500	10,436,500	9,166,500

On January 12, 2010, the Corporation granted 1,510,000 options to purchase common shares at an exercise price of \$0.37 per share to certain employees, directors, and consultants. The options vested immediately on the date of grant and expire on January 11, 2020. The fair value of stock options awarded to employees, directors and consultants of \$431,899 is being recorded to stock-based compensation expense and contributed surplus in the vesting period and will be recorded in the three-months ended March 31, 2010. The fair value was estimated on the date of award using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0.00%
Volatility	107.37%
Risk-free interest rate	2.68%
Expected life of the options	60 months
Closing market price of Corporations common shares on date of grant	\$0.365
Fair value per option	\$0.286

The Black-Scholes option valuation model used by the Corporation to determine fair values was developed for use in estimating the fair value of freely traded options that are fully transferable and have no vesting restrictions. This model requires the use of assumptions, including future stock price volatility and expected time until exercise. The Corporation uses historical volatility of its common shares to estimate its future stock price volatility. The risk-free interest rate for the expected life of the options was based on the yield available on government benchmark bonds, with an approximate equivalent remaining term at the time of the grant.

The expected time until exercise is based upon the contractual term, taking into account expected employee exercise and expected post-vesting employment termination behavior.

**Operating Results for the Three months Ended December 31, 2009**

The consolidated net loss of the Corporation for the three months ended December 31, 2009 was \$(7.2) million or \$(0.08) per share compared with a consolidated net income of \$0.3 million or \$0.01 per share for the previous year. The increase in the net loss was the result of the amortization of deferred revenue from the payments received from Lilly from the license \$NIL (2008 – 12,465).

**Expenses**

Total consolidated expenses for the three months ended December 31, 2009 totaled \$7.1 million as compared to \$16.5 million in the same quarter the previous year.

### **Research and development**

Research and development expenses accounted for \$5.2 million or 73% of all expenses for the three months ended December 31, 2009 as compared with \$13.9 million or 84% in 2008. The decrease is due to the completion of the MAESTRO-01 clinical trial and the discontinuation of MAESTRO-02 and MAESTRO-03 clinical trials in July 2009.

### **General and administrative**

General and administrative expenses accounted for \$1.9 million or 27% of all expenses for the three months ended December 31, 2009 as compared with \$2.1 million or 13% in 2008. The Corporation expects these costs to remain constant in order to successfully manage activities.

### **Critical Accounting Estimates**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are based upon management's historical experience and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates.

BioMS' critical accounting estimates discussed below are those we believe are the most important in determining our financial position and results or those which require significant judgment by management. The corresponding accounting policies are summarized in the notes to our consolidated financial statements.

#### ***Revenue Recognition***

Revenue from collaboration partners may include non-refundable fees, milestone payments, research and development payments, contract manufacturing fees and royalties based on specified percentages of net product sales. The Corporation recognizes collaborative research and development revenues as services are performed consistent with the performance requirements of the contract. Revenue from non-refundable fees is deferred and recognized ratably over the development period based on the ratio of costs expended to total estimated development costs. Revenue from performance milestones is recognized upon achievement of the milestones as specified in the agreement, provided payment is proportionate to the effort expended as measured by the ratio of costs expended to total estimated development costs. The period and estimated costs of development are reviewed on a regular basis. Consulting revenue is recognized on a fee-for-service basis as the related service is performed. Revenue from contract manufacturing consists of payments received under the terms of supply agreements for the sale of clinical trial material. Such payments compensates the Company for the cost of manufacturing clinical trial material and is recognized after shipment of the clinical trial material and upon the earlier of the expiration of a specified return period or formal acceptance of the clinical trial material by the customer. Royalty revenues are recognized as earned on an accrual basis in accordance with the terms of the contractual agreements.

#### ***Stock based Compensation***

Stock-based compensation is recorded using the fair value based method for stock options issued subsequent to January 1, 2003. Under this method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. The Corporation uses the Black-Scholes options pricing model to calculate stock option values, which requires certain assumptions, including the future stock price volatility and expected time to exercise. Changes to any of these assumptions, or the use of a different option pricing model, could produce different fair values for stock-based compensation, which could have a material impact on the Corporation's earnings.

### ***Research and development***

Research and development costs consist of direct and indirect expenditures related to our research and development programs that may include technology access and licensing fees related to the use of proprietary third party technologies. Research and development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. We assess whether any costs have met the relevant criteria for deferral and amortization at each reporting date. To date, no product research and development costs have been deferred. Should the regulatory agencies approve a clinical product, management will determine whether conditions exist for deferral and amortization of any qualifying development costs. Earnings will be impacted in the period that such development costs are capitalized, and also in each subsequent accounting period as they are amortized.

### ***Income Taxes***

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. 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 enactment date. Management provides valuation allowances against the future tax asset for amounts which are not considered "more likely than not" to be realized. In assessing the realizability of tax assets, management considers whether it is more likely than not that some portion or all of the tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Corporation has determined that a 100% tax valuation allowance is necessary at December 31, 2009. In the event the Corporation was to determine that it would be able to realize its tax asset, an adjustment to the tax asset would increase income in the period in which such determination is made.

## **Changes in Accounting Policies**

### **a) Goodwill and Intangible Assets (CICA Handbook Section 3064)**

Effective January 1, 2009, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, which replaces Handbook Section 3062 "Goodwill and Other Intangible Assets" and Handbook Section 3450 "Research and Development Costs". This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises.

Standards concerning goodwill are unchanged from the standards included in the previous Handbook Section 3062. This Section did not have a material effect on the Company's unaudited interim consolidated financial statements.

## **Future Accounting Pronouncements**

### **a) Convergence to International Financial Reporting Standards (“IFRS”)**

The Canadian Accounting Standards Board (AcSB) announced in 2006 that for fiscal years commencing on or after January 1, 2011, all publicly accountable enterprises are required to report their financial results using International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). IFRS uses a conceptual framework similar to Canadian GAAP, but there are some differences in recognition, measurement and disclosures. The Corporation is required to prepare interim and annual financial statements that are compliant with IFRS with comparative numbers for the prior year. The Corporation’s transition date is January 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Corporation for the year ended December 31, 2010.

As a result of this announcement, the Corporation developed an implementation plan to convert its consolidated financial statements to IFRS. To support the implementation plan the Corporation has established a project management team consisting of both internal and external consultants, and has commenced the mobilization of organizational support for the implementation plan.

The plan addresses the impact that IFRS has on:

- accounting policies and implementation decisions;
- information technology and data systems;
- financial statement presentation and disclosure options available upon initial changeover to IFRS;
- internal control over financial reporting;
- disclosure controls and procedures; and
- business activities, including impact on debt covenants.

The conversion to IFRS from Canadian GAAP is a significant undertaking. The implementation project consists of three primary phases.

- The initial diagnostic phase involves performing a high-level impact assessment to identify key areas that may be impacted by the transition to IFRS. Each potential impact identified during this phase is ranked as having a high, moderate or low impact on financial reporting.
- The impact analysis, evaluation and solution development phase involves the selection of IFRS accounting policies by senior management and the review by the audit committee; the quantification of the impact of the changes to existing policies on the opening balance sheet; and the development of the draft IFRS financial statements. This phase will also include the development of IFRS training programs and the identification of the changes to internal controls over financial reporting and business process and procedures.
- The implementation and review phase involves the delivery of training programs to key personnel and the board members and the implementation of the required changes to information systems and business policies and procedures identified in the previous phase of the project.

BioMS Medical Corp.  
Management Discussion and Analysis of Financial Condition and Results of Operations  
For the Year Ended December 31, 2009

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While an analysis will be required for all current accounting policies, the initial key areas of assessment will include:

- First-time adoption of International Financial Reporting Standards (IFRS 1);
- Stock-based compensation (IFRS 2);
- Business Combinations (IFRS 3);
- Income taxes (IAS 12); and
- Investment in Associates (IAS 28).

As the analysis of each of the key areas progresses, other elements of our IFRS implementation plan will also be addressed.

The table below summarizes the expected timing of activities related to our transition to IFRS:

Initial diagnostic and analysis of key areas for which changes to accounting policies may be required	Completed
Assessment of first-time adoption (IFRS 1) requirements and alternatives	In Progress now
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives	In Progress now and throughout 2010
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	By September 30, 2010
Resolution of the accounting policy change implications on the accounting processes	By September 30, 2010
Quantification of the financial statement impact of changes in accounting policies	Throughout 2010

**b) Business Combinations (CICA Handbook Section 1582)**

In January 2009, the CICA issued new Handbook Section 1582, Business Combinations, replacing Handbook Section 1581, Business Combinations. This new Section establishes the standards for the accounting of business combinations and provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), Business Combinations. This Section provides that all assets and liabilities of an acquired business, obligations for contingent considerations and contingencies will be recorded at fair value at the acquisition date. Acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

**c) Consolidated Financial Statements (CICA Handbook Section 1601) and Non-controlling Interests (CICA Handbook Section 1602)**

In January 2009, the CICA issued new two new CICA standards, Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests, which together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements.

## **Risks and Uncertainties**

The Corporation's operations involve certain risks and uncertainties that are inherent to the Corporation's industry. The most significant known risks and uncertainties faced by the Corporation are described below. The Annual Information Form ("2009 AIF") for the fiscal year ended December 31, 2009 dated March 16, 2010, pages 5-11 provides further description risks associated with the Corporation.

### **History of operating losses**

Since inception, the Corporation has incurred significant losses each year. The accumulated deficit from inception to December 31, 2009 is \$138.8 million. Unless the Corporation is able to generate sufficient revenue or capital appreciation on its investments, it will continue to incur losses from operations and may not achieve or maintain profitability.

### **Cash flow/ Revenue**

The Corporation generates revenue and cash flow primarily from our financing and licensing activities, proceeds from the disposition of investments, interest earned on cash and cash equivalents and consulting fees. The availability of these sources of income and the amounts generated from these sources are dependent upon various factors, many of which are outside of our direct control. Our liquidity and operating results may be adversely affected if our access to the capital markets is hindered, whether as a result of a downturn in the market conditions generally or to matters specific to us, or if the value of our investment decline, resulting in capital losses for us upon disposition. The ability to generate revenue from consulting fees depends on a variety of factors, some of which may be beyond the control of the company, including a weak biotech sector, and revenues may not be sufficient to meet ongoing operating costs. In the event that the Corporation should directly or indirectly market a product there can be no assurance that it can do so profitably.

### **Volatility of share price**

The market price of our common shares has been and may continue to be subject to wide fluctuations in response to factors such as actual or anticipated variations in our consolidated results of operations, changes in financial estimates by securities analysts, general market conditions and other factors.

Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of our common shares. The purchase of our common shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Our common shares should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in our common shares should not constitute a major portion of an investor's portfolio.

### **Licenses and Patents**

The Corporation's success will depend in part on its ability to obtain licenses and patents, protect its trade secrets and operate without infringing the exclusive rights of other parties. There is no guarantee that any license and patent that will be granted to the Corporation will bring any competitive advantage to the Corporation, that its license and patent protection will not be contested by third parties, or that the licenses and patents of competitors will not be detrimental to the Corporation's commercial activities. It cannot be assured that competitors will not independently develop products similar to the Corporation's products, that they will not imitate the Corporation's products or that they will not circumvent licenses and patents granted to the Corporation.

### **Need for additional capital and access to capital markets**

The Corporation anticipates that it will have sufficient resources to meet its obligations. The development or investment into additional technologies by the Corporation may require a significant infusion of additional

BioMS Medical Corp.  
Management Discussion and Analysis of Financial Condition and Results of Operations  
For the Year Ended December 31, 2009

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funds. Further financing may dilute the current holdings of shareholders and may thereby result in a loss for shareholders.

There can be no assurance that the Corporation will be able to obtain adequate financing, or financing on terms that are reasonable or acceptable for these or other purposes, or to fulfill the Corporation's obligations. Failure to obtain such additional financing could result in delay or indefinite postponement of further investment or development on the Corporation's technologies and investments.

**Share Price of Investment**

Our investment in securities of public companies is subject to volatility in the share prices of the companies. There can be no assurance that an active trading market for any of the subject shares is sustainable. The trading prices of the subject shares could be subject to wide fluctuations in response to various factors beyond our control, including, quarterly variations in the subject companies' results of operations, changes in earnings (if any), estimates by analysts, conditions in the industry of the subject companies and general market or economic conditions. In recent years equity markets have experienced extreme price and volume fluctuations. These fluctuations have had a substantial effect on market prices, often unrelated to the operating performance of the specific companies. Such market fluctuations could adversely affect the market price of our investment.

**Non-controlling Interests**

Our investments include equity securities of a company that we do not control. These securities may be acquired by us in the secondary market or through purchases of securities from the issuer. Any such investment is subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of our investments could decrease and our financial condition, results of operations and cash flow could suffer as a result.

BioMS Medical Corp.  
Management Discussion and Analysis of Financial Condition and Results of Operations  
For the Year Ended December 31, 2009

**Eight Quarter Review**

Financial Information – Quarterly

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

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	-	\$20,615	\$11,933	\$13,057	\$12,465	\$16,096	\$11,231	\$12,769
Research and development	5,169	3,670	8,138	11,509	13,928	10,092	9,339	13,143
General and administrative	1,936	1,275	1,762	2,848	2,150	1,252	1,693	8,695
Amortization of licensing costs	-	-	368	368	368	368	368	368
Amortization of property and equipment	37	42	42	43	44	38	31	12
Foreign exchange gain (loss)	(69)	(546)	(215)	142	3,777	1,413	(796)	2,035
Investment income	27	40	96	170	559	554	594	729
Impairment of licensing costs	-	(5,174)	-	-	-	-	-	-
Net (loss) income	\$(7,184)	\$9,948	\$1,504	\$(1,399)	\$311	\$6,313	\$(402)	\$(6,685)
Earnings (loss) per common share – basic	\$(0.08)	\$0.11	\$0.02	\$(0.02)	\$0.01	\$0.07	\$(0.00)	\$(0.07)
Earnings (loss) per common share – diluted	\$(0.08)	\$0.11	\$0.02	\$(0.02)	\$0.01	\$0.07	\$(0.00)	\$(0.07)

The quarterly results of the Corporation have fluctuated primarily as a result of the timing of research and development activities.

## **Internal Control Over Financial Reporting**

### **Management's Annual Report on Internal Control over Financial Reporting**

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting, and has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management has used the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of the Corporation's internal control over financial reporting as of December 31, 2009, and has concluded that such internal control over financial reporting is effective. There are no material weaknesses that have been identified by management in this regard.

### **Disclosure Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and concluded that the Corporation's disclosure controls and procedures were effective as of December 31, 2009 and in respect of the 2009 year end reporting period.

For the year ended December 31, 2009, the Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Corporation's internal disclosure controls and procedures and have concluded that the Corporation's disclosure controls and procedures were effective.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in the Corporation's internal controls over financial reporting that occurred during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, these controls.

### **Additional Corporate Information**

Additional information on BioMS Medical Corp. may be obtained in its regulatory filings including its Annual Information Form, Information Circular, annual and quarterly reports and proxy circulars filed with the various provincial security commissions in Canada through SEDAR at [www.sedar.com](http://www.sedar.com) or at the Corporation's web site at [www.biomsmedical.com](http://www.biomsmedical.com).

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