

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

For The Three Months Ended March 31, 2006

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for BioMS Medical Corp., prepared as at May 10, 2006, should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the three months ended March 31, 2006. The 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.

### **Overview**

BioMS Medical Corp. ("BioMS" or the "Corporation") has in-licensed the exclusive world wide rights to a synthetic peptide technology, MBP8298, for the treatment of multiple sclerosis (MS). The Corporation is currently conducting a Phase II/III pivotal clinical trial with MBP8298 on Secondary Progressive MS (SPMS) patients in Canada, the United Kingdom and Sweden, with plans to expand the trial into continental Europe. The Corporation plans to enroll up to 553 patients in as many as 50 clinical sites by the end of the year. The trial data has been reviewed, on a periodic basis, by the Data Safety Monitoring Board which has recommended that the trial continue. The company also plans to start a second pivotal trial in SPMS patients in the U.S., as well as a trial in Relapsing Remitting MS (RRMS) patients by the end of the year. Together, the RRMS and SPMS forms of the disease account for as much as 90% of all MS patients.

The Corporation has also in-licensed the exclusive world wide rights to a platform technology, HYC750, for the potential mobilizing of hematopoietic stem cells in humans. This product is expected to enter initial human trials in the forthcoming year.

BioMS Medical has a 49% interest in BioCyDex Inc. BioCyDex is a private company that is developing a unique proprietary drug delivery technology to deliver both existing and novel antiviral and chemotherapeutic compounds directly into cells, with the potential to greatly enhance their effectiveness. The company is additionally developing technology for the delivery and imaging of genes in cells, to be used as part of gene therapy treatments.

To fund its operations, the Corporation relies upon proceeds of public and private offerings of equity securities and interest income.

Shares of the Corporation trade on the Toronto Stock Exchange (TSX) under the symbol, MS.

### **Recent Developments**

Currently, the Corporation continues the initiation of new clinical trial sites and the enrollment of new patients in the current MBP8298 pivotal clinical trial, and has recently announced the enrollment of the first 200 patients in the trial. An interim analysis of the data from the first 200 patients will be conducted once they have all completed two years on the clinical trial. Subsequent to the quarter end, the Corporation received a recommendation from the fourth meeting of the independent Data Safety Monitoring Review Board to proceed with the pivotal Phase II/III clinical trial for MBP8298 without modifications.

On May 10, 2006, the Corporation announced that it has received approval from the Danish Medicines Agency to start patient enrolment in Denmark for its pivotal phase II/III clinical trial of MBP8298.

The Corporation has strengthened its Board of Directors with the election of Gordon Politeski. Mr. Politeski brings extensive international biotech development experience to BioMS Medical Corp. He was the founding President and Chief Executive Officer of Biomira, Inc., a cancer diagnostics and therapy company, and one of Canada's first publicly traded biotechnology companies. He also served as Director of the Pharmaceutical Group at Pharmacia Canada, Canadian President and General Manager for US-based Allergan Pharmaceuticals, a world leader in ophthalmology and the developer of Botox®, and for seven years was on the board of Genetronics (now Inovio) an AMEX-listed company.

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

The consolidated net loss of the Corporation for the three months ended March 31, 2006 was \$8.6 million or \$0.14 per share compared with a consolidated net loss of \$2.4 million or \$0.05 per share for the previous year. The increase in the loss was due primarily to increased expenditures on research and development for the MBP8298 trial, including preparations for the launching of additional trials, and an increase in general and administrative expense.

### **Expenses**

#### **Research and development**

During the quarter, expenses related to the Corporation's direct research and development efforts accounted for \$6.5 million or 73% of all expenses as compared with \$1.1 million or 42% in for the first quarter in 2005. The increase in expenses was the result of the increased number of clinical trial sites participating in the Phase II/III Clinical Trial for MBP8298, the increased number of patients entering the trial and added costs associated with the change in the contract research organization managing the pivotal trial. The Corporation also incurred expenses of \$2.4 million in preparing for the expected start of the second SPMS trial and a RRMS trial later this year, including the expenditure of approximately \$1.9 million towards the purchase of MBP8298 product for use in these clinical trials over the course of the next few years.

#### **General and administration**

General and administration expenses increased to \$1.1 million for the three months ended March 31, 2006 as compared to \$1.0 in the period ended March 31, 2005. General and administration expenses represented 12% of total expenses for the Corporation in 2006 compared with 39% in 2005. General and administration expenses include the following: investor relations, professional fees, business development, insurance, listing fees, consulting services, office expenses, occupancy costs, management remuneration, director's fees and various other expenses relating to the operations and growth of the Corporation. General and administrative expenses increased as a result of a general increase in the overall activity of the Corporation.

#### **Stock-based Compensation Expense**

During the quarter, the Corporation granted and vested 1,050,000 new stock options. The Corporation used the Black-Scholes option pricing model to estimate the fair value of the options granted. Application of the fair value method resulted in a \$1.0 million charge to stock based compensation expense compared to \$0.1 million in same period in 2005.

## Investment Income

Investment income earned on funds invested was \$0.4 million for the three months ended March 31, 2006, as compared to \$0.1 million for the comparable period in 2005. Management expects that investment income will continue to fluctuate in relation to prevailing interest rates and amounts of cash reserves invested.

## Eight Quarter Review

Financial Information – Quarterly  
(In dollars, except for (loss) per share)

	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Research and development	\$6,543,779	\$4,552,426	\$3,204,259	\$1,765,528	\$1,050,614	\$1,852,438	\$1,065,846	\$995,454
General and administrative	1,093,203	1,343,589	751,360	1,020,415	978,555	1,215,465	1,029,647	863,744
Stock-based compensation	954,626	423,865	96,165	98,006	95,023	162,431	26,543	20,195
Amortization of licensing costs	367,935	367,908	367,935	367,936	367,935	367,935	367,936	367,935
Amortization of property and equipment	26,924	24,965	17,914	14,338	14,133	13,833	12,701	8,677
Less; Investment Income	363,970	216,148	490,724	364,590	91,624	86,354	98,950	112,681
Net Loss	\$8,622,497	\$6,496,605	\$3,946,909	\$2,901,633	\$2,414,636	\$3,525,748	\$2,403,723	\$2,143,324
Loss per common share – basic	\$ (0.14)	\$ (0.10)	\$ (0.06)	\$ (0.05)	\$ (0.05)	\$ (0.07)	\$ (0.05)	\$ (0.04)

BioMS Medical Corp. is a development stage company, with its primary focus being the development and commercialization of a medical treatment for multiple sclerosis. As such, the Corporation's focus is not on earnings (loss) per share, but rather that the Corporation has adequate financial resources to fund the research and development programs it conducts. As discussed more fully in the liquidity section of this document, the Corporation believes it currently has adequate resources to fund the expected costs of the current clinical trial through to the second half of 2007.

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

## **Liquidity and Solvency**

As at March 31, 2006, cash and short-term investments totaled \$32.0 million as compared to \$38.0 million at December 31, 2005.

At March 31, 2006, the Corporation had working capital of \$29.8 million as compared to \$37.2 million at December 31, 2005. Management estimates that the current working capital is sufficient for the Corporation to meet its obligations in respect of the existing clinical trial through to the second half of 2007.

During the quarter, the Corporation repurchased by way of a Normal Course Issuer Bid 58,800 shares of the company at a cost of \$144,325.

BioMS has implemented a disciplined approach to the management of liquidity, capital and overall stability. The Corporation invests its cash reserves primarily in liquid, interest-bearing securities.

The Corporation used \$5.9 million cash in operating activities for the three months ended March 31, 2006 as compared to \$2.6 million in the three months ended March 31, 2005.

## **Outlook**

BioMS expects to complete the enrollment of patients in its current SPMS trial with MBP8298 in Canada and Europe by the end of the year. It recently announced the enrollment of the first 200 patients, who will be the subject of an interim analysis once they have completed the required two years in the clinical trial. The Corporation is also planning the launch of a second SPMS trial in the U.S., as well as the start of a RRMS trial with MBP8298, by the end of the year.

BioMS expects to continue to incur operating losses until such time as its lead drug, MBP8298 technology for the treatment of Multiple Sclerosis, has received regulatory approval and is available for commercial sale. The company estimates that it has sufficient cash to cover the expected costs of the current MBP8298 Phase II/III clinical trial through to the second half of 2007. BioMS anticipates that it will approach the equity markets for the funding of additional research, manufacturing, preclinical and clinical trial expansion programs. The Corporation's ability to raise capital will depend on equity market conditions at that time.

## **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 include, but are not necessarily limited to: the ability to obtain and protect licenses and patents; the ability to select clinical trial sites and recruit patients; the difficulty of obtaining regulatory approval in various countries; our ability to secure manufacturing capability of product for future clinical trials and commercialization on a consistent and economical basis; availability of capital; our ability to recruit and retain qualified personnel; and other risks known and unknown.

Other business risks and uncertainties have not changed significantly from those disclosed in the MD&A in our 2005 annual report and in other regulatory filings.

## **Critical Accounting Policies and Estimates**

All of our accounting policies are in accordance with Canadian GAAP including some which require management to make assumptions and estimates that could significantly affect the results of operations and financial position. The significant accounting policies that we believe are the most critical in fully understanding and evaluating the reported financial results are disclosed in the MD&A section of our 2005 Annual Report. As well, our significant accounting policies are disclosed in Note 2, *Significant Accounting Policies*, of the notes to our audited consolidated financial statements for the fiscal year ended December 31, 2005.

## **Changes in Accounting Policies**

### Non-Monetary Transactions

Effective January 1, 2006, we adopted the recommendations of CICA Handbook Section 3831, *Non-Monetary Transactions*, replacing Section 3830 of the same title. The new accounting standard requires all non-monetary transactions be measured at fair value unless certain conditions are satisfied. The new requirements are effective for non-monetary transactions initiated in periods beginning on or after January 1, 2006. We have determined that adoption of Section 3831 does not have an effect on our financial position or results of operations in the current period presented.

## **Forward-Looking Statements**

This report may contain forward-looking statements which reflect management's current expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. These forward-looking statements are not guarantees, but only predictions. Although we believe that the forward-looking statements contained herein are reasonable, we can give no assurance that our expectations are correct. Various factors could cause actual results to differ materially from those projected in forward-looking statements, including those predicting the timing or availability of clinical trial analyses; efficacy, safety and clinical benefit of product; ability to secure, and timing of, regulatory clearances; timing of product launches in different markets; ability to secure collaborative partners; ability to secure and manufacture product; adequacy of financing; scope and adequacy of insurance coverage; retention and performance of contractual third parties, including key personnel; currency exchange rate fluctuations; changes in general accounting policies; and general economic factors. All forward-looking statements are expressly qualified in their entirety by this cautionary statement. For a detailed description of our risks and uncertainties, you are encouraged to review the official corporate documents filed with the securities regulators in Canada. A copy of our Annual Information Form and Proxy Circular can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Management's Responsibility for Financial Reporting**

The Management of BioMS Medical Corp. has prepared the consolidated financial statements and all of the information in this interim report, and is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements conform with Canadian generally accepted accounting principles, which recognize the necessity of relying on Management's judgment and best estimates. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. Financial information presented throughout this report is consistent with that in the consolidated financial statements.

To fulfill its responsibility and to ensure integrity of financial reporting, Management maintains a system of internal accounting controls. These controls, which include a comprehensive planning system and timely reporting of periodic financial information, are designed to provide reasonable assurance that the financial records are reliable and form a proper basis for the accurate preparation of consolidated financial statements.

Final responsibility for the consolidated financial statements and their presentation to shareholders rests with the Board of Directors. The Audit Committee of the Board of Directors oversees management's preparation of consolidated financial statements and financial control of operations. The Audit Committee meets separately with Management and the Company's independent auditors, PricewaterhouseCoopers LLP, to review and approve the consolidated financial statements and MD&A.

## **Disclosure Controls**

The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining BioMS' disclosure controls and procedures, and intend to so certify as required by Multilateral Instrument 52-109 ("MI 52-109") Certification of Disclosure in Issuers' Annual and Interim Filings. These officers have evaluated the effectiveness of BioMS' disclosure controls and procedures and have concluded that they provide management with a reasonable level of assurance that the information the Company is required to disclose on a continuous basis in annual and interim reports and other reports is recorded, processed, summarized and reported or disclosed on a timely basis as required.

Kevin Giese  
President and Chief Executive Officer

Don Kimak  
Chief Financial Officer