

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

For The Three and Six Months Ended June 30, 2006

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for BioMS Medical Corp. ("BioMS" or the "Corporation"), prepared as at August 2, 2006, should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the three months ended June 30, 2006 and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2005. 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 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 the addition of Denmark and the Netherlands in May and June of this year respectively. An important milestone was met on May 9 2006, when enrolment reached the 200 patient mark. An interim safety and efficacy analysis will be performed on data from these 200 patients once they have all completed two years on the clinical trial. The Corporation plans to enrol 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 *European Journal of Neurology* published the phase II data and long-term follow-up data in June 2006. The Corporation plans to start a second pivotal trial in SPMS patients in the United States by the end of the year and has now received approval in the first of several European countries to initiate a phase II trial in Relapsing Remitting MS (RRMS) patients. Enrolment in the RRMS trial is targeted to begin by the end of this year. Together, the RRMS and SPMS forms of the disease account for as much as 90% of all MS patients.

On May 31, 2006, BioMS completed a private placement of 4,406,800 million units at a price of \$3.41 per unit for gross proceeds of \$15,027,188. Each unit consisted of one Class A common share of the Corporation and one-half of one Class A common share purchase warrant with each whole warrant entitling the holder to purchase one Class A common share at an exercise price of \$4.00 per share for a period of four years, on or before May 30, 2010. Banc of America Securities LLC acted as lead placement agent and Versant Partners Inc. and Rodman & Renshaw, LLC acted as co-placement agents. BioMS intends to use the proceeds from the financing to fund ongoing research and clinical development efforts and for general corporate purposes.

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

BioMS 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. The Corporation consolidates its 49% interest in BioCyDex Inc. in accordance with Accounting Guideline 15, as a variable interest entity.

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

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

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### **Recent Developments**

Currently, the Corporation continues the initiation of new clinical trial sites and the enrolment of new patients in the current MBP8298 pivotal clinical trial, and has announced the enrolment 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. In May, 2006 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. Activities are underway to initiate a pivotal phase III trial for MBP8298 in the United States in the first half of 2007. Enrolment in the phase II trial for RRMS patients in Europe is targeted to begin by the end of this year.

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

The consolidated net loss of the Corporation for the three months ended June 30, 2006 was \$9.1 million or \$0.14 per share compared with a consolidated net loss of \$3.5 million or \$0.06 per share for the same period in 2005. The increase in the loss was due to increased expenditures on research and development; the increase in the 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 manufacture of MBP8298 for use in the clinical trials and preparations for the launching of additional trials.

The consolidated net loss of the Corporation for the six months ended June 30, 2006 was \$17.6 million or \$0.28 per share compared with a consolidated net loss of \$6.9 million or \$0.12 per share for the same period in 2005. The increase in the loss was due to increased expenditures on research and development for the MBP8298 trial, the manufacture of MBP8298 for use in the clinical trials and preparations for the launching of additional trials.

### **Expenses**

#### **Research and development**

For the three months ended June 30, 2006, expenses related to the Corporation's direct research and development efforts accounted for \$7.9 million or 85% of all expenses as compared with \$1.8 million or 45% for the second quarter in 2005. For the six months ended June 30, 2006, expenses related to the Corporations direct research and development efforts totaled \$14.4 million or 80% of all expenses as compared to \$2.8 million or 39% for the six months ended June 30, 2005. The increase in research and development expense 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. In the three months ended June 30, 2006, the Corporation incurred expenses of \$2.8 million in the preparation for the anticipated start of a U.S. SPMS trial and a European RRMS trial, including the expenditure of approximately \$2.1 million towards obtaining a significant supply of MBP8298 product for use in these clinical trials over the course of the next few years. For the first six months of 2006, preparation costs for these new trials resulted in added expenses of approximately \$5.2 million.

#### **General and administration**

General and administrative expenses amounted to at \$1.0 million for the three months ended June 30, 2006, the same as they were in the period ended June 30, 2005. For the six months ended June 30, 2006 general and administrative expenses were at \$2.1 million as compared to \$2.0 million for the six months ended June 30, 2005. General and administrative expenses represented 11% of total expenses for the Corporation for the six months ended June 30, 2006 compared with 27% for the six months ended June 30, 2005. General and administrative expenses include: investor relations, professional fees, business development expenses, insurance, listing fees,

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consulting services, office expenses, occupancy costs, management remuneration, director's fees and various other expenses relating to the operations and growth of the Corporation.

### Stock-based Compensation Expense

The Corporation has adjusted stock based compensation expense of prior periods to record the compensation as an expense over the period the options vest. Previously, the compensation was recorded as an expense over the estimated life of the options. This change has been made retroactively and prior periods have been restated. In addition, on April 27, 2005 the life of 202,000 options was extended from March 24, 2007 to March 24, 2012 and the life of 880,000 options was extended from July 23, 2006 to July 23, 2011. The incremental value of \$715,241 associated with this modification has been calculated as the difference between the fair value of the modified options as calculated on the date of modification and the fair value of the original options as calculated on the date immediately preceding the modification. As the modified options vested immediately the full incremental value of the modified options should have been expensed in the second quarter of 2005. This change has been made retroactively and prior periods have been restated. The following accounts were increased to reflect these prior period adjustments.

As the modified options vested immediately the full incremental value of the modified options should have been expensed in the second quarter of 2005. This change has been made retroactively and prior periods have been restated.

The following accounts were increased to reflect these prior period adjustment.

	<b>Six-month period ended June 30, \$</b>	<b>Three-month period ended June 30, \$</b>
Contributed surplus	2,504,039	1,562,913
Deficit – January 1, 2005	945,677	945,677
Stock-based compensation	1,558,362	617,236
Basic and diluted loss per share	0.03	0.01

The Corporation follows the fair value method of accounting for stock options which resulted in compensation of \$nil for the three month period ended June 30, 2006 and \$nil for the three month period ended June 30, 2005. For the six months ended June 30, 2006 stock based compensation expense was \$0.9 million as compared to \$1.8 million for the six months ended June 30, 2005. The Corporation uses the Black-Scholes option pricing model to estimate the fair value of the options granted.

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**Eight Quarter Review**

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

	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004
Research and development	\$7,882,470	\$6,543,779	\$4,552,426	\$3,204,259	\$1,765,528	\$1,061,557	\$1,852,438	\$1,065,846
General and administrative	974,471	1,093,203	1,343,589	751,360	1,020,415	978,555	1,215,465	1,029,647
Stock-based compensation *		858,459	327,700		715,241	1,036,150	185,338	328,600
Amortization of licensing costs	367,936	367,935	367,908	367,935	367,936	367,935	367,935	367,936
Amortization of property and equipment	26,548	26,924	24,965	17,914	14,338	14,133	13,833	12,701
Less; Investment Income	138,371	363,970	216,148	490,724	364,590	91,624	86,354	98,950
Net Loss	\$9,113,054	\$8,526,330	\$6,400,440	\$3,850,744	\$3,518,868	\$3,366,707	\$3,548,655	\$2,705,780
Loss per common share – basic and diluted	\$ 0.14	\$ 0.14	\$ 0.10	\$ 0.06	\$0.06	\$0.06	\$ 0.07	\$ 0.05

\* The Corporation has adjusted stock-based compensation expense of prior periods to record the compensation as an expense over the period in which the options vest. Previously, the compensation was recorded as an expense over the estimated life of the options.

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 on whether 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 research and development and clinical trial process 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.

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### **Investment Income**

Investment income earned on funds invested was \$0.1 million for the three months ended June 30, 2006, as compared to \$0.4 million for the comparable period in 2005. For the six months ended June 30, 2006 and June 30, 2005 Investment Income remained constant at \$0.5 million. Management expects that investment income will continue to fluctuate in relation to prevailing interest rates and amounts of cash reserves invested.

### **Liquidity and Solvency**

As at June 30, 2006, cash and short-term investments totaled \$39.8 million as compared to \$38.0 million at December 31, 2005.

A private placement was completed on May 31, 2006, 4,406,800 units of the Corporation were issued at a price of \$3.41 per unit, which raised net proceeds of \$13,622,657. 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 on or before May 30, 2010. These are legend shares and warrants and are non-tradeable and non-transferable until October 1, 2006.

At June 30, 2006, the Corporation had working capital of \$34.7 million as compared to \$37.2 million at December 31, 2005. Management estimates that the current working capital is adequate to fund the expected costs of the research and development and clinical trial process through to the second half of 2007.

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 \$5.7 million cash in operating activities for the three months ended June 30, 2006 as compared to \$3.6 million in the three months ended June 30, 2005 and used \$11.6 million cash in the six months ended June 30, 2006 as compared to \$6.2 million in the six months ended June 30, 2005.

### **Outlook**

BioMS expects to complete the enrolment of patients in its current SPMS trial with MBP8298 in Canada and Europe by the end of the year. It recently announced the enrolment 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 United States, 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 Corporation 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

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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.

### **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 to 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.

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**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