

# **BioMS Medical Corp.**

**Management Discussion**

**And**

**Analysis of Financial Condition**

**And**

**Results of Operations**

**June 30, 2007**

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**August 14, 2007**

**For The Three and Six months Ended June 30, 2007**

Management's Discussion and Analysis of Financial Condition and Results of Operations for BioMS Medical Corp. ("BioMS" or the "Corporation") should be read in conjunction with the unaudited consolidated financial statements and accompanying notes of the Corporation for the six months ended June 30, 2007 and the annual consolidated financial statements and accompanying notes of the Corporation for the year ended December 31, 2006. These 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 August 14, 2007.

**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, including the management discussion and analysis, 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 2007 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 our actual results may 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 in 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.

## Overview

BioMS Medical Corp. is a development stage Corporation that was founded in 2000, with its primary focus being the development and commercialization of a medical treatment for Multiple Sclerosis (“MS”). As such, the Corporation’s focus is not on earnings, but rather that it 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 initiated clinical trials through to the end of 2008.

BioMS is listed on the Toronto Stock Exchange under the trading symbol “MS”. As at June 30, 2007 there were 91,356,923 Class “A” common shares of the Corporation issued and outstanding.

BioMS Medical Corp., through a wholly owned subsidiary, has licensed a synthetic peptide technology, MBP8298, for the treatment of MS on an exclusive worldwide basis. To date, MBP8298 has successfully undergone Phase I and II clinical trials. Currently, BioMS is conducting four clinical trials for MBP8298:

- MAESTRO-01: A pivotal phase II/III trial in Canada and Western Europe evaluating MBP8298 for the treatment of secondary progressive MS (SPMS). On January 22, 2007, BioMS announced that the trial had completed full recruitment of 611 patients at 47 trial sites in 10 countries. Patients are administered either MBP8298 or placebo every six months for a period of two years. To date, there have been seven positive safety reviews from the Data Safety Monitoring Board.
- MAESTRO-02: An open-label follow-on study to the MAESTRO-01 pivotal trial. Eligible patients who have successfully completed the blinded, placebo controlled MAESTRO-01 trial may choose to receive MBP8298 on an un-blinded basis.
- MAESTRO-03: On June 5, 2007 BioMS announced that it had initiated patient enrollment for the pivotal phase III U.S. trial evaluating MBP8298 for the treatment of SPMS. The trial is a randomized, double-blind study enrolling approximately 510 patients at approximately 60 sites across the U.S. Patients will be administered either MBP8298 or placebo intravenously every six months for a period of two years. On April 20, 2007 the Corporation announced Dr. Clyde E. Markowitz as the lead investigator in the United States for the Corporation’s pivotal phase III clinical trial of its lead drug, MBP8298. Dr. Markowitz is the Director of the Multiple Sclerosis Center at the Hospital of the University of Pennsylvania in Philadelphia. The Corporation has contracted the services of Quintiles Inc. as the clinical research organization for the phase III clinical trial in the United States. Quintiles is a global leader in pharmaceutical services improving healthcare worldwide and is known for providing innovative, quality professional expertise in the pharmaceutical, biotechnology and healthcare industries.
- MINDSET-01: A phase II clinical trial to evaluate MBP8298 for the treatment of relapsing remitting MS (RRMS). On May 3, 2007, BioMS announced that the trial, a randomized, double-blind study, had completed patient recruitment with approximately 215 patients at 24 trial sites in 6 countries across Europe. Subsequent to the end of the quarter, on July 24, 2007, the Corporation announced that the independent Data Safety Monitoring Board (DSMB) for the trial had completed a safety analysis and recommended that the trial continue as per the protocol. This was the first of several regularly scheduled reviews by the DSMB that will occur over the duration of the trial.

In addition, the Corporation has a technology, HYC750, a method for mobilizing haematopoietic stem cells in humans for use in the treatment of cancer related side effects and other diseases. The technology has undergone certain pre-clinical testing, as well as a preliminary human clinical trial.

BioMS has a 49% interest in BioCyDex Inc. BioCyDex is a private company that has been 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.

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

## Prospectus Financing

On May 23, 2007 the Corporation completed a prospectus financing with an issue of 16,100,000 units at a price of \$2.75 per unit for total gross proceeds to the Corporation of \$44,275,000, with share issuance costs of \$3,332,555 for net proceeds from the financing of \$40,942,445. Each unit consisted of one class A common share and one-half of one class A common share purchase warrant. Each whole purchase warrant entitles the holder to purchase one class A common share at an exercise price of \$4.00 per share for a period of three years following the closing of the offering or May 22, 2010. The financing had broad distribution to investors in Canada, Europe and the United States. The net proceeds will be used to expand the clinical trial programs and for general corporate purposes.

## Eight Quarter Review

Financial Information – Quarterly  
(Thousands of Canadian Dollars Except Per Share Amounts)

	2007		2006				2005	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Research and development	\$10,378	\$10,274	\$12,517	\$8,051	\$7,882	\$6,735	\$4,586	\$3,204
General and administrative	1,466	2,628	1,516	1,166	974	1,760	1,637	751
Amortization of licensing costs	368	368	368	368	368	368	368	368
Amortization of property and equipment	33	33	30	28	27	27	25	18
Investment Income	495	405	352	414	138	364	216	491
Net Loss	\$11,750	\$12,898	\$14,079	\$9,199	\$9,113	\$8,526	\$6,400	\$3,850
Loss per common share – basic and diluted	\$0.14	\$0.17	\$0.20	\$ 0.14	\$ 0.14	\$ 0.14	\$0.10	\$0.06

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

## Discussion of Operations and Financial Condition

The consolidated net loss of the Corporation for the three months ended June 30, 2007 was \$11.8 million or \$0.14 per share compared with a consolidated net loss of \$9.1 million or \$0.14 per share for the same period in 2006. The increase in net loss was due to higher research and development expenses and general and administrative expenses. The consolidated net loss of the Corporation for the six months ended June 30, 2007 was \$24.6 million or \$0.31 per share compared with a consolidated net loss of \$17.6 million or \$0.28 per share for the same period in 2006. The increase in the loss was the result of larger research and development expenditures and an increase in general and administrative expenses. It is expected that research and development expenses will increase over the next 2 years as the MBP8298 clinical trials, MAESTRO-01, MAESTRO-03 and MINDSET-01 continue, and the MAESTRO-02 trial adds patients as they come on from the MAESTRO-01 trial.

## Expenses

Total consolidated expenses for the three months ended June 30, 2007 were \$12.2 million as compared with \$9.3 million in the three months ended June 30, 2006. Total consolidated expenses for the six months ended June 30, 2007 were \$25.5 million as compared with \$18.1 million in the six months ended June 30, 2006.

## **Research and development**

Research and development expenses for the three months ended June 30, 2007 totaled \$10.4 million or 84.8% of all expenses as compared with \$7.9 million or 85.2% of all expenses for the same period in 2006. For the six months ended June 30, 2007, research and development expenses totaled \$20.7 million or 80.8% of all expenses as compared with \$14.8 million or 80.6% of all expenses for the same period in 2006. The increase in expenses is the result of full enrollment in the MAESTRO-01 trial with total patient enrolment of 611 patients and full enrolment of the MINDSET-01 trial with approximately 215 patients. The Corporation incurred further preparatory costs for the USA phase III clinical trial, MAESTRO-03.

## **General and administrative**

General and administrative expenses increased to \$1.5 million for the three months ended June 30, 2007 as compared to \$1.0 million in the three months ended June 30, 2006. General and administrative expenses represented approximately 12.0% of total gross expenses for the Corporation in the three months ended June 30, 2007 compared with approximately 10.5% in the three months ended June 30, 2006. For the six month period ended June 30, 2007 general and administrative expenses increased to \$4.1 million as compared to \$2.7 million for the six month period ended June 30, 2006, representing approximately 16.0% of total gross expenses in the six months ended June 30, 2007 as compared to 15.1% of total gross expenses for the six months ended June 30, 2006. The increase in general and administrative expenses is the result of increased activity in marketing in the United States and Canada, increased expenses related to public company listings and the increase in the general business activities of the corporation. General and administrative expenses include the following: investor relations, professional fees, business development, insurance, listing fees, consulting services, office expenses, occupancy costs, management and office staff salaries, directors' fees and various other expenses relating to the operations and growth of the Corporation.

## **Investment Income**

Investment income earned on funds invested was \$0.5 million for the three months ended June 30, 2007, compared to \$0.1 million for the three months ended June 30, 2006. For the six months ended June 30, 2007 investment income was \$0.9 million compared to \$0.5 million for the six months ended June 30, 2006. Investment income is earned from the short-term investment of cash reserves in low risk term deposits and high quality low risk funds. The Corporation expects that investment income will continue to fluctuate in relation to prevailing interest rates and amounts of cash reserves invested.

## **Liquidity and Capital Resources**

At June 30, 2007, cash and short-term investments totaled \$58.6 million as compared to \$43.1 million at December 31, 2006.

At June 30, 2007, the Corporation had working capital of \$56.3 million as compared to \$37.4 million at December 31, 2006. Management estimates that the current working capital is sufficient for the Corporation to meet its obligations in respect of the currently initiated clinical trials through to the end of 2008.

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 \$16.5 million of cash in operating activities for the three months ended June 30, 2007 as compared to \$5.7 million of cash in the three months ended June 30, 2006. The Corporation used \$25.4 million of cash in operating activities for the six months ended June 30, 2007 as compared to \$11.6 million of cash in the six months ended June 30, 2006.

## **Contractual Obligations and Contingencies**

In our continuing operations, we have entered into long-term contractual arrangements from time to time for the provision of goods and services and acquisition of technology access rights, among others. These arrangements include contracts with Clinical Research Organizations (“CRO”) that are payable over the terms of the related trials. The timing of payments is dependent on various milestones being met by the CRO, such as the number of monitoring visits being conducted, trial completion and other trial-related activities. Some of these arrangements require payments to be made in currencies other than Canadian dollars therefore, the Corporation has exposure to foreign currency fluctuation.

## **Off-Balance Sheet Arrangements**

As at June 30, 2007, we have not entered into any material off-balance sheet arrangements.

## **Transactions with Related Parties**

During the three months ended June 30, 2007, we did not enter into any material transactions with related parties that were not previously disclosed in the notes to our audited consolidated financial statements for the year ended December 31, 2006.

## **Outstanding Shares, Options and Warrants**

As at August 14, 2007, the following shares and equity securities potentially convertible into common shares were outstanding:

Class A common shares	91,356,923
Convertible equity securities:	
Stock options	7,821,500
Warrants	26,021,528

Upon exercise or conversion, the stock options and warrants are convertible into an equal number of common Class A voting shares. Had the outstanding stock options and warrants been fully exercised or converted, the aggregate number of common Class A shares outstanding would be 125,199,951 as at August 14, 2007.

For details relating to the Class A common share, stock options and warrants, please refer to Note 5, Share Capital, Note 7, Warrants and Note 6 Stock-based compensation, in the notes to our unaudited interim consolidated financial statements and Note 7, Share Capital, Note 8, Stock-Based Compensation Expense and Note 9, Warrants, in the notes to our audited December 31, 2006 consolidated financial statements.

## **Outlook**

The Corporation is preparing for an interim analysis of the MAESTRO-01 trial data in mid-2008 when the first 200 patients enrolled in this trial will have completed 24 months of treatment. The Corporation also expects to complete its 15 month MINDSET-01 trial for the treatment of relapsing-remitting MS patients with MBP8298 by the third quarter of 2008, followed by a 12 month active treatment open label extension period. The Corporation expects to complete recruitment of patients for its Maestro-03 trial for the treatment of secondary-progressive MS patients by the end of 2008.

BioMS expects to continue to incur operating losses until such time as its lead drug, MBP8298 for the treatment of MS, has received regulatory approval and is available for commercial production. The Corporation estimates that it has sufficient cash to cover the expected costs of the currently initiated clinical trials through to the end of 2008. BioMS anticipates that it will approach the equity markets for the funding of additional research, manufacturing, preclinical studies and current and planned clinical trials. The Corporation’s ability to raise capital will depend on equity market conditions at that time.

## **Internal Control over Financial Reporting and Disclosure Controls and Procedures**

During the three months ended June 30, 2007 the CEO and CFO evaluated whether there were any material changes in internal control over financial reporting pursuant to Multilateral Instrument 52-109 (“MI 52-109”), Certification of Disclosure in Issuers’ Annual and Interim Filings. They individually concluded that there were no changes during the quarter that affected materially or were likely to affect materially the Corporation’s internal control over financial reporting and disclosure controls and procedures.

The CEO and CFO evaluated the design of the Corporation’s internal control over financial reporting and the design and effectiveness of the Corporation’s disclosure controls and procedures as of December 31, 2006 pursuant to the requirements of MI 52-109. Management of the Corporation determined that it did not sufficiently document the existence and performance of certain control procedures. Specifically, the Corporation did not document the review of all journal entries and monthly reconciliations. The Corporation also did not retain all reports, minutes and correspondence evidencing the review and approval of certain transactions and reports.

The Corporation has implemented policies in 2007 to ensure the performance of key control processes is documented. We are monitoring these policies and continue to make changes as necessary to strengthen our internal controls over financial reporting.

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

- a) Capital disclosures (CICA Handbook Section 1535)

This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity’s objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Corporation. The Corporation is currently evaluating the impact of this standard.

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

This standard requires an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Corporation. The Corporation is currently evaluating the impact of this standard.

## Management's Responsibility for Financial Reporting

The interim report, including the consolidated financial statements, is the responsibility of the management of the Corporation. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. The significant accounting policies used are described in note 2 to the consolidated financial statements. The integrity of the information presented in the financial statements is the responsibility of management. Financial information presented elsewhere in this report has been prepared by management and is consistent with the information in the consolidated financial statements.

Management is responsible for the development and maintenance of systems of internal accounting and administrative controls of high quality. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant, and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities and for final approval of the annual consolidated financial statements. The Board has appointed an Audit Committee comprising three Directors, none of whom is an officer or employee of the Corporation or its subsidiaries. The Audit Committee meets at least four times each year to discharge its responsibilities under a written mandate from the Board of Directors. The Audit Committee meets with management and with the external auditors to satisfy itself that they are properly discharging their responsibilities, reviews the consolidated financial statements and the Auditors' Report, and examines other auditing and accounting matters. The Audit Committee has reviewed the audited consolidated financial statements with management, including a discussion of the quality of the accounting principles as applied and significant judgments affecting the Corporation's consolidated financial statements. The Audit Committee has discussed with the external auditors the external auditors' judgments of the quality of those principles as applied and judgments noted above.

The annual consolidated financial statements and Management's Discussion and Analysis have been reviewed by the Audit Committee and approved by the Board of Directors of BioMS Medical Corp. The annual consolidated financial statements have been examined by the shareholders' auditors, PricewaterhouseCoopers LLP, Chartered Accountants. The Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements of the Corporation. The external auditors have full and unrestricted access to the Audit Committee, with or without management being present.

*"Kevin Giese"*

Kevin Giese  
President and Chief Executive Officer

*"Don Kimak"*

Don Kimak  
Chief Financial Officer