

# **BioMS**

# **Medical Corp**

**Management Discussion**

**And**

**Analysis of Financial Condition**

**And**

**Results of Operations**

**June 30, 2008**

**August 12, 2008**

**For The Three and Six months ended June 30, 2008**

Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations for BioMS Medical Corp. together with its subsidiaries ("BioMS" or the "Corporation") on a consolidated basis should be read in conjunction with the Corporation's unaudited consolidated financial statements and accompanying notes for the six months ended June 30, 2008, as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2007. 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. This document is current in all material respects as of August 12, 2008.

**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 2008 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.

## **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.

BioMS is listed on the Toronto Stock Exchange under the trading symbol “MS”. As at June 30, 2008 there were 91,163,323 Class “A” common shares of the Corporation issued and outstanding.

BioMS Technology Corp., a wholly owned subsidiary of BioMS Medical Corp., has licensed a synthetic peptide technology, MBP8298, for the treatment of MS on an exclusive worldwide basis.

The International Nonproprietary Name (INN) expert committee recently accepted the proposed generic name of the Corporation’s lead MS drug, MBP8298. Therefore, MBP8298 will now be referred to as dirucotide. The name will serve to identify the active pharmaceutical substance during the drug’s life-time worldwide.

MS is generally considered an autoimmune disease, in which the immune system erroneously attacks normal components of the central nervous system. Dirucotide is a synthetic peptide identical to a segment of human myelin basic protein (MBP) that has been identified as the most common site of attack by the immune system. Clinical studies have provided evidence that intravenous administration of a large dose of soluble dirucotide to MS patients every 6 months can restore and maintain the normal state of immunologic tolerance toward this body component, and that disease progression is delayed by this treatment in up to 75% of patients. To date, dirucotide has successfully undergone Phase I and II clinical trials. Currently, BioMS is conducting three clinical trials and one open-label follow-on trial for dirucotide:

- **Maestro-01:** A pivotal phase II/III trial in Canada and Western Europe evaluating dirucotide 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 9 countries. Patients are administered either dirucotide or placebo every six months for a period of two years. To date, there have been eight 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 dirucotide on an un-blinded basis. To date approximately 95% of the eligible patients that have successfully completed the Maestro 1 trial have enrolled in this follow-on study.
- **Maestro-03:** BioMS received clearance from the Food and Drug Administration (FDA) in the United States (U.S.) to conduct a pivotal phase III trial evaluating dirucotide for the treatment of SPMS. The trial is a randomized, double-blind study enrolling approximately 510 patients at approximately 68 sites across the U.S. Enrollment was initiated in June, 2007 and on July 31, 2008 recruitment of patients for the trial was completed. To date, the Data Safety Monitoring Board has conducted two reviews of the data from this trial and has recommended that the trial continue.
- **Mindset-01:** A phase II clinical trial to evaluate dirucotide for the treatment of relapsing remitting MS (RRMS). The trial, a randomized, double-blind study, has recruited 218 patients at 24 trial sites in 6 countries across Europe. The Data Safety Monitoring Board has completed five safety analyses and recommended that the trial continue as per the protocol.

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

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

Lilly shall notify BioMS in writing not later than sixty (60) days following receipt of the final written clinical trial report of the results of the Maestro-01 trial whether Lilly has elected to terminate the agreement on account of the results of the Maestro-01 trial. Once Lilly receives the report and does not terminate the agreement, Lilly shall bear one hundred percent (100%) of any and all development costs incurred by the parties. The agreement will terminate in each country on the expiration of the last-to-expire BioMS Licensed Patent having a valid claim covering the manufacture, use or sale of the product in the field in each country. The agreement may also be terminated at any time during the term upon written notice by either party for material breach or at any time on 90 days notice.

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

The consolidated net loss of the Corporation for the three months ended June 30, 2008 was \$0.4 million or \$0.00 per share compared with a consolidated net loss of \$11.8 million or \$0.14 per share for the previous year. The results for the three months ended June 30, 2008 included the recognition as revenue of \$11.2 million from the licensing agreement with Eli Lilly and Company. Research and development expenditures decreased by \$0.9 million, general and administrative expenses increased by \$0.2 million, investment income increased by \$0.1 million and foreign exchange loss increased by \$0.7 million in the quarter ended June 30, 2008 compared to the same quarter in the previous year. The consolidated net loss of the Corporation for the six months ended June 30, 2008 was \$7.1 million or \$0.08 per share compared with a consolidated net loss of \$24.6 million or \$0.31 per share for the same period in 2007. Research and development expenditures increased by \$2.0 million, general and administrative expenses increased by \$6.3 million, investment income increased by \$0.4 million, a foreign exchange gain of \$1.4 million and an increase in revenue earned from our collaboration partner of \$24.0 million in the six months ended June 30, 2008 compared to the same period in 2007. It is expected that total research and development expenses will remain constant over the next 2 years as the dirucotide clinical trials, Maestro-01 and Mindset-01, near completion and Maestro-02 and Maestro-03, increase in number of patients under treatment.

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

Revenue in the amount of \$11.2 million for the three months and \$24.0 million for the six months was recorded to June 30, 2008 as compared to \$Nil revenue for the three months and six months ended June 30, 2007. The revenue is the result of recognizing a portion of the upfront payment received on the completion of the licensing agreement with Eli Lilly and Company.

The licensing revenue represents the amortization of deferred revenue from the US\$87 million upfront licensing fee payment received from Eli Lilly and Company on January 25, 2008. The deferred revenue is recorded as revenue as the Corporation incurs the costs related to meeting its obligations under the terms of the

licensing agreement. The remaining balance of \$63.4 million of the deferred revenue from the Eli Lilly licensing agreement will be recognized as revenue as the related costs of BioMS under the terms of the agreement are incurred.

Initial upfront payments, which require the Corporation's ongoing involvement, are deferred and amortized into income over the estimated period of the Corporation's involvement, which varies based on the ratio of costs expended to total estimated costs required to complete the Corporation's obligations related to the licensing agreement. If the Corporation cannot reasonably estimate when its performance obligation ceases then the revenue is deferred indefinitely. Once this estimation can be made, the revenue will be recognized in accordance with the policy described above.

### **Expenses**

Total consolidated expenses for the three months ended June 30, 2008 were \$11.4 million as compared with \$12.1 million in the three months ended June 30, 2007. Expenses related to the Corporation's direct research and development efforts accounted for \$9.3 million or 82% of all expenses as compared with \$10.2 million or 85% in 2007. Total consolidated expenses for the six months ended June 30, 2008 were \$33.6 million as compared with \$25.4 million in the six months ended June 30, 2007.

### **Research and development**

Research and development expenses for the three months ended June 30, 2008 totaled \$9.3 million compared with \$10.2 million in 2007. Research and development expenses represented approximately 82% of total gross expenses for the Corporation in 2008 compared with approximately 85% in 2007. The decrease of \$0.9 million is attributable to a combination of factors the most significant being: a slight decrease in the clinical trial expenses, a \$1.2 million decrease in drug manufacturing expenses and an increase in research and licensing expenses. Research and development expenses for the six months ended June 30, 2008 totaled \$22.5 million compared with \$20.5 million in 2007. The increase of \$2.0 million is attributable to the net effect of:

- a \$2.0 million increase in clinical trial expenses, the result of the increased number of patients on trials
- a decrease of \$2.1 million in drug manufacturing expenses, the result of the completion of the manufacture of validation batches
- an increase of \$0.6 million in regulatory work and
- an increase of \$1.5 million in additional research expenses

(expressed in thousands of Canadian dollars)

#### **For the Three Months Ended June 30, 2008**

<b>Description</b>	<b>2008</b>	<b>2007</b>
Multiple Sclerosis Clinical Trials	\$8,215	\$8,246
Drug Manufacturing for clinical purposes	198	1,449
Regulatory	241	190
Research and licensing	685	352
Total	\$9,339	\$10,237

(expressed in thousands of Canadian dollars)

**For the Six Months Ended June 30, 2008**

<b>Description</b>	<b>2008</b>	<b>2007</b>
Multiple Sclerosis Clinical Trials	\$18,577	\$16,433
Drug Manufacturing for clinical purposes	892	3,024
Regulatory	1,032	365
Research and licensing	1,981	690
Total	\$22,482	\$20,512

**General and administrative**

General and administrative expenses increased to \$1.7 million for the three months ended June 30, 2008, an increase from \$1.5 million in the three months ended June 30, 2007. General and administrative expenses represented approximately 15% of total gross expenses for the Corporation in 2008 compared with approximately 12% in 2007. The increase of \$0.2 million is the result of a general increase in expenses from the same period in the previous year. General and administrative expenses increased to \$10.4 million for the six months ended June 30, 2008 an increase from \$4.1 million in the six months ended June 30, 2007. The increase of \$6.3 million was the result of: one-time licensing bonuses of \$5.6 million paid to corporate administrative personnel, costs associated with the completion of the licensing agreement and a general increase in expenses over the previous year.

**Stock-based Compensation Expense**

During the period, the Corporation granted 195,000 new stock options. The Corporation used the Black-Scholes option pricing model to estimate the fair value of the options granted. The 195,000 options granted vested immediately. Application of the fair value method resulted in a \$0.3 million non-cash charge to stock based compensation expense with a corresponding credit to contributed surplus for the three months ended June 30, 2008.

**Investment Income**

Investment income earned on funds invested was \$0.6 million for the three months ended June 30, 2008, as compared to \$0.5 million in the previous year. For the six months ended June 30, 2008, investment income was \$1.3 million compared to \$0.9 million in 2007. 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 amounts of cash reserves invested.

**Liquidity and Solvency**

At June 30, 2008, cash and short-term investments totaled \$96.1 million as compared to \$38.0 million at December 31, 2007. At June 30, 2008, the Corporation had working capital of \$93.1 million (excluding the current portion of deferred revenue which does not represent a cash obligation) as compared to \$34.8 million at December 31, 2007. Management estimates that the current working capital is sufficient for the Corporation to meet its obligations in respect of the currently initiated clinical trials for which it is responsible under the Lilly agreement.

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

BioMS Medical Corp.  
Management Discussion and Analysis of Financial Condition and Results of Operations  
June 30, 2008

---

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 licensing 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.

During the quarter, the Corporation repurchased by way of a Normal Course Issuer Bid 271,700 shares of the Corporation at a cost of \$1.0 million.

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 had a decrease in cash and cash equivalents of \$10.6 million for the three months ended June 30, 2008 as compared to an increase of \$24.4 million in the three months ended June 30, 2007. The decrease in cash and cash equivalents in the three months ended June 30, 2008 is the result of expenditures on operations. In the three months ended June 30, 2007 the increase in cash was the net result of \$16.4 million used in operations and a net inflow from the issuance of share capital of \$40.9 million. In the six months ended June 30, 2008 the Corporation had a net increase of cash and cash equivalents of \$60.4 million as compared with a net increase of \$16.4 million in the same period in 2007. The increase was the net result of the receipt of the upfront licensing fee payment of US\$ 87 million received from Eli Lilly and Company and the expenses incurred in the operation of the Corporation. The net increase of cash and cash equivalents in the same period in 2007 was the net result of completion of a financing with net proceeds for the issuance of share capital of \$40.9 million and the expenses incurred in the operation of the Corporation.

### **Foreign Exchange Loss**

The Corporation's functional currency is the Canadian dollar. The Corporation recorded a foreign exchange loss of \$0.8 million for the three months ended June 30, 2008, compared with \$0.1 million for the three months ended June 30, 2007. The foreign exchange loss was the result of a decrease in the value of the Canadian dollar against the US dollar, the EURO, the Swedish Kroners and the British pound. In the six months ended June 30, 2008, the Corporation recorded a foreign exchange gain of \$1.2 million. The net gain is the result of a gain of \$2.0 million in the three months ended March 31, 2008 and a subsequent loss of \$0.8 in the three months ended June 30, 2008. The Corporation expects to continue to experience fluctuating gains and losses on currency translations as a number of agreements for product and services are in foreign currencies that are in constant movement in relation to the Canadian dollar.

### **Eight Quarter Review**

Financial Information – Quarterly  
(expressed in thousands of Canadian dollars except per share amounts)

	2008		2007				2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	\$11,231	\$12,769	-	-	-	-	-	-
Research and development	\$9,339	\$13,143	\$9,303	\$9,092	\$10,237	\$10,275	\$12,517	\$8,051
General and administrative	1,693	8,695	2,319	1,077	1,466	2,628	1,516	1,166

BioMS Medical Corp.  
Management Discussion and Analysis of Financial Condition and Results of Operations  
June 30, 2008

Amortization of licensing costs	368	368	368	368	368	368	368	368
Amortization of property and equipment	31	12	34	34	33	33	30	28
Foreign exchange gain (loss)	(796)	2,035	(76)	(633)	(141)	1	-	-
Investment Income	594	729	393	351	495	405	352	414
Net Loss	\$402	\$6,685	\$11,707	\$10,853	\$11,750	\$12,898	\$14,079	\$9,199
Loss per common share – basic	\$0.00	\$0.07	\$0.13	\$0.12	\$0.14	\$0.17	\$0.20	\$0.14

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

**Related Party Transactions**

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

(expressed in thousands of Canadian dollars)

	2008	2007
Management services	175	168
Office Rent	59	45
General administration	2	1
Total	236	214

The lease for the office space is on a month to month basis with the lease cost fixed until December 31, 2010 and termination upon six (6) months written notice by either party. During the period the Corporation increased the amount of space occupied.

**Contractual Obligations and Commitments**

In continuing operations, the Corporation has periodically entered into long-term contractual arrangements for office facilities, equipment and product manufacturing. 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	\$117,000	\$117,000	\$ -	\$ -
Equipment Lease	46,000	10,000	20,000	16,000
Total Contractual Obligations	\$163,000	\$127,000	\$20,000	\$16,000

The Corporation has 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. The contracts with these CRO’s are payable over the terms of the related trials and can be terminated on notice varying from thirty to ninety days. The timing of payments is dependent on various activities being completed by the CRO, such as the number of monitoring visits being conducted and other trial-related activities. The Corporation is also responsible for the payment of certain pass through costs. As part of the trials, the Corporation also enters into agreements with the clinical investigator sites participating in the trials. These agreements require payments over the course of the trial based on various activities being completed by the site, such as patient visits.

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

As of June 30, 2008, the Corporation did not have any material off-balance sheet arrangements other than those listed and described under the Contractual Obligations and Commitments section and those disclosed in Note 16 to the audited consolidated financial statements for the year ended December 31, 2007.

### **Critical Accounting Estimates**

Our discussion and analysis of BioMS’ financial condition and the results of operations is based on our consolidated financial statements, which have been prepared in accordance with Canadian GAAP. Our preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities and the date of the financial statements; and, the reported amounts of revenues and expenses during the reporting period presented.

These estimates and judgments are evaluated on an on-going basis and are considered to be reasonable based upon our historical experience and assumptions. Actual results could differ from those estimates made by management.

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***

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.

#### ***Accrued Clinical Trial Costs***

The Corporation enters into contracts with independent third parties who conduct clinical trials on behalf of the Corporation. Services rendered include the determination of sites, recruitment of patients, clinical research management and data management. Accruals for clinical trial costs are based on management’s best estimate of the number of patients, patient’s progression through the trial and costs incurred to date. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

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

Stock-based compensation is recorded using the fair value based method for stock options issued to employees and non-employees 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, 2007. 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) Capital disclosures**

Effective January 1, 2008, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1535, Capital Disclosures. 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. This standard was adopted on January 1, 2008. The disclosure requirements pertaining to this new standard is included in note 9.

### **b) Financial instruments – Disclosure and Financial Instruments – Presentation**

Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing the Corporation’s disclosure requirements, and carrying forward unchanged the Corporation’s presentation requirements. Disclosure requirements pertaining to Section 3862 are contained in note 8. Adoption of Section 3863 had no impact on the Corporation’s presentation of financial instruments.

### **c) 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.

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 Corporation 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.

**Financial Instruments**

**a) Currency risk**

Foreign currency risk arises from the fluctuations in foreign currency exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The expenditures of the Corporation are made in various currencies as required by the agreements made with various suppliers in the countries that the trials are conducted. In the six months ended June 30, 2008 approximately 40 percent of all expenditures were made in United States dollars, the Euro, British Pounds (“GBP”), Swedish Kroners (“SEK”) and Danish Kroners (“DKK”) with the remaining 60 percent made in Canadian dollars.

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

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 impair or enhance its ability to pay its foreign exchange obligations.

The following table provides significant items exposed to foreign exchange as at June 30, 2008:

	\$ (in thousands of Canadian dollars)				
	\$US	Euro	SEK	GBP	DKK
Cash and cash equivalents	49,478	-	-	-	-
Accounts payable	(813)	(315)	(197)	(26)	-
Accrued liabilities	(1,502)	(1,304)	(424)	(1,163)	(50)
Net exposure	<u>47,163</u>	<u>(1,619)</u>	<u>(621)</u>	<u>(1,189)</u>	<u>(50)</u>

The Corporation believes the financial assets and liabilities exposed to foreign exchange risk at June 30, 2008 are manageable. With the exception of the cash and cash equivalents in US dollars the other amounts are insignificant. The US dollar is the currency that is most used after the Canadian dollar. It is the Corporations plan to keep an amount in US dollars sufficient to meet payment requirements for the next 12 months at any point in time.

**b) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to fund the programs and commitments that the Corporation has planned. The Corporation manages its liquidity risk through the management of its capital structure. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors and/or the Audit Committee reviews and approves the Corporations operating and capital budgets, as well as any material transactions out of the ordinary course of business. The Corporation invests its cash and cash equivalents in short term bankers acceptances and guaranteed investment certificates with up to 90 day maturities to ensure the Corporation’s liquidity needs are met.

The following are the contractual maturities of financial liabilities as of June 30, 2008:

	Carrying Amount \$ (in thousands of Canadian dollars)	Less than 1 year \$
Accounts payable and accrued liabilities	<u>7,931</u>	<u>7,931</u>

**c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates received on its cash and cash equivalents and short-term investments. The impact of interest rate fluctuations will increase as the amount of cash and cash equivalents and short-term investments the Corporation holds increases.

Accounts payable and accrued liabilities bear no interest.

**d) Market risk**

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

**e) Credit risk**

The Corporation is exposed to credit risk through its cash and cash equivalents and short-term investments. The Corporation attempts to reduce the potential of significant concentrations of credit risk by diversifying the placement of the cash, cash equivalents and short-term investments. The Corporation has deposited the cash and cash equivalents and short-term investments with reputable Canadian financial institutions, from which management believes the risk of loss is minimized.

**f) Cash flow risk**

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

**g) Carrying value and fair value**

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

**Share Information**

As at June 30, 2008, the following class of shares and equity securities potentially convertible into common shares were outstanding:

Class A common shares	91,163,323
Convertible equity securities	

---

Warrants	26,021,528
Stock options	9,161,500

## **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. See the 2007 Annual Information Form of the Corporation for further detail and discussion of these, and other, risks and uncertainties.

### **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.

### **Clinical Studies**

The Corporation has commenced a pivotal Phase II/III clinical trial, Maestro-01, a Phase II clinical trial, Mindset-01, and a pivotal phase III clinical trial, Maestro-03., all in respect of its multiple sclerosis product, dirucotide. These studies require considerable resources from the Corporation. Obtaining positive and conclusive results from these studies are an essential condition of product commercialization. Therefore, unsatisfactory results may considerably hinder the development and commercialization of the Corporation's products.

### **Regulatory Approvals**

In order to commercialize its products and hence generate revenues, the Corporation must first obtain the approval of regulatory agencies in each of the countries where it wishes to sell its products. The Corporation's products may not meet the criteria established by the various agencies and, consequently, may not obtain required approvals for commercialization.

### **Commercialization**

Once commercialized, the Corporation's products may potentially compete with existing products on the market. Various people in the healthcare sector, such as those who may prescribe or dispense the new drugs commercialized by the Corporation and the parties responsible for drug reimbursement, may select other treatments than those offered by the Corporation.

### **Competition**

The Corporation is subject to significant competition from pharmaceutical companies, biotechnology companies, academic and research institutions as well as government agencies with greater capital resources, research and development staffs and facilities who are pursuing the development of products that are similar to the Corporation's. Many of these organizations have marketing capabilities superior to the Corporation's.

### **Capital Resources**

In order to achieve its long term development and commercialization strategy, the Corporation will need to raise additional capital through the issuance of shares or collaboration agreements or partnerships that would allow the Corporation to finance its activities. Nothing guarantees that additional funds will be available or that

they may be acquired according to acceptable terms and conditions, allowing the Corporation to successfully market its products. Additional financing may result in dilution of shareholder value.

### **Human Resources**

Members of management and scientists are highly qualified individuals who are essential to the successful research and development of the Corporation's products. Loss of services from a large part of this group or the inability of the Corporation to attract highly qualified personnel could compromise the Corporation's growth.

### **Volatility of Share Price**

The market price of the Corporation's shares is subject to volatility. General market conditions as well as differences between the Corporation's financial, scientific and clinical results and the expectations of securities analysts covering its activities can have a significant impact on the trading price of the Corporation's shares.

## **Outlook**

The Corporation is expecting an interim analysis in its Maestro-01 trial for SPMS patients in Canada and Europe in mid-2008, and final trial results in the second half of 2009. Patients that have successfully completed the Maestro-01 trial are eligible to enroll in the Maestro-02 trial. The Corporation has completed recruitment of patients for its Maestro-03 trial for SPMS in the U.S. as of July 31, 2008. The 15 month double blind study phase of its Mindset-01 trial for RRMS patients in Europe is expected to be completed by the end of 2008, with results expected in early 2009. Patients in this trial will go on to a 12 month active treatment open label extension period. BioMS is responsible for all costs incurred in connection with the conduct of the clinical trials until the date on which BioMS delivers to Lilly a complete written report of the final results of the Maestro-01 trial. At the completion of the Maestro-01 trial, Lilly has the option of either accepting the written report and proceeding with applying for regulatory approval or terminating the agreement and returning all technology and documents to the ownership of BioMS. It is the responsibility of BioMS to notify Lilly of the achievement of development milestones and Lilly shall make the required development milestone payment in a timely manner as stipulated in the agreement.

BioMS expects to continue to incur operating losses until such time as its lead drug, dirucotide 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 for which it is responsible under the Lilly agreement. BioMS does not anticipate that it will be required to approach the equity markets for additional funding for the development of dirucotide. The Corporation's ability to raise capital will depend on equity market conditions at that time.

## **Internal Control Over Financial Reporting**

The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. During the three months ended June 30, 2008, there have been no changes in the Corporation's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

**Additional Corporate Information**

Additional information on BioMS Medical Corp. may be obtain 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) .

---