

BioMS Medical Corp.
(A Development Stage Corporation)

Consolidated Financial Statements
December 31, 2008 and 2007

Auditors' Report

To the Shareholders of BioMS Medical Corp.

We have audited the consolidated balance sheets of **BioMS Medical Corp.** as at December 31, 2008 and 2007 and the consolidated statements of shareholders' equity, operations and comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Edmonton, Alberta
March 13, 2009

BioMS Medical Corp.

(A Development Stage Corporation)

Consolidated Balance Sheets

December 31, 2008 and 2007

(expressed in thousands of Canadian dollars)

	2008 \$	2007 \$
Assets		
Current assets		
Cash and cash equivalents	87,826	35,428
Short-term investments	2,614	2,528
Goods and services tax recoverable	299	484
Prepaid clinical trial costs (note 6)	2,227	3,206
Other current assets	321	76
	<hr/> 93,287	<hr/> 41,722
Prepaid clinical trial costs (note 6)	790	1,976
Licensing costs (note 7)	5,910	7,382
Property and equipment (note 8)	517	330
	<hr/> 100,504	<hr/> 51,410
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	12,015	8,918
Deferred revenue (note 10)	45,605	-
	<hr/> 57,620	<hr/> 8,918
Guarantees (note 11)		
Commitments and contingencies (notes 12 and 13)		
Shareholders' Equity		
Share capital (note 14)	175,714	176,423
Contributed surplus	8,839	6,680
Accumulated deficit	(141,669)	(140,611)
	<hr/> 42,884	<hr/> 42,492
	<hr/> 100,504	<hr/> 51,410

(The accompanying notes are an integral part of these consolidated financial statements.)

Approved by the Board of Directors

"Kevin A. Giese"

Director

"W.D. Grace"

Director

BioMS Medical Corp.

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Consolidated Statements of Shareholders' Equity

(expressed in thousands of Canadian dollars and shares)

	Common shares issued and outstanding		Contributed surplus \$	Accumulated deficit \$	Total shareholders' equity \$
	Number #	Amount \$			
Balance – December 31, 2006	75,240	135,276	4,759	(93,400)	46,635
Common shares with warrants issued	16,100	44,275	-	-	44,275
Share issuance costs	-	(3,332)	-	-	(3,332)
Stock options granted	-	-	1,921	-	1,921
Exercise of stock options	87	237	-	-	237
Repurchase of shares	(17)	(33)	-	(3)	(36)
Net loss	-	-	-	(47,208)	(47,208)
Balance – December 31, 2007	91,410	176,423	6,680	(140,611)	42,492
Stock options granted	-	-	2,198	-	2,198
Repurchase of shares	(436)	(839)	-	(595)	(1,434)
Exercise of stock options	35	130	(39)	-	91
Net loss	-	-	-	(463)	(463)
Balance – December 31, 2008	91,009	175,714	8,839	(141,669)	42,884

(The accompanying notes are an integral part of these consolidated financial statements.)

BioMS Medical Corp.

(A Development Stage Corporation)

Consolidated Statements of Operations and Comprehensive Loss

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

	Cumulative from inception to December 31,	Years ended December 31,	
	2008	2008	2007
	\$	\$	\$
Revenue earned from collaboration partner (note 10)	52,561	52,561	-
Less: Research and development expenses (note 17)	(152,085)	(46,502)	(38,907)
	(99,524)	6,059	(38,907)
General and administrative expenses	(42,605)	(13,790)	(7,490)
Amortization of licensing costs	(11,755)	(1,472)	(1,472)
Amortization of property and equipment	(517)	(125)	(134)
Loss from operations	(154,401)	(9,328)	(48,003)
Other income (expense)			
Investment income	8,779	2,436	1,644
Foreign exchange gain (loss)	5,580	6,429	(849)
	14,359	8,865	795
Net loss and comprehensive loss	(140,042)	(463)	(47,208)
Basic and diluted net loss per common share (note 18)		(0.01)	(0.56)
Basic and diluted weighted average number of common shares outstanding		91,187	85,042

(The accompanying notes are an integral part of these consolidated financial statements.)

BioMS Medical Corp.
(A Development Stage Corporation)
Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)

	Cumulative from inception to December 31,	Years ended December 31,	
	2008 \$	2008 \$	2007 \$
Cash provided by (used in)			
Operating activities			
Net loss	(140,042)	(463)	(47,208)
Items not involving cash			
Stock-based compensation (note 15)	8,878	2,198	1,921
Amortization of licensing costs	11,755	1,472	1,472
Amortization of property and equipment	517	125	134
Loss on disposal of property and equipment	11	11	-
	<u>(118,881)</u>	<u>3,343</u>	<u>(43,681)</u>
Net change in non-cash working capital items			
Goods and services tax recoverable	(299)	185	(28)
Prepaid and other current assets	(2,548)	734	(571)
Prepaid clinical trial costs	(790)	1,186	(1,976)
Accounts payable and accrued liabilities	9,151	(601)	933
Deferred revenue	45,605	45,605	-
	<u>(67,762)</u>	<u>50,452</u>	<u>(45,323)</u>
Investing activities			
Purchase of property and equipment	(1,045)	(323)	(109)
Net (purchase of) proceeds from short-term investments	(2,614)	(86)	3,149
Licensing costs	(6,467)	-	-
	<u>(10,126)</u>	<u>(409)</u>	<u>3,040</u>
Financing activities			
Proceeds from issuance of share capital	178,729	91	44,512
Repurchase of share capital	(3,552)	(1,434)	(36)
Share issue costs	(12,312)	-	(3,332)
	<u>162,865</u>	<u>(1,343)</u>	<u>41,144</u>
Foreign exchange gain (loss) on cash and cash equivalents held in foreign currency	2,849	3,698	(849)
Increase (decrease) in cash and cash equivalents	87,826	52,398	(1,988)
Cash and cash equivalents – Beginning of period	-	35,428	37,416
Cash and cash equivalents – End of period	<u>87,826</u>	<u>87,826</u>	<u>35,428</u>
Cash and cash equivalents consists of			
Bank accounts	610	610	1,139
Interest bearing deposits and securities	87,216	87,216	34,289
	<u>87,826</u>	<u>87,826</u>	<u>35,428</u>

(The accompanying notes are an integral part of these consolidated financial statements.)

BioMS Medical Corp.

(A Development Stage Corporation)

Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

1 Nature of business

BioMS Medical Corp. is incorporated in Alberta under the Business Corporations Act and is a development stage corporation as it continues to develop new pharmaceutical technologies through pre-clinical and clinical trial stages, with the primary focus on the development of its drug dirucotide (formerly known as MBP8298) for Multiple Sclerosis (“MS”).

2 Basis of presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and include the accounts of BioMS Medical Corp. and its wholly owned subsidiaries, BioMS Technology Corp., BioMS Technology US Corp. and BioMS Technology International Ltd. (all referred to jointly as the “Corporation” or “BioMS”). All inter-company balances and transactions have been eliminated on consolidation. Certain of the comparative figures have been reclassified to conform to the current year’s presentation.

3 Changes in accounting policies

a) Capital disclosures (CICA Handbook Section 1535)

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. The disclosure requirements pertaining to this new standard are included in note 21 of these consolidated financial statements.

b) Financial Instruments: Disclosures (CICA Handbook Section 3862) and Presentation (CICA Handbook Section 3863)

Effective January 1, 2008, the Corporation adopted two new CICA standards, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation, which replaces Section 3861, Financial Instruments – Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carries forward the former presentation requirements. The adoption of these Sections did not have a material effect on the Corporation's consolidated financial statements. The new disclosure requirements pertaining to these Sections are contained in note 20 of these consolidated financial statements.

BioMS Medical Corp.

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

3 Changes in accounting policies (continued)

- c) General Standards of Financial Statement Presentation (CICA Handbook Section 1400)

Effective January 1, 2008, the Corporation adopted the new recommendations of CICA amended Handbook Section 1400, General Standards of Financial Statements Presentation. The section provides revised guidance related to management's responsibility to assess and disclose the ability of an entity to continue as a going concern. The adoption of Section 1400 had no impact on the Corporation's presentation of financial statements.

4 Future accounting pronouncements

- a) Convergence to International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) announced in 2006 that for fiscal years commencing on or after January 1, 2011, all publicly accountable enterprises are required to report their financial results using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS uses a conceptual framework similar to Canadian GAAP, but there are some differences in recognition, measurement and disclosures. The Corporation is required to prepare financial statements that are compliant with IFRS with comparative numbers for the prior year.

As a result of this announcement, the Corporation is developing a plan to convert its consolidated financial statements to IFRS. The plan will address the impact that IFRS has on:

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

The Corporation is currently in the process of assessing the differences between IFRS and the Corporation's current accounting policies, as well as the alternatives available upon adoption, and has not quantified the effect of adopting IFRS.

- b) Goodwill and Intangible Assets (CICA Handbook Section 3064)

In February 2008, the CICA issued new Handbook Section 3064 "Goodwill and Intangible Assets", replacing Handbook Section 3062 "Goodwill and Other Intangible Assets" and Handbook Section 3450 "Research and Development Costs".

This new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation will adopt the new Section for its fiscal year beginning January 1, 2009.

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

4 Future accounting pronouncements (continued)

b) Goodwill and Intangible Assets (CICA Handbook Section 3064) (continued)

This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Handbook Section 3062. The Corporation does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

5 Summary of significant accounting policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and bank term deposits with a maturity of three months or less when purchased.

Short-term investments

Short-term investments include bankers acceptances and term deposits with an original maturity of greater than three months and less than twelve months. Investments are carried at fair value with gains and losses related to periodical revaluation recorded in net loss.

Property and equipment

Property and equipment are recorded at cost less amortization. Property and equipment are amortized over the estimated useful life of the specific asset using the straight-line method at the following annual rates:

Computer equipment	20%
Computer software	100%
Furniture and office equipment	20%
Leasehold improvements	Lease term

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

5 Summary of significant accounting policies (continued)

Property and equipment (continued)

The Corporation evaluates the carrying value of property and equipment whenever events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognized in the period in which it is determined that the carrying amount of the asset may not be recoverable. An impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the estimated future discounted cash flows of the asset.

Licensing costs

Costs incurred to acquire license rights and acquire product and process technology from third parties are capitalized. Capitalized costs are being amortized on a straight-line basis over the initial term of the license agreement, being twelve years. The Corporation regularly reviews its licensing costs for impairment and records an impairment charge when the carrying amount exceeds fair value.

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, if earned in the future, may consist of payments received under the terms of supply agreements for the sales of clinical trial material. Such payments would compensate the Corporation for the cost of manufacturing clinical trial material and would be 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, if earned in the future, would be recognized as earned on an accrual basis in accordance with the terms of the contractual agreements.

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

5 Summary of significant accounting policies (continued)

Research and development costs

Research costs are expensed as incurred. Significant project development costs are capitalized in accordance with Canadian GAAP once the Corporation has determined that the commercialization criteria concerning the product or process have been met. Amortization of these costs over their estimated useful life commences with the successful commercial production or use of the product or process. Research and development costs include but are not limited to contract research costs associated with clinical trials, manufacturing costs, consulting and regulatory fees, professional fees and licence fees.

As at December 31, 2008 and 2007, no development costs have been capitalized.

Income taxes

The Corporation accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. 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 date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Foreign currency translation

Revenue and expense transactions denominated in foreign currencies are translated into Canadian dollars at the average exchange rates in effect at the time of such transactions. Foreign currency denominated monetary assets and liabilities are translated at current rates at the balance sheet date. Gains or losses resulting from these translation adjustments are included in the net loss for the period.

Stock-based compensation

Awards of stock options are accounted for in accordance with the fair value method of accounting for stock-based compensation and result in compensation expense and contributed surplus. The fair value is measured at the date the options are granted using the Black-Scholes method. Any consideration paid on the exercise of stock options is credited to share capital.

Net loss per common share

Net loss per common share is based on the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the deemed proceeds from the exercise of dilutive securities are considered to be used to acquire common shares at the average market price during the year.

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

5 Summary of significant accounting policies (continued)

Financial instruments

The Corporation classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading, loans and receivables or other financial liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of loss.

The Corporation has made the following classifications:

Cash and cash equivalents and short-term investments are classified as financial assets held for trading and are recorded at fair value. Gains and losses related to periodical revaluation are recorded in net loss as they occur.

Accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value. Subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

6 Prepaid clinical trial costs

Prepaid clinical trial costs include advance payments made pursuant to the contract research agreements to support research and development activities.

These costs will be expensed as research and development expenses as services are provided pursuant to the contract research agreements.

7 Licensing costs

	2008 \$	2007 \$
Cost	17,665	17,665
Accumulated amortization	11,755	10,283
Net	5,910	7,382

The licensing costs relate to the acquisition of exclusive licenses to certain patents addressing the treatment of Multiple Sclerosis. No impairment of licensing costs was recorded during the years ended December 31, 2008 and 2007.

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

8 Property and equipment

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Furniture and equipment	83	44	39
Computer equipment and software	240	118	122
Leasehold improvements	631	275	356
	<u>954</u>	<u>437</u>	<u>517</u>

	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Furniture and equipment	71	30	41
Computer equipment and software	308	162	146
Leasehold improvements	343	200	143
	<u>722</u>	<u>392</u>	<u>330</u>

9 Accounts payable and accrued liabilities

	2008	2007
	\$	\$
Clinical trial costs	11,597	8,099
General and administrative expenses	169	183
Consultants	107	281
Professional fees	74	265
Salaries and payroll	68	90
	<u>12,015</u>	<u>8,918</u>

Accruals for clinical trial costs in the amount of \$7.3 million are based on management's best estimate of the number of patients, patient's progression through the trial and costs incurred to date and these estimates are subject to measurement uncertainty. The effect on the consolidated financial statements of changes in such estimates in future periods could be material.

BioMS Medical Corp.

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

10 Exclusive License and Collaboration Agreement

On December 17, 2007, the Corporation entered into a licensing and development agreement (the "Agreement") granting Eli Lilly and Company ("Lilly") exclusive worldwide rights to its lead Multiple Sclerosis 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. The transaction closed on January 23, 2008 and the Corporation received an upfront payment of US\$87 million. BioMS has the potential of receiving additional development and sales milestones of up to US\$400 million and escalating royalties on sales commensurate with the current stage of development of the product if dirucotide is commercialized. On August 13, 2008 the Corporation received a positive interim analysis from the Data Safety Monitoring Board for the Maestro-01 clinical trial which triggered a US\$10 million milestone payment to BioMS. The payment was received in September 2008. All upfront and development milestones are non-refundable and non-creditable against any other payments.

Lilly shall notify BioMS in writing not later than sixty (60) days following receipt of the final written report of the results of the Maestro-01 clinical trial whether Lilly has elected to terminate the agreement on account of the results of the Maestro-01 clinical trial. If Lilly chooses not to terminate the agreement, Lilly shall bear one hundred percent (100%) of any and all continuing development costs incurred by Lilly or BioMS. Lilly may also terminate the Agreement at any time on ninety (90) days notice.

Lilly shall bear one hundred percent (100%) of any and all development, manufacturing and marketing costs incurred by the parties once Lilly has accepted the written report of the final results of the Maestro-01 clinical trial and has not elected to terminate the Agreement. 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 be terminated at any time during the term upon written notice by either party for material breach under the agreement.

The table below presents the accounting treatment of the payments received in respect of the Agreement:

	\$
Deferred revenue balance – January 1, 2008	-
Cash received in 2008	
Upfront fee received from collaboration partner	87,383
Development milestone for positive interim analysis for the Secondary Progressive Multiple Sclerosis Indication	10,783
Less: Revenue recognized	<u>(52,561)</u>
Deferred revenue – December 31, 2008	<u>45,605</u>

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

10 Exclusive License and Collaboration Agreement (continued)

Management believes that completion of the Maestro-01 clinical trial will occur in the second half of fiscal 2009, therefore the Corporation expects to recognize all deferred amounts related to the upfront fee and milestone payments already received during fiscal 2009.

Revenue is recognized based on management's best estimate of the costs to be incurred for all the current clinical trials currently underway up to the completion of the Maestro-01 clinical trial including the completion and delivery of the final written report to be provided to Lilly. 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 material.

11 Guarantees

The Corporation has agreements to indemnify its officers and directors for certain events or occurrences while the officer or director is or was serving at the Corporation's request in such capacity. The maximum potential amount of future payments is unlimited. However, the Corporation maintains director and officer liability insurance coverage that limits its exposure and enables the Corporation to recover a portion of any future amounts paid.

The Corporation has entered into license and research agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Corporation to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions.

These indemnification provisions may survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Corporation has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

12 Commitments

- a) 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 and has committed to pay approximately \$49.0 million to the completion of these 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.

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(expressed in thousands of Canadian dollars)

12 Commitments (continued)

The Corporation has entered into a licensing agreement granting the Corporation worldwide exclusivity with respect to certain patents and patent applications in the field of injection to non-mucosal sites for the treatment of multiple sclerosis. The licensing agreement requires a payment of a monthly maintenance fee of US\$15,000 per month plus royalties on an escalating scale, based on net sales of the licensed products. The royalty obligations continue on a country-by-country basis until there is no longer any valid claim from a licensed patent in the country. As at December 31, 2008 no sales of the licensed products have yet occurred that would have resulted in a royalty payment.

- b) The Corporation has entered into development and supply agreements with third parties to produce and supply a pharmaceutical product. Payment obligations are estimated to be as much as US\$1.0 million in 2009 before additional development costs.
- c) In continuing operations, the Corporation periodically enters into long-term contractual arrangements for office facilities and equipment. The following table presents commitments arising from these arrangements over the next five years.

	Total \$	< 1 year \$	1 – 3 years \$	> 3 years \$
Lease for office space	344,975	344,975	-	-
Equipment lease	67,000	14,000	42,000	11,000
	411,975	358,975	42,000	11,000

13 Contingencies

The Corporation may, from time to time, be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. As at December 31, 2008, the Corporation was not subject to any claims or legal proceedings.

14 Share capital

Authorized and issued

The Corporation is authorized to issue an unlimited number of:

- Classes A and B voting, common shares,
- Classes C and D non-voting, common shares, and
- Classes E, F, G, H and I non-voting, redeemable, retractable, preferred shares

The Corporation had 91,009,323 Class A common shares issued and outstanding as at December 31, 2008 (December 31, 2007 - 91,410,323).

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(expressed in thousands of Canadian dollars)

14 Share capital (continued)

On May 23, 2007, the Company issued 16,100,000 units of the Corporation at a price of \$2.75 per unit to raise gross proceeds of \$44,275,000. 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 and expires on May 22, 2010 (note 16).

Normal course issuer bid

On September 8, 2008, the Corporation received approval to renew its normal course issuer bid allowing the Corporation to repurchase up to 1,000,000 Class A common shares during the period of September 8, 2008 to September 7, 2009 at the market price at the time of repurchase. The Corporation has acquired 100,100 of its common shares at an average price \$2.78 per share. The shortfall of the purchase price over the stated capital of the common shares has been credited to the deficit.

On August 24, 2007, the Corporation received approval for a normal course issuer bid allowing the Corporation to repurchase up to 1,000,000 Class A common shares during the period of August 24, 2007 to August 23, 2008 at the market price at the time of repurchase. The Corporation has acquired 343,300 of its common shares at an average price of \$3.41 per share. The shortfall of the purchase price over the stated capital of the common shares has been credited to the deficit.

On August 15, 2006, the Corporation received approval for a normal course issuer bid allowing the Corporation to repurchase up to 1,000,000 Class A common shares during the period of August 15, 2006 to August 14, 2007 at the market price at the time of repurchase. The Corporation has acquired 16,100 of its common shares at an average price of \$2.75 per share. All common shares acquired by the Corporation pursuant to the normal course issuer bid were cancelled by the Corporation. The excess of the purchase price over the stated capital of the common shares has been charged to the deficit.

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

Incentive stock option plan

The Corporation's incentive stock option plan permits the grant of stock options to employees, directors, officers and consultants of the Corporation. The Board of Directors designates eligible participants to be included under the plan and designates the number of options and share price of the options, subject to applicable securities laws and stock exchange regulations. On May 9, 2008, the Corporation's shareholders approved an increase in the number of common shares reserved for stock options by 4,000,000 common shares. Significant terms of the stock option plan include: the aggregate number of common shares issuable under the plan is no greater than 12,000,000; no more than 5% of the outstanding common shares may be reserved for options granted to any one person; no more than 10% of the outstanding common shares may be reserved for options granted to insiders; no more than 10% of the common shares outstanding at the time of issuance may be issued to insiders within one year period; and, no more than 5% of the common shares outstanding may be issued to any one insider and such insider's associates within one year period.

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(expressed in thousands of Canadian dollars)

14 Share capital (continued)

The exercise price of the options is determined by the Board of Directors, but cannot be lower than the market price on the last trading day preceding the grant date.

At December 31, 2008, under this plan, 12,000,000 common shares were reserved for stock options. To date 8,151,000 stock options have been granted. During the year ended December 31, 2008 34,500 stock options were exercised and are no longer available to be granted. Under the plan only options that are cancelled without being exercised are used to replenish the total options available to be granted. At December 31, 2008, the outstanding stock options include an additional 1,065,000 options which were granted prior to the establishment of the stock option plan.

	2008		2007	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding – January 1	7,831,000	3.19	6,526,500	3.17
Granted	1,385,000	3.96	1,427,000	3.25
Exercised	(34,500)	2.65	(87,500)	2.71
Cancelled	-	-	(35,000)	3.24
Outstanding – December 31	9,181,500	3.31	7,831,000	3.19
Exercisable – December 31	9,166,500	3.31	7,811,000	3.19

Range of exercise prices

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number of options #	Weighted average exercise price \$	Weighted average remaining contractual life (years)	Number of options #	Weighted average exercise price \$
2.35	1,045,000	2.35	7.07	1,045,000	2.35
2.50 to 2.99	1,385,000	2.61	3.29	1,370,000	2.61
3.00 to 3.50	4,011,500	3.33	4.62	4,011,500	3.33
3.51 to 3.99	1,425,000	3.96	8.81	1,425,000	3.96
4.00 to 4.50	1,315,000	4.00	3.80	1,315,000	4.00
	9,181,500			9,166,500	

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

14 Share capital (continued)

1,227,000 options are issued to independent directors, 3,995,000 options are issued to non-independent directors, some of whom are officers, and 3,959,500 options are issued to other employees and consultants.

15 Stock-based compensation expense

The Corporation is following the fair value based method of accounting for stock options. Compensation expense of \$2.2 million has been recorded for the year ended December 31, 2008 (2007 – \$1.9 million).

The Corporation used the Black-Scholes option valuation model to estimate the fair value of the options granted during the years ended December 31, 2008 and 2007 and using the following weighted average assumptions:

	2008	2007
Volatility	40.7%	43.5%
Risk-free interest rate	3.6%	4.0%
Expected life of the options	60 months	60 months
Dividend yield	0.0%	0.0%
Exercise price	\$3.95	\$3.25
Closing market price on date of grant	\$3.89	\$3.20
Fair value per common share option	\$1.58	\$1.36

The Black-Scholes option valuation model used by the Corporation to determine fair values was developed for use in estimating the fair value of freely traded options that are fully transferable and have no vesting restrictions. This model requires the use of assumptions, including future stock price volatility and expected time until exercise.

The Corporation uses historical volatility of its common shares to estimate its future stock price volatility. The risk-free interest rate for the expected life of the options was based on the yield available on government benchmark bonds, with an approximate equivalent remaining term at the time of the grant. The expected time until exercise is based upon the contractual term, taking into account expected employee exercise and expected post-vesting employment termination behaviour. Forfeitures are recognized in the period they arise.

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Notes to Consolidated Financial Statements

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16 Warrants

The Corporation has issued warrants as follows:

	2008		2007	
	Number of warrants #	Weighted average subscription price \$	Number of warrants #	Weighted average subscription price \$
Outstanding – January 1	26,021,528	4.45	18,604,028	4.63
Granted	-	-	8,050,000	4.00
Expired	-	-	(632,500)	3.98
Outstanding – December 31	26,021,528	4.45	26,021,528	4.45

In connection with the issuance of shares on May 23, 2007, the Company issued warrants to purchase 8,050,000 Class A common shares. The warrants expire on May 22, 2010. The share proceeds were allocated to the common shares and warrants based on their relative fair values. The fair value attributed to the warrants was \$7.3 million and has been included as part of share capital.

The expiry dates of warrants outstanding at December 31, 2008 range from December 31, 2009 to December 4, 2010.

During the year the expiry date of 11,500,000 warrants was extended from March 23, 2009 to December 31, 2009.

The fair value of the warrants was calculated using the Black-Scholes option valuation model and the following weighted average assumptions for the years ended December 31, 2008 and 2007:

	2008	2007
Subscription price	-	\$4.00
Share	-	\$2.64
Dividend yield	-	0.0%
Volatility factors of expected marketplace	-	72.3%
Risk-free interest rate	-	4.5%
Contract life of the warrants	-	36 months

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(expressed in thousands of Canadian dollars)

17 Research and development

The Corporation is in the development stage and conducts research and development in the area of biopharmaceutical products primarily for the treatment of multiple sclerosis.

Research and development costs consist primarily of expenses related to clinical development programs for its MS drug, dirucotide, and associated commercialization expense primarily consisting of product manufacturing initiatives for clinical purposes.

	2008	2007
	\$	\$
Multiple Sclerosis clinical trials	40,395	31,217
Research and licensing	3,397	1,869
Regulatory	1,592	1,337
Drug manufacturing for clinical purposes	1,118	4,484
	<hr/>	<hr/>
	46,502	38,907
	<hr/>	<hr/>

18 Net loss per common share

The outstanding number and type of securities that would potentially dilute basic loss per common share in the future and which were not included in the computation of diluted loss per share, because to do so would have reduced the net loss per common share (anti-dilutive) for the years presented, are as follows:

	2008	2007
	#	#
Stock options	9,181,500	7,831,000
Warrants	26,021,528	26,021,528
	<hr/>	<hr/>
	35,203,028	33,852,528
	<hr/>	<hr/>

19 Income taxes

Future income taxes reflect the net tax affects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Corporation has recognized a valuation allowance for those future tax assets for which it is more likely than not that realization will not occur.

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19 Income taxes (continued)

Significant components of the Corporation's future tax assets and liabilities as of December 31, 2008 and 2007 are as follows:

	2008 \$	2007 \$
Future income tax assets		
Research and development expenditures	13,372	16,866
Non-refundable research and development tax credits	15,690	14,663
Non-capital losses	6,616	14,853
Property and equipment and licensing costs	3,394	2,992
Share issue costs	1,099	1,803
Deferred revenue	13,225	-
	<u>55,396</u>	<u>51,177</u>
Less: valuation allowance	(53,396)	(51,177)
Net future income tax asset	<u>-</u>	<u>-</u>

As at December 31, 2008, the Corporation has available non-capital income tax losses in the amount of \$26.5 million (2007 - \$59.4 million) in the aggregate to reduce taxable income in future years. The potential income tax benefit of these losses has not been reflected in the financial statements at December 31, 2008.

The losses and credits will expire as follows:

	Federal investment tax credits \$	Research and Development tax credits \$	Non-capital losses carry- forwards \$
2009	-	-	784
2010	-	-	2,569
2011	354	-	-
2012	567	-	-
2013	1,016	-	-
2014	1,456	-	2,000
2015	2,005	-	2,499
2016	5,248	-	-
2026	-	-	4,948
2027	2,297	-	7,065
2028	2,747	-	6,598
Indefinitely	-	53,488	-
	<u>15,690</u>	<u>53,488</u>	<u>26,463</u>

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Notes to Consolidated Financial Statements

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19 Income taxes (continued)

As at December 31, 2008, the Corporation has scientific research and experimental development expenditures in the amount of \$53.5 million (2007 – \$67.5 million) available for carry-forward indefinitely to reduce future taxable income. The Corporation has unclaimed investment tax credits of approximately \$15.7 million (2007 – \$14.7 million) available to reduce future income taxes otherwise payable, subject to confirmation by taxation authorities. This estimate is subject to uncertainty and could change by a material amount in the future.

The difference between the computed expected income tax recovery based on a combined federal and provincial tax rate of 29.50% (2007 – 32.12%) and the actual income tax recovery are summarized as follows:

	2008 \$	2007 \$
Loss before income taxes	(463)	(47,208)
Expected income tax recovery at statutory income tax rate	136	15,163
Adjusted for the following:		
Impact of substantially enacted rates	1,760	(6,968)
Non-deductible items	(657)	(626)
Unrecognized benefits of future tax assets	(1,196)	(7,407)
Expiry of non-capital losses	(43)	(162)
	(136)	(15,163)
	-	-

20 Financial instruments

Financial instruments of the Corporation consist of cash, short-term investments, accounts payable and accrued liabilities. The fair value of these instruments approximates their carrying amount due to their immediate or short-term maturity. The Corporation has classified its financial instruments as follows:

	December 31, 2008 \$	December 31, 2007 \$
<u>Financial assets</u>		
Cash and cash equivalents, held-for-trading, recorded at fair value	87,826	35,428
Short-term investments, held-for-trading, recorded at fair value	2,614	2,528
	90,440	37,956

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

20 Financial instruments (continued)

Financial liabilities

Accounts payable and accrued liabilities, other liabilities, recorded at amortized cost	12,015	8,918
	<u>12,015</u>	<u>8,918</u>

The Corporation is required to identify and measure embedded derivatives that require separation from the related host contract and measure those embedded derivatives at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the consolidated statement of loss in the period the change occurs. The Corporation has not identified any embedded derivatives that require separation for the years ended December 31, 2008 and 2007.

The Corporation did not have any available-for-sale financial instruments during the years ended December 31, 2008 and 2007.

The Corporation's activities are exposed to a variety of financial risks including, currency risk, interest rate risk, credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Corporation's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance.

Currency risk

The Corporation is exposed to financial risk related to fluctuations in foreign currency exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Expenditures of the Corporation are made in various currencies as required by the agreements made with various suppliers in the countries in which the clinical trials are conducted.

Approximately fifty one (51%) percent of the Corporation's expenditures are made in United States dollars ("US\$"), the Euro, British Pounds ("GBP"), Swedish Kroners ("SEK") and Danish Kroners ("DKK") with the remaining forty nine per cent (49%) made in Canadian dollars ("CAS").

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 did enter into any forward contracts to manage this risk in the year ended December 31, 2008. 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 materially impair or enhance its ability to pay its foreign exchange obligations.

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

20 Financial instruments (continued)

Currency risk (continued)

The following table provides significant items exposed to foreign exchange as at December 31, 2008:

	US\$	Euro	SEK	GBP	DKK
Cash and cash equivalents	11,826	-	-	-	-
Accounts payable and accrued liabilities	(4,369)	(1,934)	(857)	(983)	(128)
Net exposure	7,457	(1,934)	(857)	(983)	(128)

The following exchange rates applied during the year ended December 31, 2008:

	Rate on January 1, 2008	Rate on December 31, 2008	Average rate for year ended December 31, 2008
US\$ – CA\$	0.993	1.225	1.066
Euro – CA\$	1.463	1.705	1.560
SEK – CA\$	0.155	0.155	0.162
GBP – CA\$	1.968	1.790	1.962
DKK – CA\$	0.196	0.229	0.209

Based on the Corporation's foreign currency exposures noted above, varying the foreign exchange rates to reflect a five (5%) percent strengthening of the Canadian dollar would have increased (decreased) the impact of unrealized foreign currency translation on net loss as follows, assuming that all other variables remained constant:

	Year ended December 31, 2008				
	US\$	Euro	SEK	GBP	DKK
Increase (decrease) net loss in CA\$	457	(165)	(7)	(88)	(1)

An assumed five (5%) percent weakening of the Canadian dollar would have had an equal but opposite effect on the above currencies to the amounts shown, on the basis that all other variables remain constant.

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20 Financial instruments (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to 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 vary as the amount of cash and cash equivalents and short-term investments the Corporation holds changes. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk.

The Corporation manages its interest rate risk by attempting to maximize the interest income earned on funds on deposit while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Corporation's investment policy limits the investing of excess funds to liquid, short-term bank acceptances and/or Guaranteed Investment Certificates ("GIC") with maturities of less than 1 year; however the average term to maturity will be approximately 90 days. Based on the net exposures as at December 31, 2008, and assuming that all other variables remain constant, a 1% appreciation or deterioration of the interest rate would result in a decrease/increase of \$642 in the Corporation's net loss for the year ended December 31, 2008.

Accounts payable and accrued liabilities bear no interest.

Credit risk

Credit risk is the risk of a financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that potentially expose the Corporation to significant concentrations of credit risk consist principally of cash, cash equivalents and short-term investments.

The Corporation has investment policies to mitigate against the deterioration of principal, to enhance the Corporation's ability to meet its liquidity needs and to optimize yields within those parameters. Additionally 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.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due or to fund the programs and commitments that the Corporation has planned.

The Corporation's exposure to liquidity risk is dependent on purchasing commitments and obligations or raising of funds to meet and sustain operations. The Corporation controls its liquidity risk through the management of its capital structure, cash flows and the availability and sourcing of financing.

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

20 Financial instruments (continued)

Liquidity risk (continued)

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 following are the contractual maturities of financial liabilities as of December 31, 2008:

	Carrying amount	Less than 1 year
	\$	\$
Accounts payable and accrued liabilities	12,015	12,015

The cash inflow of the Corporation is dependent 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.

21 Capital disclosure

The Corporation's objectives when managing capital are:

To safeguard the Corporation's ability to pursue the research and development of its products, complete its clinical trials, meet its ongoing operating expenditures and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable level; and

To provide an adequate return to shareholders commensurate with the level of risk associated with a development stage biotechnology Corporation.

In the management of capital, the Corporation includes cash and cash equivalents, short-term investments and the components of shareholders' equity to provide a capital of \$133,324 as at December 31, 2008 (2007 - \$80,448).

The Corporation sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. Since inception, the Corporation has financed its liquidity needs through public offerings and private placements of common shares. The Corporation has also met its liquidity needs through non-dilutive sources such as licensing fees from partners and interest income. In order to maintain or adjust the capital structure, the Corporation may adjust the number of shares issued, enter into collaborative and/or licences agreements, enter into mergers and acquisitions, acquire debt or enter into some other form of financing facility.

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Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)

21 Capital disclosure (continued)

In order to maximize ongoing research and development of its products, the Corporation does not pay out dividends.

The Corporation expects its current capital resources will be sufficient to carry its research and development plans and operations to completion of its current clinical trials.

The Corporation is not subject to any externally imposed capital requirements.

The Corporation's objectives in managing capital are to ensure a sufficient liquidity position to finance its research and development activities, clinical trials, corporate administration, working capital and overall capital expenditures. The Corporation attempts to manage its liquidity to minimize shareholder dilution whenever possible.

22 Related party transactions

During the years ended December 31, 2008 and 2007, the Corporation paid management services, professional fees, office rent and general administration amounts to companies controlled by directors and officers of the Corporation and to professional firms in which certain directors or officers have interests.

	For the years ended December 31,	
	2008	2007
	\$	\$
Management services	5,150	928
Office rent	221	205
General administration	127	116
Legal fees	89	257
	<u>5,587</u>	<u>1,506</u>

The lease for the office space is at a fixed rate ending December 31, 2013 with early termination available upon six months written notice by either party (Note 12 c).

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The completion of the Agreement with Lilly resulted in a one-time payment of a licensing bonus to Corporation personnel and related parties. The licensing bonuses paid in February 2008 totalled \$9.0 million of which \$4.2 million was paid to related parties and \$4.8 million was paid to employees and contracted personnel. The licensing bonuses have been allocated to research and development (\$3.4 million) and general and administrative expense (\$5.6 million) in these consolidated financial statements. The Compensation Committee, which is comprised of independent directors, together with the Board of Directors reviewed and approved the payment of all bonuses.

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Notes to Consolidated Financial Statements

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23 Segment Information

The Corporation operates in one business segment which is the development of pharmaceutical products based on its licensed and proprietary technologies, with substantially all of its operations and all of its long lived assets located in Canada.