



BioMS Medical Corp.

**Management Discussion and Analysis
of Financial Condition And Results of Operations**

For the Year Ended December 31, 2008

BioMS Medical Corp.
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Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to help the reader of the audited consolidated financial statements understand BioMS Medical Corp. together with its subsidiaries ("BioMS" or the "Corporation"), the operations and our present business environment as of March 13, 2009. This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes for the year ended December 31, 2008. The audited 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 March 17, 2009.

The Board of Directors of BioMS, on the recommendation of the Audit Committee, approved the content of this MD&A on March 17, 2009.

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 2009 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.

Company Overview

BioMS 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 at December 31, 2008 the Corporation had \$87.8 million in cash and cash equivalents to fund ongoing operations. 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 to the end of 2010. At February 28, 2009 the Corporation had approximately \$79.1 million in cash and cash equivalents.

BioMS is listed on the Toronto Stock Exchange (“TSX”) under the trading symbol “MS” and at December 31, 2008 there were 91,009,923 (December 31, 2007 - 91,410,323) 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, MPB8298 will now be referred to as dirucotide. The name will serve to identify the active pharmaceutical substance during the drug’s life-time worldwide.

In September, 2008 the Food and Drug Administration (“FDA”) in the United States (“U.S.” or “US”) granted fast track designation for dirucotide. Fast Track designation is an FDA status reserved for products that are intended to treat a serious or life-threatening condition and that demonstrate the potential to address unmet medical needs for that condition. Fast track designation can potentially facilitate development and expediate the review process

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 six 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.

Clinical Trial Programme

Currently, BioMS is conducting two clinical trials and one open-label follow-on trial for dirucotide related to the treatment of secondary progressive MS (“SPMS”):

- **MAESTRO-01:** A pivotal phase II/III trial in Canada and Western Europe, evaluating the safety and efficacy dirucotide for the treatment of SPMS. On January 22, 2007, BioMS announced that the trial had completed full recruitment of 611 patients at 47 trial sites in ten countries. Patients are administered either dirucotide or placebo every six months for a period of two (2) years. To date, there have been nine positive safety reviews from the Data Safety Monitoring Board (“DSMB”). On August 13, 2008 the DSMB conducted a scheduled interim analysis of efficacy and safety and recommended that the trial continue to completion. The interim analysis included patients from the first 200 patients to complete MAESTRO-01 and assessed the likelihood of the study reaching its primary endpoint at the end of the trial in MS patients with the target HLA-DR2 and/or HLA-DR4 immune response genes. Based on the DSMB decision Eli Lilly and Company agreed to provide the US\$10 million milestone payment to BioMS as part of the terms of the licensing and collaboration agreement.

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As at December 31, 2008 there were 167 active patients which were expected to complete their month 24 visit in the first half of fiscal 2009. Additional confirmatory visits for any potential progressions noted in the month 24 patient visit will be completed in second half of 2009 for completion of the trial, with data analysis and results available in the second half of fiscal 2009.

- **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 regardless of whether they were previously on placebo or drug. The trial will primarily evaluate the long-term safety of dirucotide. To date approximately 95% of the eligible patients that have successfully completed the MAESTRO-01 trial have enrolled in this follow-on study. As at December 31, 2008 less than 2% of patients had withdrawn early from this study and no withdrawals had been due to adverse events.
- **MAESTRO-03:** A pivotal phase III in the U.S. trial evaluating the safety and treatment of dirucotide for the treatment of SPMS. On August 1, 2008 BioMS announced that the trial had completed full recruitment of approximately 510 patients at approximately 67 sites across the US.

To date, the DSMB has conducted three reviews of the data from this trial and has recommended that the trial continue. The next data review is expected to take place in the second quarter of fiscal 2009.

BioMS is conducting an open label extension to its completed phase II clinical trial to evaluate dirucotide for the treatment of relapsing remitting MS (“RRMS”):

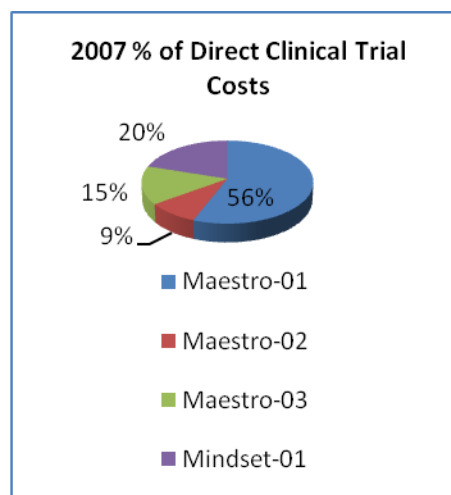
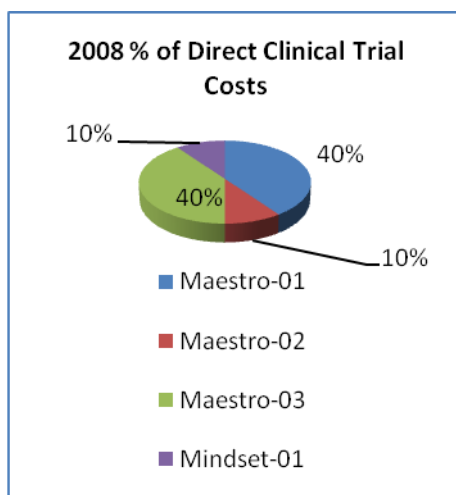
- **MINDSET-01:** The trial was a randomized, double-blind study, which recruited 218 patients at 24 trial sites in six countries across Europe and eligible patients are now receiving dirucotide on an un-blinded basis to the end of their 27th month in the trial which is expected to occur in the second half of 2009. Currently there are no plans to extend this clinical trial further.

On January 30, 2008, the Corporation announced that the top line results of the study showed that dirucotide did not meet its primary endpoint, annualized relapse rate or associated secondary magnetic resonance imaging (“MRI”) endpoints. Dirucotide did meet certain secondary endpoints related to the progression of the disease, including mean change from baseline in the EDSS and the MS Functional Composite (“MSFC”) score. The EDSS is a method of quantifying disability in MS, while the MSFC evaluates additional functional parameters. Measuring changes in EDSS and MSFC are primary and secondary outcomes in the ongoing phase III secondary progressive MS trials.

The data also showed that dirucotide was generally well tolerated. The most common side effects reported were redness and burning sensation at the injection site. No patients withdrew due to adverse events.

BioMS and its partner Eli Lilly & Company (“Lilly”) will continue to analyze the results of this exploratory phase II trial. Under the terms of the licensing agreement with Lilly, no milestone payment was associated with this trial, regardless of the outcome.

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Further discussion and analysis of the clinical trial costs is provided in the “Discussion of Operations and Financial Condition” section of this MD&A.

Selected Annual Information

The following is selected financial information for the three most recent fiscal years:

(expressed in 000's of Canadian dollars except per share amounts)	Years ended December 31,		
	2008	2007	2006
Revenue earned from collaboration partner	\$52,561	-	-
Research and development expense	46,502	\$38,907	\$35,185
General and administrative expense	13,790	7,490	5,416
Amortization expense	1,597	1,606	1,584
Total expenses	\$61,889	\$48,003	\$42,185
Investment Income	2,436	1,644	1,268
Foreign Exchange (gain) loss	(6,429)	849	-
Net loss	(463)	(\$47,208)	(\$40,917)
Net loss per common share – Basic and diluted	(\$0.01)	(\$0.56)	(\$0.62)
Cash and cash equivalents	\$87,826	\$35,428	\$37,416
Short-term investments	\$2,614	\$2,528	\$5,677
Total assets	\$100,504	\$51,410	\$55,469
Cash dividends	-	-	-

The increase in revenue as well as cash and cash equivalents from 2008 compared to 2007 and 2006 is the result of recognizing a portion of the upfront payment and development milestone for the positive interim analysis related to the MAESTRO-01 clinical trial received from the licensing agreement with Lilly (see “Licensing and Development Agreement with Eli Lilly and Company”).

Licensing and Development Agreement with Eli Lilly and Company

On December 17, 2007, the Corporation entered into a licensing and development agreement (the "Agreement") granting 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. In September 2008, the Corporation received its first development milestone payment of US \$10 million as a result of the positive interim analysis for the MAESTRO-01 clinical trial received from the DSMB for the SPMS indication. BioMS has the potential to receive future 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. All upfront and development milestones are non-refundable and non-creditable against any other payments. BioMS will continue to oversee the current clinical trials and the manufacture of certain clinical trial drug product until the date on which Lilly elects to continue with the Agreement after completion of the MAESTRO-01 trial.

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. Once Lilly receives the report and if they choose not to terminate the agreement, Lilly shall bear one hundred percent (100%) of any and all continuing development costs incurred by Lilly or BioMS. 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 by Lilly on ninety (90) days notice.

HYC750

On May 9, 2008 the Corporation entered into a Royalty and Assignment Agreement with Orcrist Bio Inc. ("Orcrist") for HYC750 in a non-cash transaction. BioMS held an exclusive worldwide license to technology from the University of Alberta, which involves a method for mobilizing hematopoietic cells in humans ("HYC750"). HYC750 is based on hyaluronic acid, a naturally occurring and vital component in the connective tissue of humans.

As a result of the Royalty and Assignment Agreement, BioMS has terminated its license with the University of Alberta and agreed to assign all BioMS owned patents relating to HYC750 and transfer all HYC750 assets to Orcrist. Under the terms of the agreement, BioMS will receive certain milestone payments in addition to a royalty on net sales of products which otherwise would have infringed on patents related to the HYC750 technology.

BioCyDex

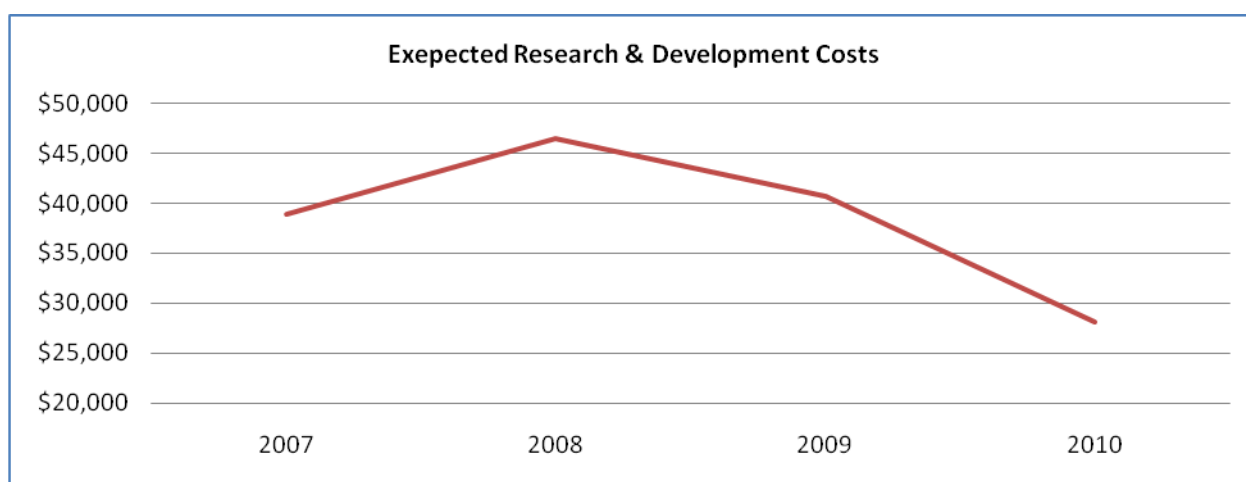
Pursuant to an agreement dated December 12, 2003 (the "BioCyDex Agreement") between the Corporation, BioCyDex Inc. ("BioCyDex"), the U of A Governors, Dr. Leonard I. Wiebe and Dr. James Diakur, the Corporation purchased a 49% interest in BioCyDex for \$326,666 in 2003. BioCyDex has exclusive worldwide licenses from the University of Alberta for certain technologies.

On May 9, 2008 the Corporation reported that it is ceasing its development activities with respect to BioCyDex and that all future development or licensing activities will be the responsibility of BioCyDex.

Discussion of Operations and Financial Condition

The consolidated net loss of the Corporation for the year ended December 31, 2008 was \$0.5 million or \$0.01 per share compared with a consolidated net loss of \$47.2 million or \$0.56 per share for the previous year. The results for the year ended December 31, 2008 included the recognition as revenue of \$52.6 million from the Agreement with Lilly. Research and development expenditures increased by \$7.6 million, general and administrative expenses increased by \$6.3 million, investment income increased by \$0.8 million and there was a foreign exchange gain of \$6.4 million in the year ended December 31, 2008 compared to the previous year.

It is expected that total research and development expenses will remain constant over the next year with a decline in 2010 as the dirucotide clinical trials related to MAESTRO-02 and MAESTRO-03, increase in number of patients under treatment and replace costs associated with MAESTRO-01 and MINDSET-01.



The expected research and development costs are based on current initiated clinical trials, protocols and requirements and may be subject to change.

Revenue and deferred revenue

Revenue earned from the collaboration agreement in the amount of \$ 52.6 million was recorded for the year ended December 31, 2008 compared to \$Nil revenue for the year ended December 31, 2007. The revenue is the result of the amortization of the upfront payment and development milestone for the positive interim analysis related to the MAESTRO-01 clinical trial received from the Agreement with Lilly.

The revenue represents the amortization of deferred revenue from the US\$87 million upfront licensing fee payment and the US\$10 million development milestone payment received from Lilly from the Agreement that closed 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 Agreement. The remaining balance of \$45.6 million of the deferred revenue from the 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 and commitment, are deferred and amortized into income over the estimated period of the Corporation's involvement and commitment, which varies based on the ratio of costs expended to the total estimated costs required to complete the Corporation's obligations related to the Agreement. If the Corporation cannot reasonably estimate when its performance obligation ceases the revenue is deferred indefinitely.

Expenses

Total consolidated expenses for the year December 31, 2008 were \$61.9 million as compared with \$48.0 million in the year December 31, 2007. Expenses related to the Corporation's direct research and development efforts accounted for \$46.5 million or 76% of all expenses as compared with \$38.9 million or 81% in 2007.



Research and development

The increase of \$7.6 million is attributable to a combination of factors the most significant being:

- a \$9.6 million increase in the clinical trial expenses related to the MAESTRO-03 trial due to completion of enrollment in the trial;
- decreases of \$1.9 million for MINDSET-01 and \$1.2 million for MAESTRO-01 compared to December 31, 2007 as the trials neared completion;
- a decrease of \$3.4 million in drug manufacturing expenses, the result of the completion of the manufacture of certain drug batches;
- a one-time licensing bonus payment of \$3.4 million to research and development personnel related to the collaborative license agreement with Lilly;
- an increase of \$0.3 million in regulatory work; and
- an increase of \$1.0 million in additional research and license expenses related to alliance management and support.

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(expressed in thousands of Canadian dollars)	For the Years Ended	
	December 31,	
Description	2008	2007
Multiple Sclerosis Clinical Trials	\$40,395	\$31,217
Drug Manufacturing for clinical purposes	1,118	4,484
Regulatory	1,592	1,337
Research and licensing	3,397	1,869
Total	\$46,502	\$38,907

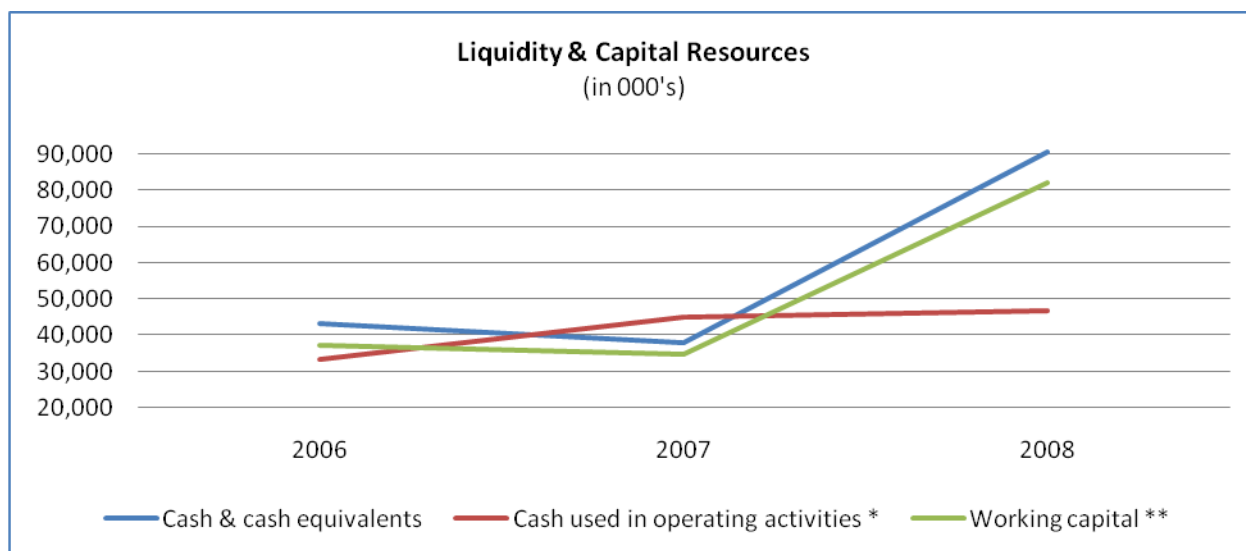
General and administrative

General and administrative expenses increased to \$13.8 million for the year ended December 31, 2008 an increase from \$7.5 million in the year ended December 31, 2007. General and administrative expenses represented approximately 22% of total gross expenses for the Corporation in 2008 compared with approximately 16% in 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.

Investment Income

Investment income earned on funds invested for the year ended December 31, 2008, increased to \$2.4 million from \$1.6 million in 2007 due to the increase in cash and cash equivalents as a result of the license and development agreement with Lilly. The increase was partially offset by a general reduction in interest rates experienced in the market. 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



*Cash used in operating activities is shown net of deferred revenue and revenue recognized for amounts received from licensing partner and is a non-GAAP measure

**Working capital is defined as current assets less current liabilities (excluding current portion of deferred revenue which does not represent a cash obligation). The Corporation uses working capital as a supplemental financial measure of its liquidity and operational performance. Working capital is a non-GAAP measure.

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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 up-front fees and milestone 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.

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

Adequacy of financial resources

At December 31, 2008, cash and cash equivalents and short-term investments totaled \$90.4 million as compared to \$37.9 million at December 31, 2007. At December 31, 2008, the Corporation had working capital of \$81.3 million as compared to \$32.8 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 through the end of fiscal 2010.

The Corporation had an increase in cash and cash equivalents of \$52.4 million for the year ended December 31, 2008 as compared to a decrease of \$2.0 million in the year ended December 31, 2007. The increase in cash and cash equivalents in the year ended December 31, 2008 is the net result of the receipt of the upfront licensing fee payment of US\$87 million and development milestone payment for positive interim analysis for MAESTRO-01 of \$US10 million received from Lilly and the expenses incurred in the operation of the Corporation. The net decrease of cash and cash equivalents in 2007 was the net result of completion of a financing with proceeds for the issuance of share capital of \$44.3 million and the expenses incurred in the operation of the Corporation.

As a development stage company and to focus its resources on its clinical programs, the Corporation has never paid a dividend and does not anticipate paying any dividends in the foreseeable future.

Cash used in investing activities

BioMS has implemented a disciplined approach to the management of liquidity, capital and overall stability. The Corporation invests its cash reserves primarily in liquid short term bank acceptances and Guaranteed Investment Certificates ("GIC") with maturities of less than 1 year; however, the average term to maturity will be approximately 90 days. The interest rates carried on investments varies from 0.35% to 3.40% depending on length and amount of investment or carrying balance. Cash and cash equivalents and short-term investments are on deposit with Canadian chartered banks.

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. 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 \$0.6 million in the Corporation's net loss for the year ended December 31, 2008.

To date the Corporation has not invested in any asset-backed commercial paper or similar investment vehicles and there are no plans to invest in these types of investments.

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Cash used in financing activities

On May 31, 2008, 34,500 stock options were exercised with the same number of class A common shares issued at a strike price of \$2.65 for total proceeds from issuance of \$91,425. No other share issuances occurred during 2008. During the year ended December 31, 2007, the principal financing activity of the Corporation was the issuance of 16,100,000 units by way of a public offering at \$2.75 per share, for gross proceeds of \$44.3 million. Each unit consisted of one class A common share and one-half of one class A common share purchase warrant. Each whole warrant entitles the holder to purchase one class A common share at an exercise price of \$4.00 until May 22, 2010.

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. Totals cost incurred by the Corporation during the year ended December 31, 2008 was \$0.2 million.

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. Total cost incurred by the Corporation during the year ended December 31, 2008 was \$1.2 million.

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

Financial Instruments

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 or measured any embedded derivatives that require separation for the years ended December 31, 2008 and 2007. 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
	<u>90,440</u>	<u>37,956</u>
<u>Financial liabilities</u>		
Accounts payable and accrued liabilities, other liabilities, recorded at amortized cost	12,015	8,918
	<u>12,015</u>	<u>8,918</u>

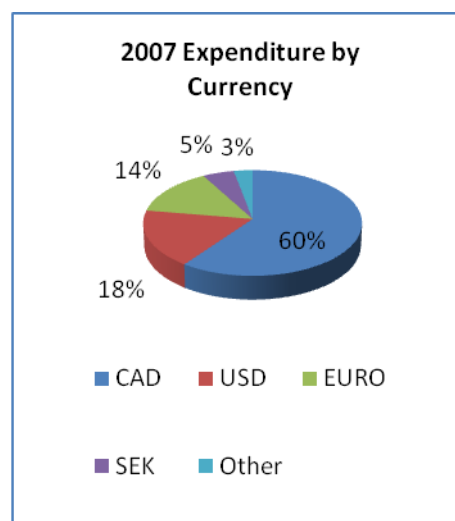
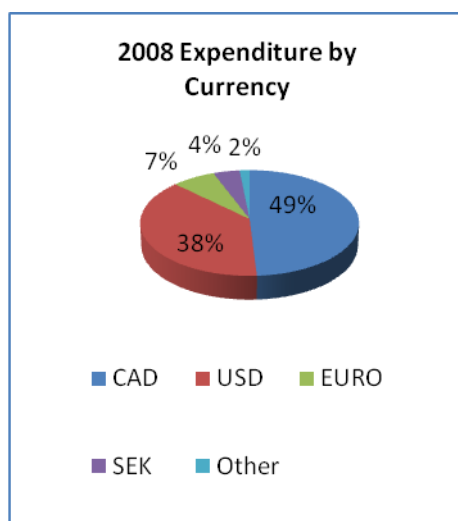
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The Corporation did not have any available-for-sale financial instruments during the years ended December 31, 2008 and 2007.

The Corporation does not enter into derivative financial instruments for speculative or trading purposes.

Currency Risk and Foreign Exchange

The Corporation's functional currency is the Canadian dollar. The Corporation recorded a foreign exchange gain of \$6.4 million for the year ended December 31, 2008, compared with a loss of \$0.9 million for the year ended December 31, 2007. The foreign exchange gain was the result of an increase in the value of the US dollar and the EURO against the Canadian dollar. 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.



United States dollars ("US\$"), European Euro ("EURO"), Swedish Kroners ("SEK")

At December 31, 2008 the Corporation had approximately US\$ 9.6 million included in cash and cash equivalents.

During the year ended December 31, 2008 the Corporation did not enter into or use forward contracts or hedging instruments although at any point in time, the Corporation may use forward contracts to mitigate the exposures associated with fluctuations in foreign currency exchange rates. As at March 17, 2009, the Corporation has not entered into any forward contracts or hedging instruments.

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.

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 professional firms in which certain directors or officers have interests.

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(expressed in thousands of Canadian dollars)

	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
	5,587	1,506

The lease for the office space is on a month to month basis with the lease cost fixed until December 31, 2013 and termination upon six (6) months written notice by either party. During the year the Corporation increased the amount of space occupied.

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.

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.

Contractual Obligations and Commitments

In continuing operations, the Corporation has periodically entered into short and long-term contractual arrangements for office facilities and equipment. 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	\$344,975	\$344,975	\$ -	\$ -
Equipment Lease	67,000	14,000	42,000	11,000
Total Contractual Obligations	\$411,975	\$358,975	\$42,000	\$11,000

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 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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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.

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.

Off-Balance Sheet Arrangements

As of December 31, 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 12 to the audited consolidated financial statements for the year ended December 31, 2008.

Share Information

As at December 31, 2008, the following class of shares and equity securities potentially convertible into common shares were outstanding:

	March 17, 2009	December 31, 2008	December 31, 2007
Class A common shares	91,009,323	91,009,323	91,410,323
Convertible equity securities			
Warrants	26,021,528	26,021,528	26,021,528
Stock options	10,516,500	9,166,500	7,831,000

On January 2, 2009, the Corporation granted 1,350,000 options to purchase common shares at an exercise price of \$3.60 per share to certain employees, directors, and consultants. The options vested immediately on the date of grant and expire on January 1, 2019. The fair value of stock options awarded to employees, directors and consultants of \$2,097,689 is being recorded to stock-based compensation expense and contributed surplus in the vesting period and will be recorded in the three-months ended March 31, 2009. The fair value was estimated on the date of award using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0.00%
Volatility	47.31%
Risk-free interest rate	1.90%
Expected life of the options	60 months
Closing market price of Corporations common shares on date of grant	\$3.60
Fair value per option	\$1.55

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.

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The expected time until exercise is based upon the contractual term, taking into account expected employee exercise and expected post-vesting employment termination behavior.

Eight Quarter Review

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

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$12,465	\$16,096	\$11,231	\$12,769	\$ -	\$ -	\$ -	\$ -
Research and development	13,928	10,092	9,339	13,143	9,303	9,092	10,237	10,275
General and administrative	2,150	1,252	1,693	8,695	2,319	1,077	1,466	2,628
Amortization of licensing costs	368	368	368	368	368	368	368	368
Amortization of property and equipment	44	38	31	12	34	34	33	33
Foreign exchange gain (loss)	3,777	1,413	(796)	2,035	(76)	(633)	(141)	1
Investment income	559	554	594	729	393	351	495	405
Net income (loss)	\$311	\$6,313	\$(402)	\$(6,685)	\$(11,707)	\$(10,853)	\$(11,750)	\$(12,898)
Earnings (loss) per common share – basic	\$0.01	\$0.07	\$(0.00)	\$(0.07)	\$(0.13)	\$(0.12)	\$(0.14)	\$(0.17)
Earnings (loss) per common share – diluted	\$0.01	\$0.07	\$(0.00)	\$(0.07)	\$(0.13)	\$(0.12)	\$(0.14)	\$(0.17)

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

Operating Results for the Three months Ended December 31, 2008

The consolidated net income of the Corporation for the three months ended December 31, 2008 was \$0.3 million or \$0.01 per share compared with a consolidated net loss of \$11.7 million or \$0.13 per share for the previous year. The decrease in the net loss was the result of the amortization of deferred revenue from the payments received from Lilly from the license.

Expenses

Total consolidated expenses for the three months ended December 31, 2008 totaled \$16.5 million as compared to \$12.1 million in the same quarter the previous year.

Research and development

Research and development expenses accounted for \$13.9 million or 84% of all expenses for the three months ended December 31, 2008 as compared with \$9.3 million or 77% in 2007. The increase in expenses was the net result of achieving full enrolment of clinical sites and patients in the MAESTRO-03 trial; increased costs for the MAESTRO-02 trial, in the way of organizational costs, patient costs as the patients continue on from the MAESTRO-01 trial; reduced costs of the MAESTRO-01 trial as more patients are completing or near completion of their two (2) years on the trial; and completion of the MINDSET-01 trial.

General and administrative

General and administrative expenses accounted for \$2.1 million or 13% of all expenses for the three months ended December 31, 2008 as compared with \$2.3 million or 19% in 2007. The Corporation expects these costs to remain constant in order to successfully manage activities surrounding its clinical programs and alliance with Lilly.

Critical Accounting Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are based upon management's historical experience and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates.

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

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 Company 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.

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 material.

Stock based Compensation

Stock-based compensation is recorded using the fair value based method for stock options issued 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, 2008. 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. The disclosure requirements pertaining to this new standard are included in note 21 of the December 31, 2008 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 the December 31, 2008 consolidated financial statements.

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 audited consolidated financial statements for the year ended December 31, 2008.

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 its first financial statements that are compliant with IFRS for the interim period ended March 2011 with comparatives.

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. 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.

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 three ongoing clinical trials: MAESTRO-01 pivotal Phase II/III clinical trial, MAESTRO-02 and open label follow on study to MAESTRO-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

BioMS believes that its available cash and cash equivalents and working capital are sufficient to meet operating and capital needs in the near term and through the end of 2010. In order to achieve its long term development and commercialization strategy, the Corporation may need to raise additional capital through the issuance of shares or collaboration agreements or partnerships that would allow the Corporation to fund 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 and fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, quarterly operating results of our competitors, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting our competitors or us. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.

Outlook

The Corporation is expecting final trial results for its MAESTRO-01 trial for SPMS patients in Canada and Europe in the second half of 2009. Eligible patients who have successfully completed the blinded, placebo controlled MAESTRO-01 trial may choose to receive dirucotide on an un-blinded basis in the open-label follow on study, MAESTRO-02. The Corporation has completed recruitment of patients for its MAESTRO-03 trial for SPMS in the U.S. as of August 1, 2008 and will continue the trial through to completion in late 2010 or early 2011. BioMS is responsible for all costs incurred in connection with the conduct of the clinical trials until 60 days from the date on which BioMS delivers to Lilly a complete written report of the final results of the MAESTRO-01 trial at which point, Lilly has the option of either accepting the written report and accepting responsibility and costs associated with proceeding with the Agreement and making a milestone payment to BioMS 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 significant costs and expenditures 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 through the end of fiscal 2010. BioMS does not anticipate that it will be required to approach the equity markets for additional funding for the development of dirucotide and the Corporation's ability to raise capital will depend on equity market conditions at that time.

Internal Control Over Financial Reporting

Management's Annual Report on Internal Control over Financial Reporting

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting, and has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management has used the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of the Corporation's internal control over financial reporting as of December 31, 2008, and has concluded that such internal control over financial reporting is effective. There are no material weaknesses that have been identified by management in this regard.

Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and concluded that the Corporation's disclosure controls and procedures were effective as of December 31, 2008 and in respect of the 2008 year end reporting period.

For the year ended December 31, 2008, the Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Corporation's internal disclosure controls and procedures and have concluded that the Corporation's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Corporation's internal controls over financial reporting that occurred during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, these controls.

Additional Corporate Information

Additional information on BioMS Medical Corp. may be obtained 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 or at the Corporation's web site at www.biomsmedical.com.
