

BioMS Medical Corp.

Interim Consolidated Financial Statements
(Unaudited) September 30, 2009

BioMS Medical Corp.
Interim Consolidated Balance Sheets
(Unaudited)

(expressed in thousands of Canadian dollars)

	September 30, 2009 \$ (Unaudited)	December 31, 2008 \$
Assets		
Current assets		
Cash and cash equivalents	53,622	87,826
Short-term investments	2,659	2,614
Goods and services tax recoverable	341	299
Prepaid clinical trial costs (note 5)	2,482	2,227
Recoverable from collaboration partner (note 6)	2,083	267
Other prepaid expenses	120	54
	<u>61,307</u>	<u>93,287</u>
Prepaid clinical trial costs	-	790
Licensing costs (note 7)	-	5,910
Property and equipment	<u>395</u>	<u>517</u>
	<u>61,702</u>	<u>100,504</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	6,667	12,015
Deferred revenue (note 8)	-	45,605
	<u>6,667</u>	<u>57,620</u>
Shareholders' Equity		
Share capital (note 9)	175,714	175,714
Contributed surplus	10,937	8,839
Accumulated deficit	<u>(131,616)</u>	<u>(141,669)</u>
	<u>55,035</u>	<u>42,884</u>
	<u>61,702</u>	<u>100,504</u>

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

BioMS Medical Corp.

Interim Consolidated Statements of Shareholders' Equity (Unaudited)

(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, 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
Stock options granted	-	-	2,098	-	2,098
Net income	-	-	-	10,053	10,053
Balance – September 30, 2009	91,009	175,714	10,937	(131,616)	55,035

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

BioMS Medical Corp.

Interim Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

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

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Revenue earned from collaboration partner (note 8)	45,605	40,097	20,615	16,096
Less: Research and development expenses	(23,317)	(32,574)	(3,670)	(10,092)
	22,288	7,523	16,945	6,004
General and administrative expenses	(5,885)	(11,641)	(1,275)	(1,252)
Amortization of licensing costs	(736)	(1,103)	-	(368)
Amortization of property and equipment	(127)	(82)	(42)	(38)
Income (loss) from operations	15,540	(5,303)	15,628	4,346
Other income (expense)				
Investment income	306	1,877	40	554
Impairment of licensing costs (note5)	(5,174)	-	(5,174)	-
Foreign exchange (loss) gain	(619)	2,652	(546)	1,413
	(5,487)	4,529	(5,680)	1,967
Net income (loss) and comprehensive income (loss)	10,053	(774)	9,948	6,313
Basic and diluted net income (loss) per common share (note 10)	0.11	(0.01)	0.11	0.07
Basic weighted average number of common shares outstanding	91,009	91,261	91,009	91,112
Diluted weighted average number of common shares outstanding	91,009	91,261	91,009	91,919

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

BioMS Medical Corp.

Interim Consolidated Statements of Cash Flows (Unaudited)

(expressed in thousands of Canadian dollars)

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash provided by (used in)				
Operating activities				
Net income (loss)	10,053	(774)	9,948	6,313
Items not involving cash				
Stock-based compensation (note 11)	2,098	2,175	-	7
Amortization of licensing costs	736	1,103	-	368
Amortization of property and equipment	127	81	42	38
Impairment of licensing costs	5,174	-	5,174	-
Loss on disposal of property and equipment	-	7	-	-
	18,188	2,592	15,164	6,726
Net change in non-cash working capital items (note 13)	(53,517)	57,762	(26,026)	(4,998)
	(35,329)	60,354	(10,862)	1,728
Investing activities				
Purchase of property and equipment	(7)	(269)	-	(241)
Net purchase of short-term investments	(45)	(66)	(7)	(2,271)
Licensing costs	-	-	-	-
	(52)	(335)	(7)	(2,512)
Financing activities				
Proceeds from issuance of share capital	-	91	-	-
Repurchase of share capital	-	(1,229)	-	(241)
Share issue costs	-	-	-	-
	-	(1,138)	-	(241)
Foreign exchange gain (loss) on cash and cash equivalents held in foreign currency	1,177	1,920	(373)	1,456
(Decrease) increase in cash and cash equivalents	(34,204)	60,801	(11,242)	431
Cash and cash equivalents – Beginning of period	87,826	35,428	64,864	95,798
Cash and cash equivalents – End of period	53,622	96,229	53,622	96,229
Cash and cash equivalents consists of				
Bank accounts	1,337	1,385	1,337	1,385
Interest bearing deposits and securities	52,285	94,844	52,285	94,844
	53,622	96,229	53,622	96,229

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

BioMS Medical Corp.

Notes to Interim Consolidated Financial Statements (Unaudited)

(expressed in thousands of Canadian dollars)

1 Nature of business

BioMS Medical Corp. is incorporated in Alberta under the Business Corporations Act is a corporation for the purpose of developing and commercializing pharmaceutical technologies.

2 Basis of presentation

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for interim financial statements 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”). Except as described in note 3, the accounting policies used in the preparation of these unaudited interim consolidated financial statements are consistent with the accounting policies used in the Corporation’s year-end audited consolidated financial statements of December 31, 2008. However, these unaudited interim consolidated financial statements do not include all information and footnote disclosures required under Canadian GAAP for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2008. 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) Goodwill and Intangible Assets (CICA Handbook Section 3064)

Effective January 1, 2009, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064, Goodwill and Intangible Assets, which replaces Handbook Section 3062 “Goodwill and Other Intangible Assets” and Handbook Section 3450 “Research and Development Costs”. 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. This Section did not have a material effect on the Company’s unaudited interim consolidated financial statements.

BioMS Medical Corp.

Notes to Interim Consolidated Financial Statements (Unaudited)

(expressed in thousands of Canadian dollars)

4 Future accounting pronouncements

a) Business Combinations (CICA Handbook Section 1582)

In January 2009, the CICA issued new Handbook Section 1582, Business Combinations, replacing Handbook Section 1581, Business Combinations. This new Section establishes the standards for the accounting of business combinations and provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), Business Combinations. This Section provides that all assets and liabilities of an acquired business, obligations for contingent considerations and contingencies will be recorded at fair value at the acquisition date. Acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

b) Consolidated Financial Statements (CICA Handbook Section 1601) and Non-controlling Interests (CICA Handbook Section 1602)

In January 2009, the CICA issued new two new CICA standards, Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests, which together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), Consolidated and Separate Financial Statements. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new Sections on the consolidated financial statements.

5 Prepaid clinical trial costs

Prepaid clinical trial costs include advance payments made pursuant to the contract research agreements to support research and development activities related to dirucotide. These costs will be expensed as research and development expenses as services are provided pursuant to the contract research agreements in connection with the conclusion of the dirucotide clinical trials.

BioMS Medical Corp.

Notes to Interim Consolidated Financial Statements (Unaudited)

(expressed in thousands of Canadian dollars)

6 Recoverable from collaboration partner

Recoverable from collaboration partner includes payments in the amount of \$2,083 (December 2008 - \$ 267) made to support research and development activities as required under the exclusive licence and collaboration agreement with Eli Lilly and Company (“Lilly”) and are expected to be recovered from Lilly.

7 Licensing costs

	Nine-month period ended September 30, 2009 \$ (unaudited)	Nine-month period ended September 30, 2008 \$ (unaudited)	Three-month period ended September 30, 2009 \$ (unaudited)	Three-month period ended September 30, 2008 \$ (unaudited)	Year ended December 31, 2008 \$
Licensing costs, opening balance	17,665	17,665	17,665	17,665	17,665
Accumulated Amortization	(11,755)	(10,283)	(12,491)	(11,018)	(10,283)
Net	5,910	7,382	5,174	6,647	7,382
Amortization expense	(736)	(1,103)	-	(368)	(1,472)
Write-down due to impairment loss	(5,174)	-	(5,174)	-	-
Net	-	6,279	-	6,279	5,910

The licensing costs relate to the acquisition of exclusive licenses to certain patents addressing the treatment of Multiple Sclerosis.

On July 27, 2009, the Corporation announced the results of MAESTRO-01, a pivotal Phase II/III clinical trial in Canada and Western Europe, evaluating the safety and efficacy of dirucotide for the treatment of secondary progressive multiple sclerosis (“SPMS”). The results showed that dirucotide did not meet the primary endpoint of delaying disease progression, as measured by the Expanded Disability Status Scale (“EDSS”). In addition, there were no statistical significant differences between dirucotide and placebo on the secondary endpoints of the study. The clinical trial was conducted and based on licenses and related agreements from the University of Alberta and AutoImmune, Inc. The Corporation has discontinued ongoing clinical trials, MAESTRO-02 and MAESTRO-03, and is now in the process of final collection of data and records. The value of the licenses and related agreements was directly linked to expected future cash flows from these agreements. Due to the negative results of the MAESTRO-01 clinical trial, the termination of the other ongoing clinical trials and the termination of the exclusive licence and collaboration agreement with Lilly on September 2, 2009, the ability to realize the expected future economic benefit from the licenses is limited. Therefore, the entire unamortized value of the licenses has been recognized as an impairment loss in the consolidated statements of operations and comprehensive loss.

BioMS Medical Corp.

Notes to Interim Consolidated Financial Statements (Unaudited)

(expressed in thousands of Canadian dollars)

8 Exclusive License and Collaboration Agreement

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

	Nine-month period ended September 30, 2009 \$ (unaudited)	Nine-month period ended September 30, 2008 \$ (unaudited)	Three-month period ended September 30, 2009 \$ (unaudited)	Three-month period ended September 30, 2008 \$ (unaudited)	Year ended December 31, 2008 \$
Deferred revenue balance, opening balance	45,605	-	20,615	63,382	-
Cash received:					
Upfront fee received from collaboration partner	-	87,383	-	-	87,383
Development milestone received from collaboration partner	-	10,783	-	10,783	10,783
Less: Revenue recognized	(45,605)	(40,097)	(20,615)	(16,096)	(52,561)
Deferred revenue – period ended	-	58,069	-	58,069	45,605
Less: Deferred revenue – current portion	-	(51,409)	-	(51,409)	(45,605)
Deferred revenue – long term	-	6,660	-	6,660	-

The completion of the pivotal Phase II/III clinical trial, MAESTRO-01 and the discontinuation of ongoing clinical trials MAESTRO-02 and MAESTRO-03 was announced on July 27, 2009. Revenue was recognized based on management's best estimate of the costs to be incurred for all the clinical trials previously underway up to the completion of the MAESTRO-01 clinical trial including the completion and delivery of the final written report provided to Lilly.

On September 2, 2009, the exclusive license and collaboration agreement between BioMS and Lilly was terminated with the effect that all commercial rights to dirucotide have been returned to BioMS.

9 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

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Notes to Interim Consolidated Financial Statements (Unaudited)

(expressed in thousands of Canadian dollars)

9 Share capital (continued)

The Corporation had 91,008,923 and 91,009,323 Class A common shares issued and outstanding as at September 30, 2009 and December 31, 2008, respectively.

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 101,100 of its common shares at an average price \$2.78 per share. 1,000 common shares were repurchased in the nine-months ended September 30, 2009 at an average price of \$2.43 per common share. 100,100 were repurchased in the year ended December 31, 2008 at an average price of \$2.78 per common share. The shortfall of the purchase price over the stated capital of the common shares has been credited to the deficit.

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. At September 30, 2009, under this plan, 12,000,000 common shares were reserved for stock options. To date 9,571,500 stock options have been granted. At September 30, 2009, the outstanding stock options include an additional 1,065,000 options which were granted prior to the establishment of the stock option plan.

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.

	<u>2009</u>	
	Number of options #	Weighted average exercise price \$
Outstanding – January 1	9,181,500	3.31
Granted	1,350,000	3.60
Exercised	-	-
Cancelled	-	-
	<hr/>	<hr/>
Outstanding –September 30	10,531,500	3.35
	<hr/>	<hr/>
Exercisable – September 30	10,516,500	3.35
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BioMS Medical Corp.

Notes to Interim Consolidated Financial Statements (Unaudited)

(expressed in thousands of Canadian dollars)

10 Net income (loss) per common share

Basic net income (loss) per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is computed by giving effect to all dilutive potential common shares, including options and warrants. The numerator and denominator used in the calculation of historical basic and diluted net income (loss) per common share are as follows:

	For the nine-month period ended September 30,		For the three-month period ended September 30,	
	2009	2008	2009	2008
Numerator				
Net income (loss)	\$ 10,053	\$ (774)	\$ 9,948	\$ 6,313
Denominator for net income (loss) per common share-basic				
Weighted average common shares outstanding (000's)	# 91,009	# 91,261	# 91,009	# 91,112
Net income (loss) per common share- basic	\$ 0.11	\$ (0.01)	\$ 0.11	\$ 0.07
Denominator for net income (loss) per common share-diluted				
Incremental common shares attributable to exercise of outstanding stock options and warrants	# -	# -	# -	# 807
Weighted average common shares outstanding (000's)	# 91,009	# 91,261	# 91,009	# 91,919
Net income (loss) per common share- diluted	\$ 0.11	\$ (0.01)	\$ 0.11	\$ 0.07

Common shares that could potentially dilute basic loss per common share in the future that could be issued from the exercise of stock options or warrants, were not included in the computation of the diluted loss per common share for the nine-months ended September 30, 2008 because to do so would be anti-dilutive.

BioMS Medical Corp.

Notes to Interim Consolidated Financial Statements (Unaudited)

(expressed in thousands of Canadian dollars)

11 Stock-based compensation expense

The Corporation is following the fair value based method of accounting for stock options. Compensation expense of \$nil and \$2.1 million has been recorded for the three and nine-months ended September 30, 2009 (2008 – \$0.0 and \$2.2 million).

The Corporation used the Black-Scholes option valuation model to estimate the fair value of the options granted during the three and nine-months ended September 30, 2009 and 2008 and using the following weighted average assumptions:

	2009	2008
Volatility	47.3%	40.5%
Risk-free interest rate	1.9%	3.7%
Expected life of the options	60 months	60 months
Dividend yield	0.0%	0.0%
Exercise price	\$3.60	\$3.97
Closing market price on date of grant	\$3.60	\$3.91
Fair value per common share option	\$1.56	\$1.59

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 Interim Consolidated Financial Statements (Unaudited)

(expressed in thousands of Canadian dollars)

12 Warrants

The Corporation has issued warrants as follows:

	2009	
	Number of warrants #	Weighted average subscription price \$
Outstanding – January 1	26,021,528	4.45
Granted	-	-
Expired	(287,500)	5.00
Outstanding – September 30	<u>25,734,028</u>	<u>4.45</u>

The expiry dates of warrants outstanding at September 30, 2009 range from December 31, 2009 to December 4, 2010.

13 Net change in non-cash working capital items

	Nine-month period ended September 30,		Three-month period ended September 30	
	2009 \$	2008 \$	2009 \$	2008 \$
Goods and services tax recoverable	(42)	357	(276)	100
Prepaid clinical trial costs	535	1,812	(73)	1,115
Recoverable from collaboration partner	(1,816)	-	(1,588)	-
Other current assets	(66)	1	49	126
Accounts payable and accrued liabilities	(6,523)	(2,477)	(3,523)	(1,025)
Deferred revenue	(45,605)	58,069	(20,615)	(5,314)
	<u>(53,517)</u>	<u>57,762</u>	<u>(26,026)</u>	<u>(4,998)</u>

14 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.