

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is the responsibility of management.

It should be read in conjunction with the accompanying financial statements and associated notes.

All amounts are expressed in Canadian dollars.

Overview

Bioniche Life Sciences Inc. is a leading Canadian biopharmaceutical company engaged in the discovery, development, manufacturing and marketing of products and technologies for human and animal health markets worldwide. Headquartered in Belleville, Ontario, Bioniche currently employs approximately 251 people at its offices and manufacturing facilities in Canada, the United States, Europe and Australia. The Company has three principal divisions: **Human Health**, **Animal Health** and **Food Safety**.

HUMAN HEALTH

The Human Health division consists of two business units:

- Bioniche Therapeutics, responsible for research, discovery and clinical development of human health products.
- Bioniche Pharma Group, responsible for the development, manufacturing and marketing of sterile injectable products and other pharmaceuticals for human health. These products are sold directly to the hospital market in Canada and globally through pharmaceutical distributors. Bioniche Pharma also operates as a contract manufacturer for pharmaceutical companies, as well as manufacturing products for Bioniche Therapeutics and Bioniche Animal Health.

ANIMAL HEALTH

The Bioniche Animal Health division is responsible for the research, development, manufacturing and marketing of animal health products worldwide. Established in 1979 to develop technologies to replace antibiotics in livestock, management believes Bioniche Animal Health is now the largest Canadian-owned biopharmaceutical animal health company, with subsidiaries in Canada, the United States, Australia and Europe, and distributors around the world.

FOOD SAFETY

The Bioniche Food Safety division is responsible for the research, development, manufacturing and marketing of biopharmaceutical animal health products to help prevent disease in humans and improve the safety of food and water supplies worldwide. The leading initiative of the division is development and commercialization of a cattle vaccine to help reduce the spread of the deadly *E. coli* O157:H7 bacteria.

Overall Business Strategy

The Bioniche strategic plan has three imperatives that provide a roadmap for business growth. First, the Company takes its existing proprietary technologies and continues, through its research and development program, to enhance their proven therapeutic and prophylactic value for human and animal health. Second, the Company enhances the intrinsic value of its products by commercializing these new technologies alone or with strategic partners. Third, the Company manufactures as many products emerging from the research and development program as possible, to enhance profit margins, protect the integrity of the products and enhance shareholder value.

Overall Corporate results

The Bioniche business divisions contributed to record sales in fiscal 2003. Consolidated revenues were \$51.6 million, a 27% increase over the \$40.5 million reported for the previous year.

On a segmented basis, Human Health revenues were \$26.3 million, a 66% increase over the \$15.8 million reported last year. This increase is due to strong sales of Suplasyn[®], the Company's osteoarthritis product, and other specialty pharmaceutical products. Animal Health revenues were \$25.3 million, a 2% increase over the \$24.7 million reported for the same period last year. Despite the negative impact of

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Growth by Division

	Actuals (in million \$)				CAGR* 3 years
	2000	2001	2002	2003	
Animal Health	17.2	19.2	24.7	25.3	14%
Human Health	9.2	12.3	15.8	26.3	42%
	26.4	31.5	40.5	51.6	25%

***Compounded Annual Growth Rate (CAGR)** The Compound Annual Growth Rate measures a market's annual growth over a period of time (usually several years). This measure is a constant percentage rate at which a market would grow or contract year over year to reach its current value. The CAGR is a more representative measure of annual growth over a number of years.

the prolonged BSE crisis on bovine product sales in Canada, the Animal Health division achieved growth internationally through expansion of global markets for Folltropin[®], the Company's lead reproductive product.

During fiscal 2003, Human Health activities accounted for 51% of the Company's consolidated revenues compared to 39% in the previous year. The compounded annualized growth rate over the past three years was 14% for the Animal Health division and 42% for the Human Health division.

Revenues by Geographic Region and Service Activity

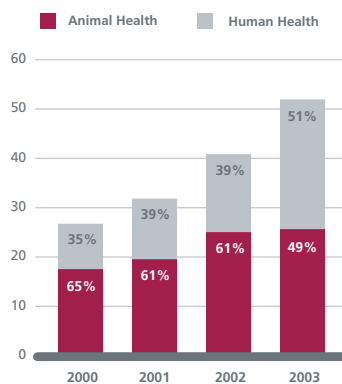
Sales and marketing activities in the United States resulted in a positive U.S. growth rate of 40% to \$21.7 million in fiscal

2003. This growth can be attributed primarily to increased sales of Bioniche Pharma products that followed six Abbreviated New Drug Application (ANDA) approvals from the U.S. Food & Drug Administration (FDA) during the year.

The Company also achieved improved results in Europe during fiscal 2003, with a growth rate of 66% to \$14.6 million, primarily due to increased sales of Suplasyn[®].

Canadian sales of the Animal Health division's reproduction and immunology products decreased during fiscal 2003, as a result of the severe drought in western Canada during the early part of the year, and the more recent BSE crisis that halted all exports of Canadian cattle to the United States and Japan.

Consolidated Revenues



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Revenue Growth Worldwide

	Actuals (in million \$)				CAGR* 3 years
	2000	2001	2002	2003	
USA	7.1	13.0	15.5	21.6	45%
Europe	4.1	5.6	8.8	14.6	53%
Canada	9.6	9.7	12.2	10.6	3%
Australia	0.9	1.3	2.3	3.0	48%
Others	4.7	1.9	1.7	1.8	
	26.4	31.5	40.5	51.6	25%

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Australian sales grew 30% to \$3.0 million in fiscal 2003, following the purchase of an animal health business in Armidale, Australia during fiscal 2002.

Also during fiscal 2003, a new animal health market was developed in China for Folltropin®. Further expansion of the market and increased product sales are expected during fiscal 2004.

Gross Profits

Cost of sales totaled \$19.6 million for the year compared to \$15.3 million in fiscal 2002. This translates into a gross margin of 62% or \$32.0 million gross profit in fiscal 2003 compared with 62% or \$25.2 million in fiscal 2002.

Operating Expenses

Operating expenses include marketing costs, selling, distribution, administrative expenses and quality assurance. In fiscal 2003, these costs increased by \$3.1 million over the previous year. As a percentage of revenues, this represents 35% compared to 37% in 2002. The decrease in these expenses, based on a percentage of sales, indicates that their growth is in line with the increase in sales activity and volume. During fiscal 2003, the Company increased marketing staff levels and activities in North America and Europe to support growing business volumes.

Investment in the sales and marketing team, as well as other functional areas, will continue in order to develop and manage available growth opportunities.

Total operating expenses of \$23.8 million include \$5.2 million in non-cash expenses. This highlights the fact that these expenses have not had a negative effect on the Company's cash burn rate.

Research and Development

Research and development expenditures for the 2003 fiscal year were \$14.7 million, a 24% increase over the \$11.8 million reported last year. The growth in research and development expenditures reflects the costs associated with ongoing preparation for the pivotal MCC bladder cancer trial, additional Cystistat® studies, development of Abbreviated New Drug Application (ANDA) sterile injectable pharmaceutical products, and the *E. coli* O157:H7 food safety vaccine development.

These expenses have been partially offset during fiscal 2003 and 2002 by \$1.8 million and \$1.1 million respectively in grants from the Government of Canada as well as the Governments of Ontario and Quebec.

Settlement of Litigation

In May, 2003, the Company settled its outstanding litigation in Germany with Fidia Farmaceutici S.p.A. Under the terms of the settlement, the Company acknowledged the validity of Fidia's patent for Hyaluronic Acid, which was the subject of the litigation, and agreed to the payment of royalties on the sales of certain products until the expiry of the relevant patents.

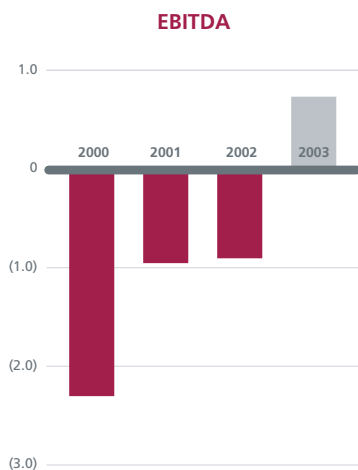
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Operating Expenses

in millions \$	As % of 2003 Revenue		As % of 2002 Revenue	
Revenue	\$51.6		\$40.5	
Administration	\$6.9	13.4%	\$6.2	15.3%
Marketing, Selling & Distribution	\$8.3	16.1%	\$6.9	17.0%
Quality Assurance	\$2.8	5.4%	\$1.8	4.6%
Subtotal	\$18.0	34.9%	\$14.9	36.9%
Non Cash Items				
Pension and Incentive	\$0.5	0.9%	\$0.4	0.9%
Amortization	\$2.5	4.8%	\$1.7	4.2%
Imputed Interest	\$2.2	4.3%	\$1.7	4.2%
Subtotal	\$5.2	10.0%	\$3.8	9.3%
Other Items				
Interest	\$1.7	3.2%	\$1.4	3.3%
Foreign Exchange	(\$1.1)	(2.1%)	\$0.1	0.3%
Subtotal	\$0.6	1.1%	\$1.5	3.6%
Total Operating Expenses	\$23.8	46.0%	\$20.2	49.8%

EBITDA

EBITDA, representing earnings before interest, income taxes, depreciation and amortization, increased to a positive \$0.7 million in fiscal 2003 from a loss of \$0.9 million during the previous year.



Net Earnings

The net loss in fiscal 2003 increased by 35% to \$6.5 million from \$4.8 million during the previous year. The basic loss per share was (\$0.23) compared with (\$0.17) per share in fiscal 2002.

Liquidity and Capital Resources

For the year ended June 30, 2003, cash used in operations (before net change in non-cash working capital balances related to operations) improved 76% to \$0.4 million from \$1.7 million in 2002.

Working capital at June 30, 2003, was \$19.4 million compared to \$17.1 million in 2002.

As of the fiscal year-end, the Company's consolidated cash and cash equivalents were \$9.8 million of which the Bioniche Pharma group held \$4.0 million. This \$4.0 million is subject to the terms of the convertible loan instrument, referred to in note 8(b) of the consolidated financial statements and is to be used to directly develop the Bioniche Pharma business.

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In May, 2003, the Company completed a \$13.5 million dollar financing with the Business Development Bank of Canada and two other major Canadian financial institutions, with funding advanced in two tranches. The first tranche of \$4.05 million was received on May 30, 2003, with the second tranche to be advanced upon the Company reaching agreement regarding the repayment of certain obligations under the previously existing \$9 million USD convertible debenture maturing in 2005 and granting of certain additional security to the lenders. The loan is secured, bears basic interest at 9.5% per annum, is repayable as to 20% on each of June 30, 2006, 2007 and 2008 with the balance maturing on June 30, 2009. In addition, the lenders are entitled to bonus interest based on product sales and licensing revenues in excess of \$35 million per annum of 0.25% (per million of principal) of such revenues between \$35 million and \$60 million and 0.19% (per million of principal) on sales greater than \$60 million. The lenders also have potential conversion rights at a 15% discount to the market price if the market price exceeds \$8.00.

In June, 2003, the Company completed a private sale of 1,225,000 common shares at a price of \$1.80 per common share for aggregate gross proceeds to the Company of \$2,205,000. The investors were also issued 306,250 three year warrants to purchase common shares at a price of \$2.11 per common share.

The Company believes that it will be able to obtain long-term capital, if necessary, to support its corporate objectives, including the clinical development programs in both animal and human health. However, it is impossible to guarantee the availability of additional financial resources or that these will be available under acceptable conditions. In the event that there is an inability to raise sufficient capital, the Company is in a position where it can rationalize the research and development programs. The Company is also exposed to currency risks as a result of the export of our products manufactured in Canada and Europe, substantially all of which are denominated in U.S.

dollars and also by the subsidiary, Bioniche Pharma, whose operations are in euros. Regarding the credit risk associated with cash, cash equivalents and short-term investments, they are held or issued by high-credit quality financial institutions.

Environmental, Health and Safety

The Company is committed to safeguarding the health of employees and the quality of the environment. Highly qualified environmental, health and safety professionals at all Company locations are dedicated to the maintenance and improvement of programs and procedures to ensure continued employee and environmental protection. To the best of the Company's knowledge, all of its facilities are in compliance with environmental and occupational health and safety regulations.

Risks and Uncertainties

Early Stage Development. Several of the Company's products or processes are at an early stage of development. Significant additional investment in research and development and clinical trials of such product and process candidates is required prior to commercialization. A commitment of substantial time and resources is required to conduct research and clinical trials if Bioniche is to complete the development of any product or process. It is not known whether any of these product or process candidates will meet applicable health regulatory standards and obtain required regulatory approvals, or whether such products or processes can be produced in commercial quantities at reasonable costs and be successfully marketed, or if the Company's investment in any such product or process candidate will be recovered through sales or royalties.

Government Regulations. The manufacture and sale of animal and human therapeutic products is governed by numerous statutes and regulations in the United States, Canada, Ireland and other countries where Bioniche intends to market its products. The subject matter of such legislation includes approval of manufacturing facilities, controlled research and testing procedures, review and approval of manufacturing, preclinical and clinical data prior to marketing

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approval, including adherence to GMP during production and storage, as well as regulation or marketing activities, notably advertising and labeling.

The products and procedures to be developed by Bioniche will require significant development, preclinical and clinical testing and investment of significant funds prior to their commercialization. There can be no assurance that any such products will actually be developed. The process of completing clinical testing and obtaining required approvals is likely to take several years and require the expenditure of substantial resources. Furthermore, there can be no assurance that the regulators will not require modification to any submissions that may result in delays or failure to obtain regulatory approvals. Any delay or failure to obtain regulatory approvals could adversely affect the ability of Bioniche to utilize its technology, thereby adversely affecting operations. Further, there can be no assurance that the Company's product candidates will prove to be safe and effective in clinical trials, or receive the requisite regulatory approval.

Key Personnel

The Company's success is also dependent upon its ability to attract and to retain a highly qualified work force, and to establish and maintain close relations with research centers. Competition is very strong and the Company's success will depend to a great extent on its senior executives, scientific staff and collaborators. The loss of key personnel could compromise the rhythm and success of product development.

Volatility of Share Prices

Share prices are subject to changes because of numerous factors related to its corporate activity, including reports of new information, changes in the Company's financial situation, the sale of shares in the market, the Company's failure to obtain results in line with the expectations of analysts, and an announcement by the Company or any of its competitors concerning technological innovation. During the past few years, shares of Bioniche Life Sciences, other biopharmaceutical companies and the investment market in general have

been subjected to extreme fluctuations that were unrelated to the operational results of the companies affected. There is no guarantee that the market price of Company shares will be protected from any such fluctuations in the future.

Intellectual Property Infringement Claims

Third parties may claim that we infringe on their intellectual property. Any such claims, with or without merit, could materially harm the Company's business and operating results.

Events Subsequent to the Year-end

On Sept 9, 2003, the Company closed the second tranche of the \$13.5 million financing with the Business Development Bank of Canada and two other major Canadian financial institutions and received the balance of the loan, equal to \$9.45 million. As part of this transaction, the Company granted a pledge of its shares in Bioniche Pharma Group Limited to the lenders. The Company used the proceeds to repay the remaining \$7.7 million USD balance of the previously existing \$9 million USD convertible debenture maturing in 2005, and modified the exercise price of the existing warrants that were issued in connection with the convertible debenture.

Forward-looking statements

Management's discussion and analysis contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events predicted in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

On behalf of management,



Patrick Montpetit, CA
Vice President and Chief Financial Officer