

2004

THIRD QUARTER REPORT



TO OUR SHAREHOLDERS

As you read this, Bioniche Life Sciences Inc. will have reached a significant milestone: 25 years in business. Over this time, Bioniche has evolved into an internationally recognized discoverer, developer, manufacturer, and marketer of both human and animal health proprietary technologies with growing revenues reaching more than \$50 million per year.

This significant growth and development has been made possible by the investment of our shareholders, strategic research partnerships, and the dedication and vision of our leaders and employees at Bioniche.

Human Health

Bladder Cancer

Bioniche is preparing to enter the final stage of Mycobacterial Cell Wall-DNA Complex (MCC) clinical development in bladder cancer. The MCC pivotal protocol in North America and Europe is under review and discussion with regulatory agencies to ensure that both jurisdictions will accept the same clinical trial protocol. We are anticipating that the pivotal trial should begin prior to the end of this calendar year. MCC will be produced in Pointe-Claire, Quebec, where our 27,000 ft.² facility has been validated and is manufacturing clinical trial material to cGMP standards.

Prostate Cancer

At the 19th Annual Congress of the European Association of Urology in Vienna in March, Bioniche announced the results of its Phase I clinical study in prostate cancer using MCC/HA, a new proprietary formulation of MCC in combination with Hyaluronic Acid (HA). Principal Investigator, Dr. Alvaro Morales, Professor of Urology and Oncology at Queen's University in Kingston, Ontario presented the study data, which showed that MCC/HA was well-tolerated by all patients. The objective was to assess the feasibility and safety of intraprostatic injection of MCC/HA. The injections induced a local immune response. We are now planning the phase II clinical program to confirm the safety and efficacy of this treatment.

Food Safety

Bioniche is the commercialization and marketing partner in a strategic alliance that is developing the *E.coli* O157:H7 vaccine. Other partners include the University of British Columbia, the Alberta Research Council, and the University of Saskatchewan's Vaccine & Infectious Diseases Organization (VIDO). The research group continues to generate data, most recently demonstrating the efficacy of the vaccine through a controlled challenge study performed at VIDO. A formulation to commercial scale demonstrated a reduction in the amount of bacteria shed and the number of animals shedding.

Data has been submitted to the United States Federal Department of Agriculture (USDA) and the Canadian Food Inspection Agency (CFIA) for review.

Animal Health

A series of events in, or subsequent to, our third quarter served to add to our strategic focus on reproductive technology for animals. Our lead reproductive product, Folltropin®-V, continued to see growth in sales this quarter, despite the negative impact that the Bovine Spongiform Encephalopathy (BSE) concerns in North America have had on the demand for our cattle-related products.

At the same time, we acquired the assets of AB Technology Inc. of Pullman, Washington. A world leader in the development of embryo transfer media, materials, and equipment for the bovine and equine markets, AB Technology is operating as a business unit of Bioniche Animal Health USA Inc. Completing the picture was the acquisition from Pfizer Inc. of the intellectual property and other assets of the Cue-Mate® business, an innovative livestock reproductive technology that allows dairy farmers and cattle producers to plan and manage the reproductive timing of their herds. Bioniche was already the dominant player in the livestock reproductive market globally. These recent acquisitions give us a more complete product range to offer our customers.

Third Quarter Results

In this quarter, Bioniche recorded consolidated revenue of \$13.3 million, 10% higher than the same period last year. For the nine month year-to-date period, consolidated revenue increased by 4% to \$36.6 million, compared to \$35.3 million for the same period last year.

Our nine-month revenue was negatively impacted by approximately \$1.5 million due to exchange rate fluctuations since last year. Bioniche would have recorded an 8% increase over the prior year's first nine months if global exchange rates had remained stable. Last year's nine-month revenues also included \$0.6 million from one-time licensing contracts.

The Bioniche Pharma Group had a solid quarter, undergoing another successful audit by the USFDA. This audit will mean additional Abbreviated New Drug Application (ANDA) approvals in the future.

Nine-month human health product sales, through Bioniche Pharma Group Ltd., increased 3% to \$17.8 million over the previous year. Bioniche Animal Health product sales increased 4% to \$18.8 million for the nine months compared to the same period last year. This performance was achieved despite the ongoing affects of the BSE situation.

Looking Ahead

The past 25 years have been filled with achievements and challenges as Bioniche has pursued the development of products intended to improve the quality of life. We remain committed to this pursuit and intend to leverage our research and development, production, and marketing assets across all of our operating divisions: Animal Health, Food Safety, and Human Health (including Therapeutics and Pharma) for the benefit of all of our stakeholders.

Effective treatments for bladder cancer and, potentially, other cancers; a vaccine to prevent *E. coli* O157:H7 contamination of food and water; technologies to improve livestock reproduction; and technologies to potentially replace antibiotic use in livestock ... these provide the areas of strategic focus for Bioniche.



Graeme McRae
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS FROM OPERATIONS

The following analysis outlines the variations in the Company's results of operations, financial condition, and cash flow. The discussion should be read in conjunction with the information contained in Bioniche Life Sciences Inc.'s consolidated financial statements and the related notes to the consolidated statements for the fiscal quarters ended March 31, 2004 and March 31, 2003.

OVERVIEW

Bioniche Life Sciences Inc., hereafter referred to as "the Company," is a fully integrated biopharmaceutical company focused on the discovery, development, manufacturing, and marketing of proprietary products for the human and animal health markets.

The Company reported a number of highlights in the course of its third fiscal quarter (January 1, 2004 to March 31, 2004), as follows:

- On February 12, 2004, the Company completed the purchase of the assets of AB Technology Inc. of Pullman, Washington. AB Technology is a world leader in the development of embryo transfer media, materials, and equipment for the bovine and equine markets. It is operating as a unit of Bioniche Animal Health USA Inc.
- On February 17, 2004, the Company completed a private placement offering of 5,000,000 Units at a price of \$2.00 per Unit for gross subscription proceeds of \$10,000,000. Each Unit was comprised of one Common Share and one-half of one Common Share Purchase Warrant. Each one whole Share Purchase Warrant entitles the holder to acquire one Common Share at a price of \$2.25 per Common Share until February 17, 2007. The net proceeds of the offering will be used for the commercialization of the *E. coli* 0157: H7 vaccine, initiation of the pivotal clinical program for MCC in bladder cancer, and for general corporate purposes. This financing was led by CIBC World Markets, with Loewen, Odaatje, McCutcheon Limited and Jennings Capital Inc. as co-managers.
- On March 29, 2004, the Company released the results of its Phase I Clinical Study in prostate cancer at the 19th Annual Congress of the European Association of Urology in Vienna. Dr. Alvaro Morales, Professor of Urology and Oncology at Queen's University in Kingston, Ontario, presented study data indicating that Mycobacterial Cell Wall-DNA Complex (MCC)/Hyaluronic Acid (HA) was well-tolerated by all patients and that histopathological examination of the prostates after prostatectomy revealed that the injections induced a local immune response. Planning is underway for a Phase II clinical program to confirm the efficacy and safety of MCC/HA for the treatment of prostate cancer.
- On March 29, 2004, the Company acquired the intellectual property and other assets of the Cue-Mate® business from Pfizer Inc. The Cue-Mate® technology is a uniquely-designed progesterone delivery device for cows that allows dairy farmers

and cattle producers to plan and manage the reproductive timing of their herds. This acquisition further extends the Company's depth and expertise in the livestock reproductive market.

REVENUES

Revenues were generated primarily from the sale of registered products in both the animal and human health sectors. In the third quarter, the Company recorded consolidated revenues of \$13.3 million, an increase of \$1.2 million, or 10%, from the \$12.1 million reported for the same period last year.

Total nine-month consolidated revenues to March 31, 2004 were \$36.6 million, as compared to \$35.3 million reported in the same period last year. This represents an increase over last year-to-date of 4%. The Company's year-to-date revenue has been negatively impacted by \$1.5 million due to exchange rate fluctuations since last year. Adjusted for currency fluctuations, sales increased by \$2.7 million, or 8%, over the same period last year. Last year's revenue included \$0.6 million generated from other one-time licensing contracts.

Year-to-date animal health product sales revenues from external customers were \$18.8 million, an increase of \$0.8 million, or 4%, from the corresponding period last year. This smaller than anticipated increase reflects the negative exchange rate impact on US dollar sales when converted to Canadian dollars, as well as the negative impact that the BSE concerns in North America have had on the demand for reproductive technology products.

The Company has offset the negative downward pressure on animal health product sales through global market expansion of current product lines, coupled with the strategic acquisition of complementary product lines. Sales growth is expected to accelerate within the Animal Health business unit powered by the recent acquisitions of the AB Technology product line and the Cue-Mate® technology. As well, global market opportunities are expanding for Folltropin®-V and Pregnacol® in Europe and Asia.

Year-to-date human health product sales revenues from external customers were \$17.8 million, an increase of \$0.5 million, or 3%, from the corresponding period last year. The Company's strategic change in the marketing of Cystistat® through its own distribution network in certain markets resulted in an increase in sales in the third quarter to \$933,000 as compared to \$351,000 reported in the third quarter last year. This reflects a turnaround from the 2% decrease reported for the six-month period ending December 31, 2003. Cystistat® sales to the end of March were \$2 million as compared to \$1.4 million reported in the same period last year. This increase of 43% is mostly attributable to increased distributor sales, as well as stronger sales in the Canadian market where the Company now distributes its own product. Significant events this quarter related to Cystistat® include the initiation of a post-marketing study for treatment of Interstitial Cystitis (IC) involving nine European and Canadian sites. Results from this study will be used to expand the IC market. The outlook for human health product sales remains positive as the Company anticipates increased sales from expanded Abbreviated New Drug Applications (ANDAs) and continued market expansion.

GROSS MARGINS

Gross profit of \$8.2 million on sales of \$13.3 million this quarter compares to \$6.9 million on sales of \$12.1 million in the same period last year. This represents an increase from 57% last year to 62% this year. The increase in margins during this quarter as compared to the same period last year reflects the pickup in sales of the Company's proprietary products such as Cystistat®. The better performance this quarter helped to offset the negative impact the stronger Canadian dollar is having on revenue and margins on a year-to-date basis. For the nine-month period year-to-date, gross profit of \$21.2 million was recorded on sales of \$36.6 million as compared to \$21.8 million on sales of \$35.3 million in the same period last year. Overall, gross profit margins were reduced by 4%, from 62% reported last year to 58% in 2004. This reduction can be directly attributed to the stronger Canadian dollar.

OPERATING EXPENSES

On a year-to-date basis, Administration and Marketing costs reached \$12.0 million compared to \$11.1 million in the same period last year. This increase of \$0.9 million, or 8%, is directly attributable to:

- Increased marketing and business development activities in the Human Health group to provide additional support needed to sustain the increased sales growth,
- Acquisition of AB Technology (accounts for half of the increase), and
- Increased cost of insurance, audit, legal, and consultant's fees incurred to support stringent reporting and disclosure requirements, financings, and acquisitions.

Total operating expenses reached \$18.6 million for the nine-month period ending March 31, 2004, compared to \$17.8 million in the same period last year, an increase of \$0.8 million, or 4%. Included in the operating expenses are \$3.6 million of non-cash items such as share pension plan, imputed interest, amortization, and currency on realized loss. As well, a \$1.7 million, non-cash gain over the debt refinancing was recorded this year.

RESEARCH AND DEVELOPMENT

Gross research and development expenses were \$9.6 million for the nine-month period ending March 31, 2004. This represents a decrease of \$1.2 million, or 11%, from the same period last year. This reflects the Company's decision to focus on priority research and development projects such as *E. coli* O157:H7 and MCC for bladder cancer.

RESULTS OF OPERATIONS

The net loss of \$2.1 million, or (\$0.06) per share, for the quarter ending March 31, 2004 compares to a loss of \$2.5 million, or (\$0.09) per share, from the same period last year. The year-to-date net loss of \$6.3 million, or (\$0.20) per share, compares to a net loss of \$6.6 million, or (\$0.23) per share, in the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

As of March, 2004, the Company's consolidated cash and cash-equivalents were \$9.2 million, of which the Bioniche Pharma Group had \$2.6 million. This \$2.6 million is subject to the terms of the convertible loan instrument to be used to directly grow the Bioniche Pharma business. As of March 31, 2004, the Company's working capital was \$18.7 million, compared to \$13.7 million one year ago.

On a year-to-date basis, the Company has repaid \$11.3 million of long-term debt offset by proceeds on a debenture loan of \$9.5 million and net proceeds of \$9.2 million from the private placement offering of five million Units. Net financing activities have provided \$8.3 million of working capital for the nine months ending March 31, 2004.

From the consolidated statement of cash flow, the "cash flow used in operations" (referred to as the "burn rate" in the industry), increased to (\$3.9 million), or (\$433,000) per month, for the nine months ending March 31, 2004. This compared to an average burn rate of (\$145,000) per month during the same nine-month period last year. Management is confident that this downward trend in the level of burn rate will continue for the balance of the year, considering that the fourth quarter has historically been the strongest sales period for the Company.

FORWARD-LOOKING STATEMENTS

Except for historical information, this report may contain statements that, by their very nature, are forward-looking, involving time periods, risks, and other factors, known or unknown, which are beyond the Company's control. Each of these factors may produce results or performances that differ significantly from expectations. These forward-looking statements involve risk and uncertainties which may cause, but are not limited to, changing market conditions, the successful and timely completion of clinical studies, the establishment of corporate alliances, the impact of competitive products and pricing, new product development, uncertainties related to the regulatory approval process, and other risks detailed from time-to-time in the ongoing quarterly and annual reporting of Bioniche Life Sciences Inc.

On behalf of management,



Patrick Montpetit, CA
Vice-President and Chief Financial Officer

Bioniche Life Sciences Inc.
Amalgamated under the laws of Ontario

CONSOLIDATED BALANCE SHEETS

	Unaudited As at March 2004 \$	Unaudited As at March 2003 \$	Audited As at June 2003 \$
ASSETS			
Current			
Cash and cash equivalents	9,187,512	4,944,150	9,848,410
Accounts receivable	10,694,281	10,138,423	12,988,929
Inventories	13,436,299	9,662,117	8,683,730
Prepaid expenses and deposits	575,236	358,403	614,080
	33,893,328	25,103,093	32,135,149
Long-term			
Capital assets	18,669,238	15,330,079	15,534,329
Goodwill	5,553,798	5,553,798	5,553,798
Intangible assets	10,245,581	11,291,333	10,768,457
Other assets	3,199,989	690,664	2,218,799
	71,561,934	57,968,967	66,210,532
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	13,085,851	10,151,115	11,103,499
Income taxes payable	950,680	391,333	550,812
Current portion of long-term debt	1,112,178	814,808	1,073,704
	15,148,709	11,357,256	12,728,015
Long-term			
Long-term debt	23,224,292	17,455,718	21,644,898
Other long-term debt	88,637	432,155	333,164
Deferred government incentives	3,287,605	2,377,857	2,548,123
Future income taxes	374,000	181,000	399,000
	42,123,243	31,803,986	37,653,200
Non-controlling interest	3,935,882	3,892,246	3,868,254
Shareholders' equity			
Share capital [note 2 and 4]	60,047,977	46,578,131	49,050,151
Other paid-in capital [note 2 and 4]	28,000	5,748,240	5,748,240
Deficit	(35,653,945)	(31,049,764)	(30,936,563)
Cumulative translation amount	1,080,777	996,128	827,250
	25,502,809	22,272,735	24,689,078
	71,561,934	57,968,967	66,210,532

See accompanying notes

Bioniche Life Sciences Inc.

CONSOLIDATED STATEMENTS OF LOSS

For the period ended March 31	Current Quarter 2004 Unaudited \$	Third Quarter 2003 Unaudited \$	Current Year to Date 2004 Unaudited \$	Last Year Year to Date 2003 Unaudited \$
REVENUE				
Sales	13,301,424	12,058,563	36,575,147	35,297,927
Cost of sales	5,064,278	5,120,214	15,388,081	13,501,716
Gross profit	8,237,146	6,938,349	21,187,066	21,796,211
OPERATING EXPENSES				
Administration and marketing	3,947,138	3,697,603	12,048,851	11,095,023
Quality assurance	1,024,868	792,944	2,656,690	2,033,680
Interest	687,779	333,421	2,045,493	1,142,061
Non-cash accounting elements:				
Share ownership and bonus	145,622	155,836	514,190	408,640
Amortization	527,429	625,043	1,663,292	1,816,609
Imputed interest expense on convertible debentures	285,019	514,579	1,007,045	1,696,072
Gain on debt settlement [note 4]	—	—	(1,744,835)	—
Foreign exchange (gain) loss	13,798	(563,589)	406,609	(419,247)
	6,631,653	5,555,837	18,597,335	17,772,838
Income before research and development and other item	1,605,493	1,382,512	2,589,731	4,023,373
Research and development expenses, gross	(3,801,570)	(3,708,795)	(9,629,874)	(10,799,429)
Less government incentives	307,033	588,724	1,249,363	1,587,824
Settlement of litigation	—	(975,533)	—	(975,533)
Loss before income taxes	(1,889,044)	(2,713,092)	(5,790,780)	(6,163,765)
Income tax (expense) recovery				
Current	(165,125)	54,221	(553,825)	(116,785)
Future	—	169,000	25,000	(181,000)
	(165,125)	223,221	(528,825)	(297,785)
	(2,054,169)	(2,489,871)	(6,319,605)	(6,461,550)
Non-controlling interest	(8,253)	(21,671)	(23,967)	(100,010)
Net loss for the period	(2,062,422)	(2,511,542)	(6,343,572)	(6,561,560)
Net loss per share	(0.06)	(0.09)	(0.20)	(0.23)

See accompanying notes

CONSOLIDATED STATEMENTS OF DEFICIT

For the period ended March 31	Current Quarter 2004 Unaudited \$	Third Quarter 2003 Unaudited \$	Current Year to Date 2004 Unaudited \$	Last Year Year to Date 2003 Unaudited \$
Balance, beginning of period	(33,591,523)	(28,538,222)	(30,936,563)	(24,488,204)
Settlement of convertible debentures [note 4]	—	—	1,626,190	—
Net loss for period	(2,062,422)	(2,511,542)	(6,343,572)	(6,561,560)
Balance, end of period	(35,653,945)	(31,049,764)	(35,653,945)	(31,049,764)

See accompanying notes

Bioniche Life Sciences Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended March 31	Current Quarter 2004 Unaudited \$	Third Quarter 2003 Unaudited \$	Current Year to Date 2004 Unaudited \$	Last Year Year to Date 2003 Unaudited \$
OPERATING ACTIVITIES				
Net loss for the period	(2,062,422)	(2,511,542)	(6,343,572)	(6,561,560)
Add (deduct) non cash items:				
Amortization	527,429	625,043	1,663,292	1,816,609
Non-cash interest expense	285,019	514,579	1,007,045	1,696,072
Foreign exchange	149,931	(622,631)	137,907	(239,060)
Deferred settlement payment	—	712,749	—	712,749
Directors fees	—	—	110,000	84,000
Non-controlling interest	8,253	21,671	23,967	100,010
Non-cash compensation	250,000	250,000	910,482	625,000
Employee share ownership plan	143,574	112,409	376,519	325,325
(Gain) loss on disposal of capital assets	(4,408)	5,336	(4,408)	(42,718)
Gain on debt settlement <i>[note 4]</i>	—	—	(1,744,835)	—
Future tax expense (recovery)	—	(169,000)	(25,000)	181,000
Cash flow used in operations	(702,624)	(1,061,386)	(3,888,603)	(1,302,573)
Net changes in non-cash working capital balances related to operations	(2,440,280)	900,792	(1,398,673)	(3,444,399)
Cash used in operating activities	(3,142,904)	(160,594)	(5,287,276)	(4,746,972)
INVESTING ACTIVITIES				
Acquisition of net assets <i>[note 5]</i>	(102,559)	—	(147,709)	—
Government incentives received on account of capital	—	16,211	18,462	16,211
Purchase of other assets	—	(5,000)	—	(5,000)
Disposal of capital assets	4,408	8,658	4,408	598,658
Purchase of capital assets	(1,450,571)	(528,982)	(3,907,448)	(1,840,758)
Cash used in investing activities	(1,548,722)	(509,113)	(4,032,287)	(1,230,889)
FINANCING ACTIVITIES				
Proceeds of bank financing	—	888,245	298,495	1,200,745
Minority interest investment	—	—	—	31,896
Common shares issued, net	9,245,000	—	9,227,266	—
Financing fees - debt	10,000	(105,726)	(229,376)	(169,476)
Proceeds on debenture loans	—	—	9,450,000	—
Increase in deferred government incentives	465,928	225,161	798,039	754,633
Repayment of long-term debt	(342,192)	(173,725)	(11,274,726)	(2,527,388)
Cash provided by (used in) financing activities	9,378,736	833,955	8,269,698	(709,590)
Effect of foreign currency translation	(83,264)	(290,150)	388,967	485,753
Net increase (decrease) in cash and cash equivalents during the period	4,603,846	(125,902)	(660,898)	(6,201,698)
Cash and cash equivalents, beginning of period	4,583,666	5,070,052	9,848,410	11,145,848
Cash and cash equivalents, end of period	9,187,512	4,944,150	9,187,512	4,944,150

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited — March 31, 2004 and March 31, 2003

1. SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements do not contain all disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, these financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended June 30, 2003. These unaudited interim consolidated financial statements follow the same accounting policies and methods of their application as outlined in the most recent annual consolidated financial statements except for the following:

The Company adopted the recently issued changes to the Canadian accounting standard for Stock-Based Compensation and Other Stock-Based Payments. The Company has elected to apply the new standards prospectively from July 1, 2003.

2. SHARE CAPITAL

Authorized and issued

The authorized capital of the Company is as follows:

- unlimited number of common shares; and
- unlimited non-cumulative, non-voting, redeemable preferred shares with no par value

Share capital consists of:

	March 2004 \$	June 2003 \$
Preferred shares - Series I – 167 [June 2003 – 167]	161,000	161,000
Common shares - 35,458,809 [June 2003 – 29,858,181]	57,185,347	47,739,701
Warrants	1,570,712	232,750
Share bonus [a]	1,085,054	878,280
Employee share ownership plan [a]	45,864	38,420
	60,047,977	49,050,151

(a) Share Bonus and Share Ownership Plan

The Company has accrued a share bonus in relation to the employee share ownership plan for all of its employees which will be settled by issuing the Company's common shares. At March 31, 2004, the Company has issued 474,092 shares under these plans in the current fiscal year, representing \$1,072,782 in value.

(b) Options

The fair value of stock options granted to employees and directors in the first quarter, determined based on the fair value method, was \$28,000 in the form of compensation expense. This amount has been credited to paid-in capital.

The following weighted average assumptions were used to determine the fair value of these options: risk free interest rate of 4.5%, expected dividend yield of 0%, expected volatility of 0.416 and expected option life of two and a half years resulting in a fair value per option of \$0.70. The Company uses the Black-Scholes model to calculate the fair value of options awarded.

(c) Shares Issued to Directors

At March 31, 2004, the Company has issued 37,275 shares to directors in lieu of payment of fees of \$82,000.

(d) Share Issues***i) Acquisition Paid in Shares***

On February 11, 2004, the Company issued 89,261 common shares valued at \$197,955 on the final closing of the acquisition of AB Technology Inc. [Note 5(i)]

ii) Share Offering

On February 17, 2004, the Company issued 5,000,000 common shares and 2,500,000 warrants pursuant to a private placement offering. Net proceeds have been pro-rated based on the fair value of each component, being \$8,092,909 for common shares and \$1,134,362 for the warrants. [Note 4(ii)]

3. SEGMENTED FINANCIAL INFORMATION

Bioniche Life Sciences Inc. has four reportable segments: Pharma, Animal Health, Therapeutics, and Food Safety. The Pharma segment is involved in the development, manufacturing, marketing, and sale of generic pharmaceutical products directly to hospitals, through pharmaceutical distributors, and as a contract manufacturer for pharmaceutical companies. The Therapeutics segment involves the research, development, and commercialization of proprietary immunostimulant technology and Hyaluronic Acid-based products. The Animal Health segment is involved in the research, development, manufacturing, marketing, sale, and resale of proprietary and generic pharmaceutical and complimentary products that support the bovine, equine, and porcine markets. The Food Safety segment is involved in the research, development, and commercialization of technologies to improve the safety of food and water supplies worldwide.

Current Quarter March 2004

Unaudited

	Human Health		Animal Health	Food Safety	Total
	Pharma	Therapeutics			
	\$	\$	\$	\$	\$
Sales from external customers	5,816,561	932,627	6,552,237	—	13,301,425
Inter-segment sales	1,057,542	—	24,664	—	1,082,206
Total sales	6,874,103	932,627	6,576,901	—	14,383,631
Segment income (loss) before research and development and other item	522,617	163,579	1,148,581	—	1,834,777
Segment income (loss)	40,211	(1,749,901)	405,693	(355,763)	(1,659,760)
Goodwill	3,504,007	1,347,695	702,096	—	5,553,798

Third Quarter March 2003

Unaudited

	Human Health		Animal Health	Food Safety	Total
	Pharma	Therapeutics			
	\$	\$	\$	\$	\$
Sales from external customers	5,668,762	350,923	6,038,878	—	12,058,563
Inter-segment sales	1,145,359	—	(13,802)	—	1,131,557
Total sales	6,814,121	350,923	6,025,076	—	13,190,120
Segment income (loss) before research and development and other item	406,292	496,368	139,290	—	1,041,950
Segment income (loss)	(948,691)	(2,012,263)	(120,371)	27,671	(3,053,654)
Goodwill	3,504,007	1,347,695	702,096	—	5,553,798

Current Year-to-Date March 2004

Unaudited

	Human Health		Animal Health	Food Safety	Total
	Pharma	Therapeutics			
	\$	\$	\$	\$	\$
Sales from external customers	15,820,886	1,977,906	18,776,355	—	36,575,147
Inter-segment sales	3,002,238	—	28,322	—	3,030,560
Total sales	18,823,124	1,977,906	18,804,677	—	39,605,707
Segment income (loss) before research and development and other item	772,392	(378,857)	1,226,605	—	1,620,139
Segment income (loss)	(326,957)	(5,127,663)	(754,268)	(551,484)	(6,760,372)
Goodwill	3,504,007	1,347,695	702,096	—	5,553,798

Last Year-to-Date March 2003

Unaudited

	Human Health		Animal Health	Food Safety	Total
	Pharma	Therapeutics			
	\$	\$	\$	\$	\$
Sales from external customers	15,397,582	1,869,677	18,030,668	—	35,297,927
Inter-segment sales	2,659,981	—	2,985	—	2,662,966
Total sales	18,057,563	1,869,677	18,033,653	—	37,960,893
Segment income (loss) before research and development and other item	2,110,987	239,993	1,277,304	—	3,628,284
Segment income (loss)	(224,817)	(6,125,159)	257,616	(466,494)	(6,558,854)
Goodwill	3,504,007	1,347,695	702,096	—	5,553,798

	Current Quarter 2004 \$	Third Quarter 2003 \$	Current Year to Date 2004 \$	Last Year to Date 2003 \$
Total loss for reportable segments	(1,659,760)	(3,053,654)	(6,760,372)	(6,558,854)
Change in inter-segment profit in inventory	(215,486)	(223,027)	(368,634)	(24,158)
Gain on debt settlement	—	—	1,744,835	—
Foreign exchange (loss) gain	(13,798)	563,589	(406,609)	419,247
Total loss before income taxes and non-controlling interest	(1,889,044)	(2,713,092)	(5,790,780)	(6,163,765)

4. FINANCING

i) Debt Financing

On September 9, 2003, the Company closed the second tranche of the \$13.5 million CDN loan from a syndicate of Canadian institutions and received the balance of the loan, equal to \$9.45 million CDN. As part of the transaction, the Company granted a pledge of its shares in Pharma in favour of the lenders.

The Company repaid the balance of the \$9 million USD convertible debenture with a private investor group and modified the exercise price of existing warrants that were issued in connection with that loan. As a result of the early extinguishment of this loan and conversion options, a gain of \$1.7 million CDN has been realized, the other paid-in capital balance of \$5.7 million has been eliminated and the deficit has been reduced by \$1.6 million.

ii) Equity Financing

On February 17, 2004, the Company completed a private placement offering of 5,000,000 Units at a price of \$2.00 per Unit for gross subscription proceeds of \$10,000,000. Each Unit was comprised of one Common Share and one-half of one Common Share Purchase Warrant. Each one whole Share Purchase Warrant entitles the holder to acquire one Common Share at a price of \$2.25 per Common Share until February 17, 2007. The net proceeds of the offering will be used for the commercialization of the *E-coli* O157:H7 vaccine, initiation of the pivotal clinical trial for MCC in bladder cancer, and for general corporate purposes.

CIBC World Markets Inc. acted as lead agent with Loewen, Ondaatje, McCutcheon Limited and Jennings Capital Inc. as agents in connection with this financing.

5. ACQUISITIONS

i) Net assets of AB Technology

The Company acquired the net assets of AB Technology Inc., an American veterinary products company in Pullman, Washington. The consideration paid consisted of \$550,000 USD payable monthly over the next year and \$150,000 USD to be settled by the issuance of common shares of the Company. The Company issued 89,261 common shares on the final closing date of

February 12, 2004. The transaction was accounted for using the purchase method of accounting. Accordingly, the acquired assets and liabilities were included in the Consolidated Balance Sheet and the operating results were included in the Statement of Operations beginning November 1, 2003.

The fair values of the net assets purchased were as follows:

	\$
ASSETS	
Cash and cash equivalents	20,900
Accounts receivable	212,019
Inventory	273,744
Prepaid expenses	12,114
Capital assets	83,561
Intangibles	596,973
	1,199,311
LIABILITIES	
Accounts payable	150,768
Note payable	79,164
Accrued liabilities	45,589
	275,521
Total purchase price	923,790
Less: common shares issued (\$150,000 US)	(197,955)
Net balance (\$550,000 US)	725,835

Net cash has been paid in the amount of \$91,018 as at March 31, 2004, with the remaining net balance payable monthly over the next 12 months.

ii) Cue-Mate® Reproductive Technology

On March 29, 2004, the Company acquired the intellectual property and other assets of the Cue-Mate® business, an innovative livestock reproductive technology, from Pfizer Inc. Total consideration was allocated as follows:

	\$
Inventory	529,054
Equipment	131,950
Patents	650,466
	1,311,470

Total cash of \$56,691 has been paid at March 31, 2004, with the remaining balance payable by December 31, 2004.

6. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.



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