



ANNUAL INFORMATION FORM

Year Ended June 30, 2011

September 28, 2011

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BIONICHE LIFE SCIENCES INC.

CORPORATE STRUCTURE

In this Annual Information Form, unless the context otherwise requires, Bioniche Life Sciences Inc., along with all of its subsidiaries where the context requires, is referred to as “Bioniche” or “the Company”.

Bioniche Life Sciences Inc. was formed on September 1, 1999 through an amalgamation of Bioniche Inc., Renaissance Life Sciences Inc. and Vetrepharm Animal Health Inc. pursuant to articles of arrangement issued under the Canada Business Corporations Act.

The Company currently employs approximately 225 people and has three operating units: Human health, animal health and food safety.

The human health operations have previously been carried out through Bioniche Therapeutics Limited, a wholly owned subsidiary of the Company. This subsidiary also carried out the research and development activities for the Company. On June 30, 2007, for business planning purposes the Company resolved to transfer the assets and liabilities of Bioniche Therapeutics Limited to the Company and to wind up that subsidiary. The human health operations and research and development activities are now carried out directly by the Company. This area of the Company’s operations continues to be referred to internally as Bioniche Therapeutics. Pursuant to a License, Development and Supply Agreement (“Agreement”) with Endo Pharmaceuticals Inc., the Company established a wholly-owned subsidiary in the U.S., Bioniche Urology Inc., through which Agreement-related transactions may occur. The animal health operations are carried out through four wholly-owned subsidiaries of the Company. These are: Bioniche Animal Health Europe Limited; Bioniche Animal Health USA, Inc.; Bioniche Animal Health (A/Asia) Pty. Ltd.; and Bioniche Animal Health Canada Inc.

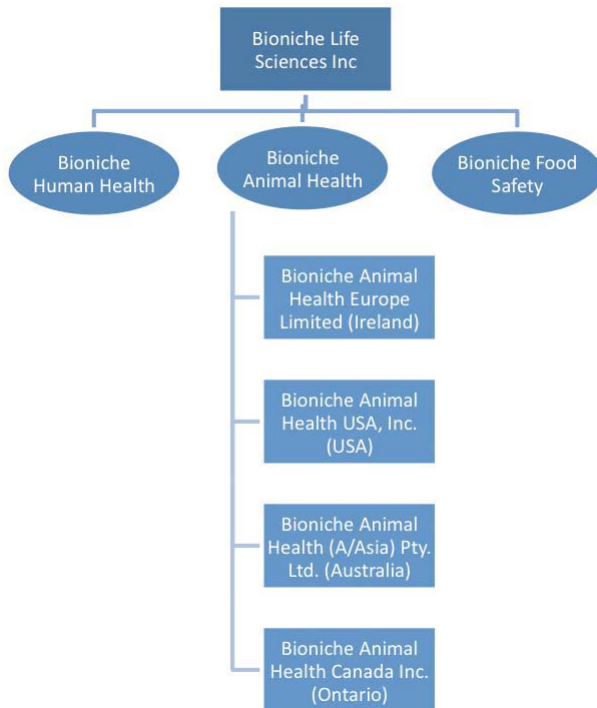
The food safety operations are carried out directly by the Company, through a business unit known as Bioniche Food Safety.

The Company’s registered and principal office is located at 231 Dundas Street East, P.O. Box 1570, Belleville, Ontario, Canada K8N 5J2. The Company’s registered office in Australia is c/o IAC Robertson & Co. Chartered Accountants, 54 Beecroft Road, Epping, NSW, Australia 2121, Postal Address: P.O. Box 881Epping, NSW Australia 1710.

The following is a list of the material subsidiaries of the Company as of June 30, 2011:

Subsidiary	Jurisdiction of Incorporation	Percentage of Voting Securities Owned Directly or Indirectly by the Company	Percentage of Non-Voting Securities Owned Directly or Indirectly by the Company
Bioniche Animal Health USA, Inc.	United States	100%	N/A
Bioniche Animal Health (A/Asia) Pty. Ltd.	Australia	100%	N/A
Bioniche Animal Health Canada Inc.	Ontario	100%	N/A
Bioniche Animal Health Europe Limited	Ireland	100%	N/A
Bioniche Urology Inc.	Delaware	100%	N/A

The following chart depicts the shareholdings of the Company and its material subsidiaries.



GENERAL DEVELOPMENT OF THE BUSINESS

OVERVIEW

Bioniche Life Sciences Inc. is a well-established life sciences company with revenues from product sales, multiple product offerings, physical infrastructure and human resource capabilities. The Company's shares have been publicly traded on the Toronto Stock Exchange (TSX) since February, 1992 and have remained continuously quoted on the TSX since that date. As of January 27, 2011, the Company commenced public quotation on the Australian Securities Exchange (ASX).

On both exchanges, the Company is listed as "BNC". The Company has had a demonstrable track record of successfully commercializing proprietary technologies in the human and animal health (veterinary) fields.

The Company operates through three divisions:

Bioniche Human Health	Bioniche Animal Health	Bioniche Food Safety
<ul style="list-style-type: none">• Drug discovery & development• Products based on proprietary technology• Bladder cancer treatment in late stage (Phase III) trials, with partner Endo Pharmaceuticals (NASDAQ: ENDP)	<ul style="list-style-type: none">• Largest Canadian-owned, research-based animal health company• 60 products sold globally with focus on:<ul style="list-style-type: none">• Reducing reliance on antibiotics (immunology)• Enhancing reproductive and equine performance• Preventing disease (vaccines)	<ul style="list-style-type: none">• Development of animal vaccines to help reduce zoonotic diseases affecting water and food safety• <i>E. coli</i> O157 cattle vaccine fully licensed in Canada, pending U.S. conditional license• Other animal vaccines in pipeline (e.g., <i>Salmonella</i>)

A predecessor of Bioniche was founded as an Animal Health company in 1979 by Graeme McRae, current Chairman, President and Chief Executive Officer, who believed that the major veterinary pharmaceutical companies were not putting sufficient research effort into alternatives to antibiotics as treatments for livestock disease. The Company, originally known as Vetrepharm Animal Health Inc., was launched with the support of a number of Canadian veterinarians, many of whom remain Shareholders of Bioniche to this day. The Company has established a reputation among the veterinary community of supplying important products with strong technical support.

On 1 September, 1999 Bioniche Life Sciences Inc. was formed through the amalgamation of Bioniche Inc., Vetrepharm Animal Health Inc. and Renaissance Life Sciences Inc. Renaissance Life Sciences Inc. was a holding company which owned, directly and indirectly, an approximate 45.5% equity interest in Bioniche Inc. and an approximate 94% equity interest in Vetrepharm Animal Health Inc.

In Fiscal 2011, the Company generated revenues of C\$36.0 million, of which C\$27.4 million were from the Animal Health Division, C\$3.1 million were from research collaborations and C\$5.5 million were from license payments by Endo that are non-recurring in nature.

Bioniche recorded a loss of C\$15.3 million or (C\$0.17 per share) in Fiscal 2011.

Operations

Bioniche Life Sciences Inc. is a research-based, technology driven, biopharmaceutical company headquartered in Belleville, Ontario, Canada. It seeks to discover, develop, manufacture and market proprietary products for human and animal health markets worldwide. The Company employs 225 people within three principal operating divisions. The Company generates the majority of its operating revenue from its Animal Health Division, through which products primarily related to livestock reproduction and equine performance are sold globally. Consolidated revenues related to Bioniche Animal Health product sales for the fiscal year were \$27.4 million, as compared to \$27 million in Fiscal 2010. This represents a stabilization of product revenues which had previously been reduced with the economic recession in some markets.

Over 50% of the Company's sales are U.S.-based, and while sales in U.S. dollars have increased slightly, the effect of changing exchange rates has offset gains made in the U.S. marketplace over the past year. Consequently, while the Company's U.S. sales have recovered from some of the recessionary effects seen in Fiscal 2010, the exchange effect has diluted the overall result. An example of positive signs from the U.S. relate to the Company's lead bovine reproduction product, *Folltropin®-V*, where sales increased to \$6.0M in Fiscal 2011 from \$4.9M in Fiscal 2010.

THREE-YEAR HISTORY OF THE COMPANY (FISCAL 2009 – FISCAL 2011)

Corporate Developments

Concurrent Share Offers

On January 4, 2011, the Company successfully completed an Australian Offer of 8.6 million CHES Depositary Instruments (CDIs) at A\$1.45 per CDI, raising gross proceeds of A\$12.5 million. This is in addition to C\$16.7 million raised through a concurrent Canadian Offer of 11.5 million Common Shares at C\$1.45 per Share that closed on December 16, 2010. Total proceeds from the two Offers were C\$26 million net of issuance costs.

ASX Listing

On January 27, 2011, the Company's securities were official listed and began trading on the Australian Securities Exchange (ASX) under the symbol, "BNC".

Animal Health & Food Safety Vaccine Manufacturing Centre Completion

On April 29, 2011, the Company officially opened its new Animal Health and Food Safety Vaccine Manufacturing Centre at its corporate headquarters in Belleville, Ontario, Canada. This facility represents the largest livestock vaccine manufacturing facility in Canada, with capacity to supply Canadian animal vaccine requirements and to meet international regulatory standards (Good Manufacturing Practice – GMP). This expansion provides Bioniche with the capability of producing a wide spectrum of vaccines, with fermentation capabilities of up to 5,000 litres and all downstream processing and supporting utilities.

The construction was completed with the support of \$25 million in government grants and loans through Industry Canada, Agriculture and Agri-Food (Canada), the Business Development Bank of Canada ("BDC") and the Ontario Ministry of Economic Development and Trade ("MEDT").

Pilot-Scale Fermentation Facility

On April 19, 2010, the Company announced that it has received an investment of \$750,000 from the Federal Economic Development Agency for Southern Ontario (FedDev Ontario). The investment has supported the development of a pilot-scale fermentation facility adjacent to the Company's Animal Health and Food Safety Vaccine Manufacturing Centre. The Company's research activities are focused mainly on small-scale, bench-top experiments. In order to scale-up the associated processes, a facility is required that houses pilot-scale fermentation equipment and downstream processing. The FedDev Ontario funding has provided such a facility.

Bioniche One of the Top 50 Best Small and Medium Employers in Canada

In October, 2010, the Company was named among the Top 50 Best Small and Medium Employers in Canada. Bioniche was ranked number 14 by its employees. Two years before, the Company attained a 13th place ranking (the Company did not participate in the survey in 2009). The rankings are primarily determined using the results from employee opinion surveys, where 18 key engagement drivers are detailed and analyzed. The evaluation process also includes the assessment of organization practices and perspectives from the leadership team.

License, Development and Supply Agreement for *Urocidin*TM

The Company has entered a new phase in its *Urocidin*TM clinical development program with the signing of a license, development and supply agreement with Endo Pharmaceuticals Inc. ("Endo") in July, 2009. This strategic partnership provides the Company with financial assistance and guidance in the completion of ongoing and future clinical studies, FDA and international regulatory filings and for the commercialization of *Urocidin*TM, a sterile suspension of Mycobacterial Cell Wall-DNA Complex (MCC) for the treatment of non-muscle-invasive bladder cancer. The Company is currently, and expects to continue to be, the manufacturer of *Urocidin*TM. Endo is based in Chadds Ford, Pennsylvania, and is a publicly-listed company (ENDP – NASDAQ).

Under the License, Development and Supply Agreement ("Agreement") with Bioniche, Endo licensed from Bioniche the rights to develop and market *Urocidin*TM (now also known as EN3348) for the treatment of non-muscle-invasive bladder cancer. The territories licensed originally consisted of the United States, Mexico and, subject to co-marketing rights, Canada. The Agreement also included a 12-month option to expand the territory to comprise global marketing rights. On February 12, 2010, Endo elected to exercise its option for exclusive rights to develop and market *Urocidin*TM globally, thereby becoming responsible for funding 100% of external clinical development costs.

Under its Agreement with Endo, Bioniche received an up-front cash payment of US\$20.0 million. The Company also has the potential to receive a further US\$110 million in additional payments linked to the achievement of future clinical, regulatory and commercial milestones. On November 6, 2009 the Company announced that it had met its obligations associated with the first milestone, triggering a payment from Endo of US\$6 million. On February 12, 2010 the Company announced the achievement of two additional milestones and received an additional US\$8 million from Endo. The Company announced the achievement of a fourth milestone on November 17, 2010, receiving a further US\$4 million from Endo.

In addition to the above payments, Bioniche has retained exclusive product manufacturing rights and will receive a net sales-related transfer price for supplying Endo with commercial product. Bioniche believes this agreement will provide it with overall economics that are superior to most biotech-pharma

partnership agreements and that Endo represents an optimal development and commercialization partner due to its market and industry expertise.

The Agreement contemplates that Endo will be granted a right of first negotiation for other clinical indications of MCC technology, where such clinical indications relate to urology or pelvic disease. Should Endo not elect to enter such negotiations and the parties conclude them to mutual satisfaction within a set period, the Company shall have no further obligations and Endo no further rights.

Human Health Developments

The Company's clinical development program for human health is focused on MCC technology for the treatment of cancers, and its clinical development and research activities are focused primarily in support of the ultimate commercialization efforts related to this technology.

Urocidin™ Clinical Program

The Company's Phase I and Phase II clinical trials using earlier formulations of MCC to treat non-muscle-invasive bladder cancer were completed with positive results. On February 18, 2009, the Company announced that The Journal of Urology had published an article summarizing the Phase II clinical trial results. The article, entitled "Intravesical Mycobacterial Cell Wall-DNA Complex in the Treatment of Carcinoma *In Situ* of the Bladder After Standard Intravesical Therapy has Failed", was co-authored by Drs. Alvaro Morales (Queen's University - Kingston, Ontario, Canada), Kiran Phadke (St.-George Hospital, Kogarah, New South Wales, Australia), and Gary Steinhoff (Vancouver Island Health Authority - Victoria, British Columbia, Canada). The Phase II trial resulted in a complete response rate in the intent-to-treat population of 27.3% at weeks 12 and 26 at a 4 mg dose and a 46.4% response at the same two points in patients receiving an 8 mg dose. Complete response was defined as no evidence of disease as determined by cystoscopy, biopsy and cytology. The product was well tolerated by both dose groups, with 90% of all adverse events being mild to moderate in severity.

Urocidin™ is now undergoing Phase III clinical testing, led by Endo. The first Phase III clinical trial in patients with non-muscle-invasive bladder cancer refractory to BCG therapy was initiated by Bioniche in November, 2006 and was fully enrolled in April, 2009.

A total of 129 patients were enrolled from 25 centers in the U.S. and Canada, with high grade papillary tumors and/or carcinoma *in situ* (CIS) and having failed to respond to one or more courses of BCG. According to the preliminary results the overall one-year disease-free survival (DFS) rate was 25 percent. DFS is defined as lack of recurrence or progression to muscle-invasive disease, as confirmed by biopsy. The one-year DFS rate was 35 percent for patients with only papillary tumors and 21 percent for patients with carcinoma *in situ* (CIS) with or without papillary tumors. The preliminary results indicate that intravesical administration of *Urocidin™* was well-tolerated.

Full analysis of clinical data at one year (primary endpoint) was initiated by Endo in November, 2010. Efficacy and safety results at one-year were presented in 2011 at urology association meetings as follows:

- European Association of Urology (EAU) - Vienna, Austria - March 20, 2011;
- American Association of Urology (AUA) - Washington, DC - May 17, 2011; and
- Canadian Urology Association (CUA) - Montreal, QC - June 21, 2011.

The first patient was enrolled in a second Phase III clinical trial of *Urocidin™* on February 16, 2011. This trial is a randomized, active-controlled, open-label, multi-centre study with a blinded endpoint assessment

designed to compare *Urocidin*TM with mitomycin C in the intravesical treatment of patients with BCG recurrent or refractory non-muscle-invasive bladder cancer.

It is estimated that 450 patients will be enrolled for this new trial at approximately 120 clinical sites worldwide. Summary details of the study protocol are publicly available via the U.S. National Institutes of Health (NIH) clinical trial registration service at <http://www.clinicaltrials.gov>.

Animal Health Developments

The Company has a product portfolio of more than sixty products, which are categorized in the following product groups: Reproduction and embryo transfer products; immunostimulant products; products based on hyaluronan; polyclonal antibodies; and natural health products. These products are sold into global markets, generating sales revenues that have been relatively stable over this three-year period; however, the global economic crisis has softened animal health markets, particularly in the United States and Europe, since 2009. In Fiscal 2010 and 2011, sales of food animal products have been challenged by depressed beef and pork markets in North America. The market for equine products has been affected to some extent as well. The Company, being subject to the economy of global trade, has also suffered the impact associated with fluctuating exchange and interest rates.

Folltropin®-V Registration in China

The Company's main product, *Folltropin*®-V is a leading follicle stimulating hormone used to induce superovulation in cattle to facilitate embryo transfer. Embryo transfer accelerates genetic advancement of herd quality as compared to conventional breeding techniques. *Folltropin*®-V is sold in Canada, the United States, Australia, New Zealand, Mexico, Brazil, Argentina and other Latin American countries, Korea, South Africa, China, the Netherlands, UK, Italy, Spain and Ireland. On March 31, 2011, the Company announced that authorization has been granted to market the Company's *Folltropin*®-V livestock embryo transfer technology in China.

Exclusive Marketing and Distribution Rights to SucroMateTM

On November 30, 2010, the Company announced that it has signed an agreement with Thorn BioScience LLC, a subsidiary of CreoSalus, Inc. The agreement provides exclusive rights to Bioniche to market and distribute CreoSalus' *SucroMate*TM *Equine* product in the U.S., with a first right of negotiation to expand the territory. *SucroMate*TM *Equine* was just registered in the U.S. by the U.S. Food and Drug Administration (FDA), one of only 8 new FDA-approved animal health drugs in 2010. It is a controlled release injectable of deslorelin acetate, used to time ovulation in horses and increasing the likelihood of conception during breeding. This is particularly valuable for thoroughbred horses where natural breeding is utilized, and it is also used in mares inseminated with fresh, cooled, and frozen semen.

Global License Agreement with the University of Ottawa

On August 25, 2010, the Company announced the signing of an exclusive global license agreement with the University of Ottawa. The agreement provides commercial access for Bioniche to University of Ottawa's technology for botanical therapeutics (natural health) and pharmaceutical compounds for treating anxiety and related conditions in animal health, human health and aquaculture. University of Ottawa researchers and collaborators at the Universidad Nacional in Costa Rica have been studying these botanicals and compounds extensively for nearly 15 years. The research team combined expertise in botany, biology, medicinal chemistry and neuroscience to develop this unique family of botanicals and compounds from natural sources. They demonstrated the strong anti-anxiety effects through studies in numerous animal models. Preliminary safety and efficacy data have proven promising and show none of

the side effects seen with other pharmaceutical anti-anxiety medications. The Company plans to initially explore developing the technology into animal health products for dogs and horses, where it could help reduce anxiety without the side effects of chemical calming agents. In the future, the Company may also explore the development of human applications for the technology. The licensing agreement includes a commitment to ongoing research at the University of Ottawa.

Global Veterinary License Agreement with Trophogen

On June 23, 2010, the Company announced that it had signed an exclusive global veterinary license agreement with Trophogen Inc., a U.S.-based biotechnology company. The agreement provides commercial access for Bioniche to a patented, proprietary superagonist hormone technology platform developed by Trophogen (originally licensed from the National Institutes of Health) in the growing veterinary fields. For the past 12 months Bioniche has been evaluating the technology in field situations. This technology will initially be developed into a next generation follicle stimulating hormone (FSH). The Company's current FSH product, *Folltropin®-V*, is a global market leader. *Folltropin®-V* is used to superovulate reproductively mature cattle. Bioniche also holds an Option to license additional veterinary reproductive products utilizing Trophogen's superagonist hormone technology.

Exclusive Distribution Agreement with Bayer Animal Health – Australia

On June 2, 2010, the Company announced that it signed an agreement with Bayer Animal Health, a division of Bayer Australia Limited, for the exclusive distribution of the Company's *Cue-Mate®* and *Pregnecol®* products in Australia. Under the agreement, Bayer Animal Health will become the exclusive distributor of Bioniche's *Cue-Mate®* and *Pregnecol®* products in Australia. *Cue-Mate®* and *Pregnecol®* are high quality products with a proven track record in delivering consistent results and enhancing reproductive performance in both beef and dairy cattle. An Australian market of over 15 million cows remains relatively untapped, and market education is critical for *Cue-Mate®* and *Pregnecol®* to grow. Bayer is expected to help the Company in both expanding the Australian market and in establishing a greater presence within it.

Food Safety Developments

As a result of the Company's expertise in animal health, it identified an opportunity to address animal diseases that can pose health risks to humans via food, water and environmental transmission. To pursue this opportunity, the Company's food safety business unit was established in July, 2001. Subsequently, a vaccine technology discovered by a researcher at the University of British Columbia became available for development.

The development and commercialization of the *E. coli* O157 cattle vaccine has become the lead project in the Company's food safety business unit. Beyond this, the food safety unit is also researching and developing other animal vaccines that may improve the safety of food and water supplies, and protect humans from diseases that are transmitted by animals.

E. coli O157 Vaccine: *Econiche™*

In October, 2008, the Company received full licensing approval from the CFIA, making *Econiche™* the world's first fully licensed vaccine designed to reduce the shedding by cattle of *E. coli* O157. A full license allows *Econiche™* to be available for unrestricted use by Canadian cattle producers and their veterinarians.

Since that time, the vaccine has been selling in limited quantities and is being manufactured in a product development laboratory pending the completion and validation of the new Animal Health and Food Safety Vaccine Manufacturing Centre in Belleville, Ontario. This facility is currently undergoing commissioning and validation procedures. This is a complicated and lengthy process that is expected to continue until early 2012, after which production scale-up will occur.

USDA Conditional License

The Company continues to pursue the registration of the *E. coli* vaccine in the United States. In February 2008, the Company received notice from the United States Department of Agriculture (“USDA”) that the latest data for its *E. coli* O157 cattle vaccine “meets the ‘expectation of efficacy’ standard” and is eligible for a conditional license provided that certain conditions are met. The conditional license, when granted, will provide the Company full access to the U.S. market with two restrictions: At least one step in the manufacturing process must be performed in the United States and Bioniche will not be permitted to use a trademark name for the vaccine. The Company and its U.S. manufacturing partner continue discussions with the USDA about both conditional licensing and full licensure.

Research and Development

The Company continues to explore next-generation *E. coli* vaccines. To this end, the Company is working with collaborators to develop a recombinant-derived vaccine which is expected to be more cost-effective and safer for handling during the manufacturing process.

The Food Safety business unit is also researching and developing other animal vaccines intended to improve the safety of food and water, including a *Salmonella* vaccine. In North America, *Campylobacter*, *Salmonella*, and *E. coli* are the three leading causes of bacterial gastroenteritis.

Scientific Publications

Several studies evaluating the efficacy of the vaccine under field conditions have been conducted by the University of Nebraska-Lincoln. These studies have shown that the vaccine, under field conditions, reduces the number of cattle that shed the bacteria, the amount of bacteria being shed, the presence of the bacteria on the hide, the number of animals colonized by the bacteria and the bacteria’s presence in the environment. These and other results have also been submitted for publication in peer-reviewed veterinary or food safety journals. In the three-year period, the Company announced the publication of the following articles:

- “Vaccination with type III secreted proteins leads to decreased shedding in calves after experimental infection with *Escherichia coli* O157”. The Canadian Journal of Veterinary Research (2011;75:98–105). This article summarized a controlled challenge study conducted in early 2008 at the Vaccine and Infectious Disease Organization (VIDO) - University of Saskatchewan which was the final study that led to the full Canadian license for *Econiche*TM from the Canadian Food Inspection Agency (CFIA) in October, 2008.
- January 28, 2010 – Bioniche Life Sciences Inc. (TSX: BNC), a research-based, technology-driven Canadian biopharmaceutical company, today announced that *Econiche*TM, the world’s first vaccine developed to reduce the shedding by cattle of *Escherichia coli* (*E. coli*) O157, has been cited in the February, 2010 issue of Scientific American (Vol. 302, No. 2). The article, “The Art of Bacterial Warfare”, was written by Dr. Brett Finlay, Peter Wall Distinguished Professor in the Michael Smith Laboratories, the biochemistry and molecular biology department, and the microbiology and immunology department at the University of British Columbia. Dr. Finlay’s research led to the development of *Econiche*TM.

- “A Two-Dose Regimen of a Vaccine Against Type III Secreted Proteins Reduced *Escherichia coli* O157:H7 Colonization of the Terminal Rectum in Beef Cattle in Commercial Feedlots”. *Foodborne Pathogens and Disease*, Volume 6, Number 00, 2009. The researchers concluded that the two-dose vaccine regimen effectively reduced the probability for *E. coli* O157 colonization of commercially fed cattle at harvest.
- “A Randomized Longitudinal Trial to Test the Effect of Regional Vaccination Within a Cattle Feedyard on *Escherichia coli* O157:H7 Rectal Colonization, Fecal Shedding, and Hide Contamination”. *Foodborne Pathogens and Disease*, Volume 6, Number 7, 2009. The researchers concluded that the two-dose vaccine regimen effectively reduced *E. coli* O157 fecal shedding and hide contamination, and that vaccination of cattle within regions of the feedyard provided greater protection against hide contamination than commingling vaccinates and non-vaccinates.
- “*Escherichia coli* O157:H7 Vaccine Dose-Effect in Feedlot Cattle”. *Foodborne Pathogens and Disease*, Volume 6, Number 7, 2009. The researchers concluded that a three-dose regimen significantly reduced the probability for cattle to shed *E. coli* O157 in feces 65% compared to placebo-treated cattle.
- “A Two-Dose Regimen of a Vaccine Against *Escherichia coli* O157:H7 Type III Secreted Proteins Reduced Environmental Transmission of the Agent in a Large-Scale Commercial Beef Feedlot Clinical Trial”. *Foodborne Pathogens and Disease*, Volume 5, Number 5, 2008. The researchers concluded that the two-dose vaccine regimen reduces the probability for environmental transmission of *E. coli* O157 within commercial cattle feeding systems.

Patents Issued in the Period

The Company continued to expand its intellectual property portfolio over the past three years, with 57 patents issued in various international jurisdictions related to the Company’s proprietary technologies during this period. The Company continues to place high importance on the long-term protection of its intellectual property through patents in order to give greater return to stakeholders as the technologies are commercialized.

Financing and Divestitures

Divestitures

In July 2009, the Company sold its interest in a regulatory registration in the United States for a veterinary anaesthetic product (*Ketamine*) to Bioniche Teoranta, an unrelated entity, for consideration of \$883,000 (US\$800,000).

Laurus

On December 19, 2007, the Company’s three-year revolving credit facility was amended to a maximum available amount of US\$5,500,000. For this renewal and amendment, the Company agreed to pay a fee of US\$1 million. This fee was due and payable upon maturity of the loan in December 2008 or when the loan was paid in full. The fee could be paid in shares or cash at the Company’s discretion. If paid in shares, the shares would be priced at the ten-day volume weighted average price on the day of payment. Amounts drawn were based on 90% of eligible accounts receivable and 35% of eligible North American inventory, capped at US\$2,500,000 plus an additional US\$3,000,000, of which approximately US\$3,868,374 was drawn at June 30, 2009.

On March 27, 2008, the Company exercised its right under the agreement with Laurus Master Funds to repay US\$1.75 million of its secured revolving credit facility with Valens U.S. (formerly Laurus Master Funds) in Common Shares. The conversion was in accordance with the formula set out in the original agreement signed in 2005. Shares were priced at the ten-day market average less 15%, which equated to 2,671,900 shares. In addition, the Company issued 200,000 five-year Warrants to purchase Common Shares at an exercise price of \$0.77 per share in exchange for Valens waiving certain volume restrictions relating to the conversion under the agreement. There was no penalty attached to the repayment.

On September 9, 2008, the Company exercised its right under the agreement with Laurus/Valens to convert US\$1.85 million of its revolving facility into equity at the previously negotiated 15% discount to the ten-day volume weighted average price. This resulted in the issuance of 4,565,049 shares and 211,429 five-year Warrants with an exercise price of \$0.49 per share. These issuances were made in exchange for Laurus/Valens waiving certain volume restrictions relating to the conversion under the agreement. There was no penalty attached to the transaction.

The Laurus/Valens loan was set to mature on December 31, 2008. On October 31, 2008, Laurus/Valens agreed to a three-month extension of the maturity date of the revolving credit facility to March 2, 2009. In exchange for the extension, an additional US\$500,000 was to be paid in Common Shares or cash at the discretion of the Company.

On March 2, 2009, the Facility became repayable on demand of the lender, and on April 27, 2009 the maturity date was again amended to June 30, 2009. A fee of US\$400,000 was charged by the lender for this amendment, payable in cash. On June 22, 2009, the maturity date was again amended and the Facility again became repayable on demand.

On July 20, 2009, the Company repaid its Credit Facility in full with Laurus/Valens along with all outstanding associated fees in the amount of US\$1.9 million, totalling US\$5.3 million. All security associated with the debt has been discharged.

Unit Offering

On December 16, 2010, the Company completed the Canadian portion of two concurrent financings announced on November 22, 2010. A total of 11,500,000 new Common Shares were issued at \$1.45, for gross proceeds of \$16,675. Issuance expenses for this financing were \$1,521.

On January 20, 2011, the Company completed the Australian portion of these concurrent financings. A total of 8,621,380 Common Shares were issued to underlie the equivalent number of Australian CHESSE Depository Instruments at A\$1.45 for gross proceeds of A\$12,501 [C\$12,253]. Issuance expenses for this financing were \$1,448.

During the year ended June 30, 2011, the Company purchased and then cancelled 130,000 of its own Common Shares from an executive for cash consideration of \$173.

Government Assistance

On September 7, 2007, the Company announced an agreement for a government grant from the Rural Economic Development Program (“RED”) in the amount of \$2,000,000 based on eligible expenditures for market development related to its *E. coli* 0157 cattle vaccine. During fiscal 2009, the RED program agreed to accelerate funding from 50% of eligible expenditures to 70%, with the maximum total funding remaining unchanged. As at June 30, 2011, the Company has recognized \$2,000,000 [2010 – \$1,862,110] of this grant related to eligible expenditures incurred since August 16, 2007. As a result of a 10% holdback clause in this agreement, the Company has discounted its holdback receivable of \$200,000

[2010 - \$186,211] to its estimated fair value of \$189,012 [2010 - \$183,599] to its estimated fair value of \$200,000 [2010 - \$183,599] using a discount rate of 5.69% and classified it as current accounts receivable [2010 - long-term accounts receivable]. This discount will be amortized over the term that each claim amount is outstanding, using the effective interest method. The eligible amount less the discount has been netted against the related marketing expenses totalling \$120,461 [2010 - \$612,771]. The RED program has agreed to extend the expiry of the agreement to September 30, 2011.

On December 18, 2007, the Company announced that it was eligible to receive up to \$10,000,000 in Ontario government financing in the form of a loan from the Ontario Ministry of Economic Development and Trade's 'Advance Manufacturing Investment Strategy' program ("MEDT") to fund eligible expenditures made by the Company since April 12, 2007, to scale up a vaccine production facility in Belleville, Ontario. During the incentive period, which runs until August 22, 2013, the loan is interest-free provided the Company meets certain targets by the end of the incentive period. To reflect the benefit of the interest-free period, the loan is discounted to its estimated fair value using a discount rate of 6.5% with the discount shown as a government grant. The discount will be amortized over the interest-free portion of the term of the loan, using the effective interest method. No principal payments are due during the incentive period. Interest at 5.69% begins to accrue on the first day following the incentive period. Beginning August 22, 2014 an annual payment of 20% of the principal balance plus accrued interest to that date becomes due. The loan is collateralized by a second charge on certain property, plant and equipment at the Company's Belleville, Ontario facility with a carrying value of \$21,217,928. During the year ended June 30, 2011, the Company received an advance of \$6,106,579 [2010 - \$961,606] bringing the total advanced to \$10,000,000 [2010 - \$3,893,421].

On December 20, 2007, the Company announced that it was eligible to receive up to \$5,000,000 in federal government financing in the form of a loan from the Department of Agriculture and Agri-Food (Canada) 'Agri-Opportunities' Program ("Agri-Ops") to fund eligible expenditures made by the Company since September 21, 2007, and to scale-up the aforementioned vaccine production facility. The loan is interest free. To reflect the benefit of the interest-free status of the loan, the loan is discounted to its estimated fair value using a discount rate of 13.50% with the discount shown as a government grant. The discount will be amortized over the term of the loan using the effective interest method. Principal repayment begins July 1, 2013, with payments of \$83,333 per month. During the year ended June 30, 2011, the Company received an advance of \$2,922,320 [2010 - \$744,272] bringing the total advanced to \$4,144 [2010 - \$1,221,393].

As at June 30, 2011 and 2010, no funds had been advanced under the MEDT or Agri-Ops programs which were restricted in use for future eligible expenses associated with the Vaccine Manufacturing Centre [2009 - \$1,227,374].

It was announced on February 7, 2008 that a further \$5,000,000 had been secured in the form of a commercial loan facility from the Business Development Bank of Canada ("BDC") collateralized by certain property, plant and equipment at the Company's Belleville, Ontario facility with a carrying value of \$21,217,928 and subject to certain annual financial and non-financial covenants. On April 22, 2010, the terms and conditions were amended to establish a revised payment schedule to commence May 1, 2011 with one payment of \$20,000, twelve payments of \$25,000, thirteen payments of \$40,000 and fifty-six payments of \$62,000. The interest rate was increased to BDC floating base rate plus 2.5% [June 30, 2011 - 7.5%, June 30, 2010 - 7.0%]. The rate may be fixed at the Company's option at the then current BDC rate. On May 19, 2011, the terms and conditions of the loan were further amended to change the commencement date for repayment to October 1, 2011. The payment schedule and interest rate remained unchanged. As of June 30, 2011, \$2,250,000 [2010 - \$1,750,000] has been drawn on this loan. Additional drawdowns on this loan facility will only be made if the Company incurs eligible expenditures on the vaccine manufacturing centre in Belleville, Ontario.

On July 8, 2010, the Company became eligible to receive up to \$750,000 in the form of an interest-free loan from the Federal Economic Development Agency of Ontario to fund eligible expenses made by the Company between April 1, 2010 and March 31, 2011 to support the development of a pilot-scale fermentation facility. This facility is part of the Company's Animal Health and Food Safety Vaccine Manufacturing Centre. The loan is repayable in equal monthly instalments beginning on November 1, 2011 over a period of five years. During the year ended June 30, 2011, the Company received advances of \$313,418. On August 16, 2011, the final eligible amount advanced under this program was determined to be \$688 and the monthly repayment was amended to \$11 per month.

Senior Debt

On June 24, 2011, the Company exercised its option to purchase a building under capital lease and assume the \$600,000 BDC loan collateralized by this property with a carrying value of \$996,597. Under the terms of the loan, monthly payments of \$10,000 plus interest at the BDC floating base rate plus 2% [2011 – 7.0%] are payable until June 1, 2016.

At June 30, 2011, the Company had total senior debt of \$2,541,713 [2010 - \$1,421,238] comprised of a \$1,562,000 loan from the BDC [2010 - \$1,062,000], a \$600,000 mortgage from BDC [2010 – nil] and a \$379,713 mortgage with ANZ bank in Australia [2010 - \$359,238]. In addition, the Company had capital leases of \$875,858 [2010 - \$1,360,100].

Endo Pharmaceuticals Inc.

On July 10, 2009, Endo Pharmaceuticals Inc. licensed from the Company the exclusive rights to develop and market *Urocidin*TM. Pursuant to the Agreement, Endo paid Bioniche an up-front cash payment of US\$20 million. On November 6, 2009 the Company announced that it had met its obligations associated with the first milestone, triggering a payment from Endo of US\$6 million. On February 12, 2010 the Company announced the achievement two additional milestones and received an additional US\$8 million from Endo. Also on February 12, 2010, Endo elected to exercise its option for exclusive rights to develop and market *Urocidin*TM globally. This transaction is described more fully on page 8.

Other

In 2001, the Company entered into two loan agreements with Technology Partnerships Canada (“TPC”), currently operating as the Industrial Technologies Office (“ITO”), a special operating agency of Industry Canada, for projects related to the MCC technology and the development and commercialization of the *E. coli* O157 cattle vaccine. The Company used consultants to assist in the application for these funds, which was a complicated process due to the complexity of the projects. On September 23, 2005, Industry Canada informed the Company that the structure of compensation for these consultants did not conform to government rules and, accordingly, the Company inadvertently was in default under the program. As a result, the Company entered into a settlement with Industry Canada on the same date, whereby the Company paid to the government an amount equal to the portion of the consultants' fees that were out of program compliance, plus government costs, for a total amount of \$463,974.71 plus interest. This put the Company back in good standing under the program.

In March, 2007, the Company agreed to amend its agreement with the ITO regarding the MCC project. The amendments included the extension of the anticipated completion date for the project to September 30, 2011, and the elimination of the obligation to issue a significant number of Share Purchase Warrants to TPC. In exchange, the Company agreed to an acceleration of its (capped) royalty obligations, which it expects to be made between 2010 and 2015, and to make certain cash payments to TPC. Upon the occurrence of a partnership agreement or upon regulatory approval for commercialization, but

commencing no earlier than June 2010, the Company will pay TPC \$960,000 per year for five years. The signing of a licensing agreement for the development and marketing of *Urocidin*TM on July 10, 2009 triggered the requirement to make annual cash payments of \$960 for five years. The total amount of this obligation was recorded at its estimated fair value at that time of \$3,884 using a discount rate of 7.5% as repayable government assistance with a corresponding expense of \$3,884. The discount is being amortized over the term of the loan using the effective interest method. The Company and ITO are currently negotiating changes to the agreement which may result in significant changes to the nature and/or terms of the obligation.

ITO has exercised its option to withhold the last 10% of the funding for the *Urocidin*TM project until the project is completed, currently estimated to be October 31, 2013. As a result of the long-term nature of this asset, the Company has discounted the amount withheld of \$960 to its estimated fair value of \$875 [2010 – \$875] using a discount rate of 7.5% and classified it as a long-term accounts receivable. The discount was reflected as a reduction in government incentives and is being amortized over the term to expected receipt, using the effective interest method.

On June 24, 2008, the Company amended the pre-existing \$7.6 million Contribution Agreement with the ITO related to its *E. coli* vaccine. The amendment extended the timeline for completion of work on the production scale-up of the Company's vaccine production in Belleville to March 31, 2013.

On June 21, 2010, the ITO and the Company amended the Contribution Agreement related to its *E. coli* vaccine. As a housekeeping measure, this Amendment updated the milestones, activities and expenses associated with vaccine development.

ITO has exercised its option to withhold the last 10% of the funding for the *E. coli* vaccine project until the project is completed, currently estimated to be March 31, 2013. As a result of the long-term nature of this asset, the Company has discounted the amount withheld of \$760 to its estimated fair value of \$662 using a discount rate of 8.0% and classified it as a long-term accounts receivable [note 5[b]]. The discount was reflected as a reduction in government incentives and is being amortized over the term to expected receipt, using the effective interest method.

SEGMENTED BUSINESS DESCRIPTIONS

HUMAN HEALTH DIVISION

1. Overview and Strategy

Bioniche Human Health is developing novel proprietary human therapies. The Company's strategy is to develop its therapies to the stage of clinical proof of concept and then, as appropriate, to establish alliances to complete clinical studies and regulatory approvals, as well as for marketing. These activities involve both pre-clinical and clinical activities.

Given the Company's limited resources, it was decided to focus on the development of MCC in non-muscle-invasive bladder cancer as a corporate priority.

The primary focus has been on the development of MCC, a proprietary technology owned by Bioniche for the treatment of cancer. The lead product candidate from this technology, *Urocidin*TM, is being developed under a global license, development and supply agreement with Endo Pharmaceuticals Inc.

Bioniche has successfully completed the relevant Phase I and Phase II clinical trials, and has also completed an initial Phase III trial in respect of *Urocidin*TM. On November 17, 2010, the Company earned

a US\$4 million milestone from Endo triggered by *Urocidin*TM attaining a contractual efficacy goal related to that Phase III trial. Endo enrolled its first patient in a second Phase III trial in February, 2011. This is a randomized, active-controlled, open label, multi-centre study that will be conducted in approximately 120 investigational sites worldwide, enrolling approximately 450 patients. The patient population will be similar to the Phase III trial completed by the Company. The protocol for this Phase III trial is available on www.clinicaltrials.gov under Identifier NCT01200992.

Providing the results are positive from the two Phase III clinical trials, the Company expects a Biologics License Application (BLA) will be submitted to the U.S. Food and Drug Administration (FDA) that seeks registration of a product for non-muscle-invasive bladder cancer that is refractory to BCG treatment.

Regulation by government authorities in Canada, the United States and the European Union is a significant factor in the research and development activities of the Company. In order to clinically test, manufacture and market drug products for therapeutic use for humans, the Company must satisfy the rigorous mandatory procedures and standards established by the regulatory agencies in the countries in which it currently operates or intends to operate.

The laws of most of these countries require the licensing of manufacturing facilities, carefully controlled research and the extensive testing of products. Biopharmaceutical companies must establish the safety and efficacy of their new products and control over manufacturing activities before being allowed to market their products. The safety and efficacy of a new drug must be demonstrated through clinical trials of the drug carried out in accordance with the mandatory procedures and standards established by the applicable regulatory agencies. In addition, prior regulatory approval is required before conducting any type of clinical research in humans.

Endo Pharmaceuticals is a specialty healthcare solutions company that develops diagnostics, drugs, devices and clinical data in the areas of pain, cancer, urinary tract and hormonal disorders. Under the global license, development and supply agreement with Endo, Bioniche has earned from Endo an up-front cash payment of US\$20 million and a further US\$18 million in milestones to date. The Company also has the potential to receive a further US\$92 million in additional payments linked to the achievement of future clinical, regulatory and commercial milestones. In addition, with its exclusive manufacturing supply contract, Bioniche will become entitled to receive a net-sales-based revenue stream upon product approval of *Urocidin*TM. This sales-based revenue stream ensures that Bioniche participates in sale revenues globally by providing Endo with *Urocidin*TM in finished dosage form at a price based on the net selling price in each country where the product is sold.

2. MCC Technology

Mycobacterial Cell Wall-DNA Complex (MCC) is Bioniche Human Health's platform proprietary technology that can be used as a treatment for a range of potential types of cancer.

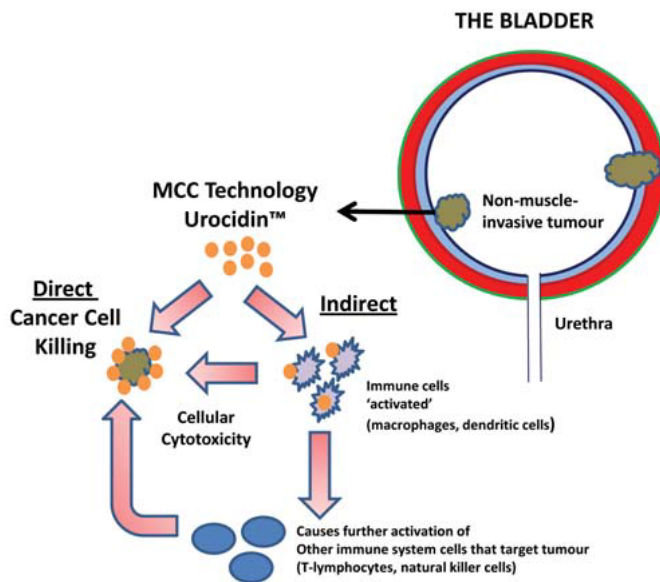
Mycobacteria are a family of bacterial microorganisms that are known to possess immune modulating properties. There are some members of this bacterial family that are non-pathogenic (non-disease-causing). There are also members of this bacterial family that are pathogens (disease-causing) which result in a number of human and animal diseases, the best known of which is tuberculosis (TB), caused by *Mycobacterium tuberculosis*. A related organism, *Mycobacterium bovis*, is the cause of tuberculosis in cattle after mutation and forms the basis of Bacillus Calmette-Guérin (BCG) therapy developed as a vaccine for humans to prevent TB and used in the treatment of non-muscle-invasive bladder cancer. The organism used by Bioniche as the source organism of its MCC technology is a soil-borne mycobacterium - *Mycobacterium phlei* (*M. phlei*). *M. phlei* is a non-pathogenic (non-disease-causing) organism that possesses the immune stimulating properties of the mycobacterial family, yet is not associated with infection in humans or animals and has the advantage of being safe to handle (Level 2 biosecurity for

laboratory and manufacturing). Level 2 facilities are built at significantly lower cost than those requiring Level 3 or Level 4 biocontainment. Bioniche discovered that the DNA of *M. phlei* possesses direct anti-cancer activity, as well as stimulating an anti-cancer immune response.

Bioniche has also demonstrated that cell wall fragments of *M. phlei* are potent immune stimulants. When the mycobacterial DNA is complexed to the fragments of the mycobacterial cell wall, it optimizes the activity of both, resulting in an anti-cancer immune modulator with direct anti-cancer effect.

Immune stimulation activity: MCC stimulates an immune response that causes activation of cells with anti-cancer activity.

Direct anti-cancer activity: MCC triggers specific targeting and programmed death of cancerous cells (apoptosis) - even in drug-resistant cancer cells. This activity assists in overcoming the failure of conventional chemotherapy to adequately deal with drug-resistant cancer cells.



MCC is expected to have application in patients who have, or potentially have, a weakened immune system due to age or prior chemotherapy. It is also expected it will be applicable to patients who have developed a resistance to conventional chemotherapies or other drugs.

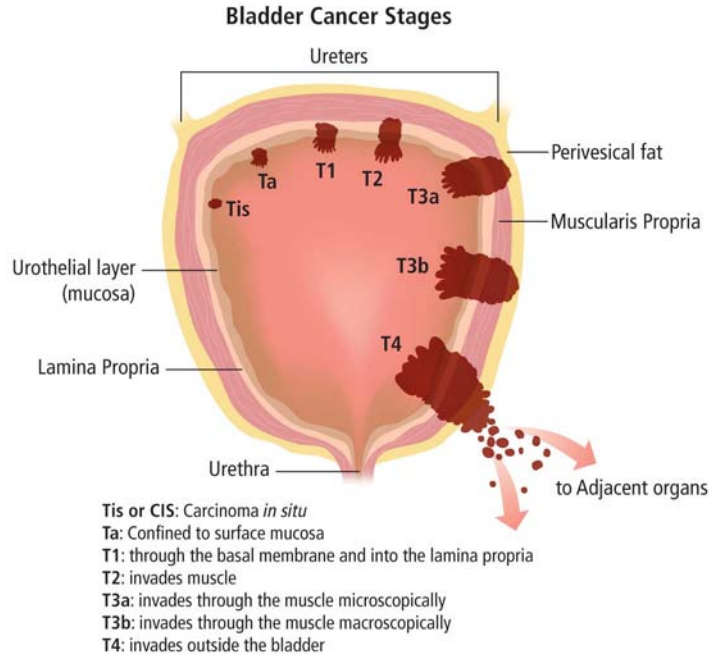
3. *Urocidin*TM

The lead product candidate being developed with the MCC technology is *Urocidin*TM, an immunologic treatment for non-muscle-invasive (superficial) urinary bladder cancer.

Non-muscle-invasive bladder cancer is that which is limited to the inner three layers of the bladder wall: The surface mucosa (epithelial lining), basal membrane or lamina propria. Bladder cancers are staged as Ta or T1 to T4 and graded as G1 or G2. Staging is based on their extent of invasion and grading is based on cellular pathology. Bioniche is targeting tumour types Tis/CIS, TaG2, T1G1 and T1G2 - all the types of non-muscle-invasive tumours at high risk of recurrence or progression.

The Company's Phase I/II studies using MCC emulsion to treat this condition have been completed. These studies were conducted under an investigational new drug application (IND) with Health Canada and a Clinical Trial Exemption (CTX) with the Therapeutic Goods Administration in Australia.

The two studies involved 130 patients who suffered from Carcinoma *in situ* (CIS), an aggressive and difficult to treat form of non-muscle-invasive bladder cancer. Most patients had been previously treated – unsuccessfully - with the current gold standard immunotherapy, BCG or chemotherapy. The first Phase I/II study involved 75 patients treated with a 4 mg dose of an emulsion formulation of Mycobacterial Cell Wall Extract (MCWE), a precursor mycobacterial technology. The second Phase I/II trial involved 55 patients treated with either 4mg or 8mg of MCC emulsion.



The results of these studies demonstrated that, in this difficult patient population, patients experienced minimal side effects to MCC, and a significant complete response rate. The expression “complete response” in bladder cancer was defined as patients having no evidence of any tumour - as assessed by biopsy, cystoscopy and cytology. A patient showing positive to any of these assessment criteria was classified as a treatment failure.

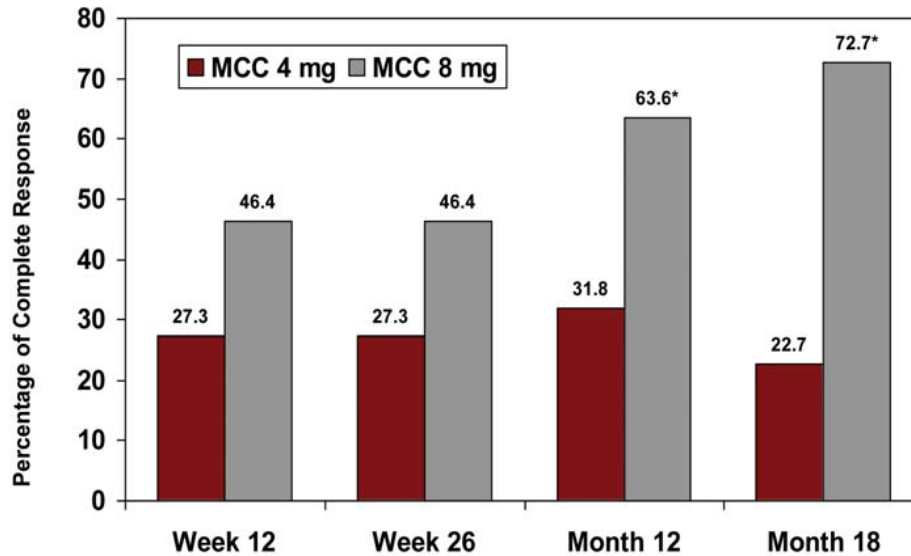
Results of the second Phase I/II trial were published in a leading, peer-reviewed medical journal (the official journal of the American Urological Association) - Journal of Urology - Vol. 191, March, 2009. The article was entitled, “Intravesical Mycobacterial Cell Wall-DNA Complex in the Treatment of Carcinoma *in Situ* of the Bladder after Standard Intravesical Therapy has Failed”.

In that article, a 26-week complete response rate of 46.4% was observed for those patients treated with the 8mg intravesical dosing regimen. It was further observed that the MCC emulsion was well-tolerated, with 90% of all adverse events being “mild to moderate”. The summary conclusions in the article were that MCC “has shown antineoplastic activity in patients with bladder cancer with less toxicity than that associated with bacillus Calmette-Guerin [BCG] administration”. The article went on to opine that MCC “might hold promise for the treatment of carcinoma *in situ* of the bladder.”

A summary table of the second Phase I/II trial's results is provided below.

Such response rates in a patient population that had not been successfully treated with BCG therapy encouraged Bioniche and some leading urologists. Specifically, prior trials of agents for treating patients

that have failed prior therapies have only achieved complete response rates significantly below 20% - even when liberal enrolment criteria were used. Bioniche designed and commenced a first Phase III trial under FDA IND – with participation from 31 leading urology centres in the United States and Canada, and with U.S. "Fast Track" review status.



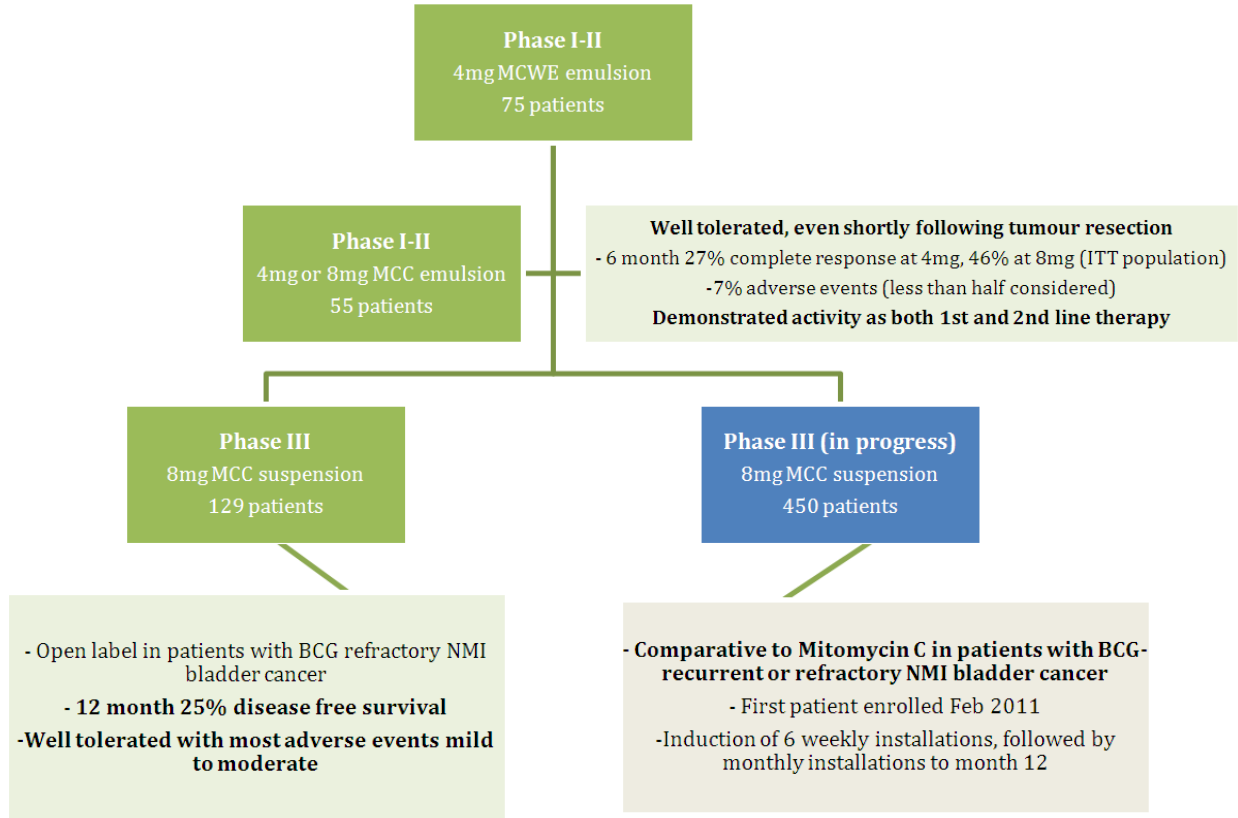
Complete Responses at two doses of MCC. †Patients with confirmed carcinoma in-situ (CIS) at baseline receiving at least 1 instillation (4mg N=21; 8mg Week 12 and 26 N=28, Month 12 and 18 N=11). *Protocol Amendment for MCC 8mg at 12 and 18 month follow-up resulted in a decreased number of patients who re-consented (N=11).

4. Phase III Clinical Trials

Bioniche's first Phase III trial was a 129-patient open label trial, meaning there was no comparator therapy used in the trial. This design was ethical and permitted by regulators due to the fact that no approved therapy was available for BCG refractory non-muscle-invasive bladder cancer. The trial was designed to assess the efficacy of *Urocidin*TM as a treatment of non-muscle-invasive bladder cancer in patients whose cancer had not responded positively to treatment with BCG.

The Company identified a goal of achieving a clinically meaningful complete response rate with a safety measure of less than 10% of patients unable to tolerate treatment. This trial enrolled its first patient in November, 2006 and the last enrolled patient had participated for more than 12 months in the open label Phase III trial in April, 2010. Since that time, data compilation, verification and analysis of the results has been underway at Bioniche and Endo.

Endo, the Company's development partner, is the party responsible for the *Urocidin*TM clinical development program. Patient recruitment for the second phase III clinical trial has commenced. A second Phase III clinical trial is expected to begin recruiting patients before the end of 2010. This new trial will be a Phase III, randomized, active-controlled, open-label, multi-centre trial to evaluate *Urocidin*TM (EN3348) versus mitomycin C in the intravesical treatment of patients with recurrent or refractory non-muscle-invasive bladder cancer. It is intended that 450 patients will be enrolled at 120 clinical sites. The trial is expected to form part of a regulatory submission to the U.S. Food and Drug Administration (FDA). Summary details of this new protocol are now publicly available via the U.S. National Institutes of Health (NIH) clinical trial registration service at <http://www.clinicaltrials.gov>.



About BCG

Bacillus Calmette-Guérin (BCG) is a live vaccine developed in the 1920s as a vaccine to prevent Tuberculosis (TB) in humans. It was developed from the bovine cattle TB organism (*M. bovis*). During the 1970s, a Canadian urologist - Dr. Alvaro Morales - believed that infecting the bladder with live BCG would provoke an immune system response sufficiently robust as to sometimes eliminate bladder cancer tumours. Dr. Morales' pioneering work formed the basis for registration of various strains of BCG for the treatment of bladder cancer. Dr. Morales has also been the principal investigator of Bioniche's Phase I/II trials and the recently completed Phase III refractory trial.

No independent sales statistics are available concerning the units of BCG sold for the treatment of bladder cancer. However, industry sources indicate to Bioniche that two strains of BCG dominate the market – TICE™ produced by Organon/Schering Plough/Merck and ImmuCyst™ produced by Sanofi Pasteur. Bioniche does not have independently verifiable information as to the unit volumes of each product sold, but believes that total usage of BCG in North America, Europe and Asia for the treatment of bladder cancer to be approximately two million doses per year.

5. Product Development Pipeline

IN DEVELOPMENT						
Product	Research	Pre-Clinical	Phase I	Phase II	Phase III	Marketed
<i>Urocidin</i> TM - non-muscle-invasive bladder cancer (first Phase III trial by Bioniche)						
<i>Urocidin</i> TM - non-muscle-invasive bladder cancer (second Phase III trial by Endo)						
Mycobacterial Cell Wall-DNA Complex (MCC) – prostate cancer						
Mycobacterial Cell Wall-DNA Complex (MCC) – other cancers or infectious disease						
Oligonucleotides – various cancers						

A Phase I clinical study in prostate cancer using MCC and hyaluronan (hyaluronic acid or HA) was presented at the 19th Annual Congress of the European Association of Urology in March, 2004. In this study, Company researchers evaluated the activity of the combination of MCC and hyaluronan on prostate cancer cell lines and on peripheral blood mononuclear cells.

The researchers concluded that:

- MCC/HA has anti-cancer activity against prostate cancer cell lines.
- Intraprostatic administration of MCC/HA in patients was well tolerated, no serious adverse events were observed and there were no dose-related increases in adverse events.
- Further studies are required to:
 - (1) confirm the tolerability of MCC/HA following repeated administration; and
 - (2) evaluate the efficacy in localized prostate cancer.

The activity of MCC has been demonstrated against a wide range of cancer cell lines. For the past several months, the Company's clinical team has been consulting with clinical and regulatory experts to assess new clinical indications that could be effectively addressed with different formulations of MCC. Resources were allocated from the Company's equity financing in December, 2010/January, 2011 toward the pursuit of a new oncology indication with MCC. However, the Company's experience in using mycobacterial cell wall-derived products to successfully treat infections and viruses in animals have resulted in an expanded approach to consider potential human infectious disease applications as well.

The Company believes that, with its extensive portfolio of pre-clinical research associated with MCC, a new indication can be quickly advanced through early clinical trials in humans. Depending upon the

results of these trials, the Company will consider potential partnerships to complete the development and commercialization of new products.

6. Manufacturing

The Company operates a manufacturing facility for *Urocidin*TM in Pointe-Claire, Québec, Canada. Currently, Bioniche Human Health manufactures product for use in the Company's clinical trials but not for commercial purposes.

The facility was formerly owned by biopharmaceutical company Genzyme. Bioniche purchased the facility in 2002 and it was subsequently re-fitted to specifications to manufacture *Urocidin*TM for human cancer treatment, under Good Manufacturing Practice (GMP) Regulations. Under the license, development and supply agreement with Endo, the Company is responsible for manufacturing *Urocidin*TM for global markets.

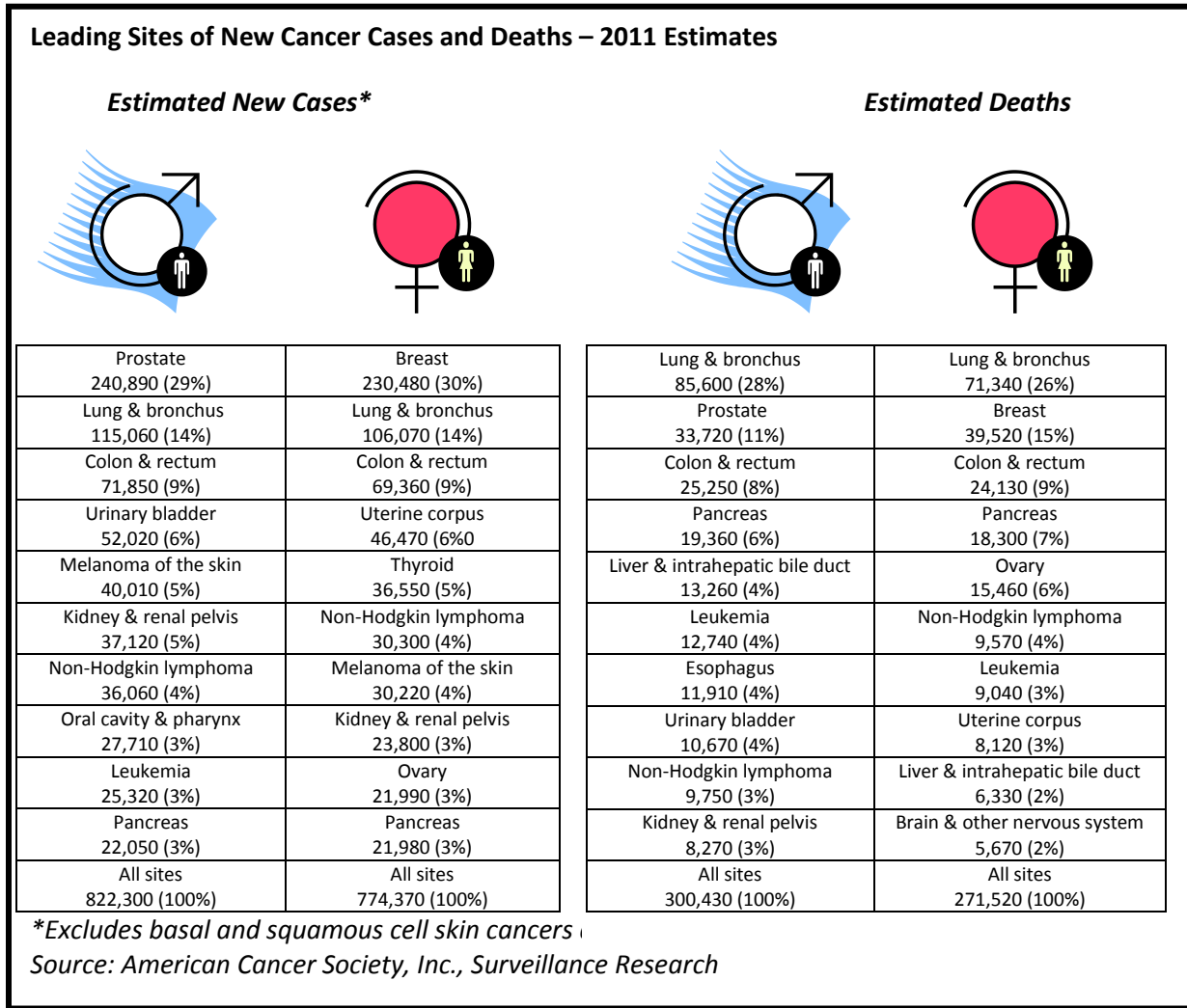
The Company is in the process of planning to scale-up its production capacity to support product registration(s) and commercial launch(es). The timeline and criteria for expanding production capacity of *Urocidin*TM are currently being finalized. Approximately C\$10 million is expected to be allocated to this scale-up over the next two to three years, together with some additional funds required for construction working capital and plant validation.

7. Market Opportunity

In the United States, bladder cancer is the fourth most common cancer in men and the eleventh most common cancer in women. In the United States, approximately 52,000 men and 18,000 women are newly diagnosed with bladder cancer each year and 500,000 living patients have been affected. Collectively across the United States, Europe and Japan, approximately 350,000 non-muscle-invasive bladder cancer patients are newly diagnosed or recur each year. The cancers of many of the previously diagnosed patients remain unresolved, sometimes leading to cystectomy (bladder removal) or death.

From a global perspective, the incidence per capita of bladder cancer is significantly higher in Europe than in North America. Approximately 70% of all new cases of bladder cancer occurring in the United States and Europe are diagnosed with a non-muscle-invasive form of that cancer, which refers to the fact the tumour has not spread or grown into the muscle layer of the bladder.

Many sufferers of non-muscle-invasive bladder cancer will continue to have the presence of a tumour after treatment or have a recurrence in their lifetime. All such patients are at risk of tumour progression - potentially leading to death from metastatic disease or a shortened life expectancy following surgical removal of their bladder.



NB The table above only relates to the incidence of these diseases in the United States

The disease is also characterized by having a large pool of patients who have been previously diagnosed and are still undergoing treatment for unresolved tumours. Based on information from published sources and consultations with industry experts, Bioniche has conducted analyses that suggest a treatment such as *UrocidinTM*, targeted to non-muscle-invasive bladder cancer, could potentially address a market of some 350,000 patients each year in the United States, European Union and Japan alone. At up to 21 doses per patient and at a pricing per dose that is competitive, relative to other current treatments, Bioniche believes that the market for *UrocidinTM* could be considerable upon appropriate regulatory approvals of the product.

As a result of protracted survival, continuing treatment and the need for lifelong monitoring, the cost per bladder cancer patient from diagnosis to death is one of the highest of all cancers - ranging from US\$96,000 to US\$187,000. Overall, bladder cancer has historically been estimated to be the fifth most expensive cancer to the US healthcare system in terms of total medical expenditures, accounting in 1989 for almost US\$3.7 billion in direct costs in the United States. The available research also suggests that the magnitude of the burden of bladder cancer appears to be comparable in other developed countries.

In most cases of non-muscle-invasive bladder cancer, tumours are initially treated by a resection (i.e., surgical removal) of the bladder tumour. Such a resection is known as transurethral resection of the bladder tumour (TURBT). After resection of all visible tumours, accompanying treatment (adjuvant intravesical immunotherapy) such as BCG (alone or in combination with Interferon) or a chemotherapy (such as mitomycin C, valrubicin, epirubicin or gemcitabine) is generally used in an attempt to prevent recurrence. Other less widely used treatments following TURBT include laser ablation therapy.

Comparison between BCG and *Urocidin*TM

An unmet need exists for the treatment of high risk non-muscle-invasive bladder cancer where BCG is currently regarded as the most effective standard of care. The use of BCG dates back over 30 years and, the Company believes, is not optimal in regards to its efficacy, safety and tolerability. Toxicity associated with the use of BCG frequently limits the ability of a patient to continue a treatment, and maintenance therapy is discontinued in over 80% of cases treated with its US FDA-approved dosing. BCG-induced cystitis, which affects more than 45% of treated patients, is one of the main reasons that patients halt therapy. Although uncommon, treatment with BCG may also result in disseminated sepsis, a life threatening condition which requires aggressive immediate and long-term treatment with antimicrobial agents. In addition, there have been numerous documented cases of infection of health care workers with BCG, resulting from contact or inhalation of BCG during preparation or administration.

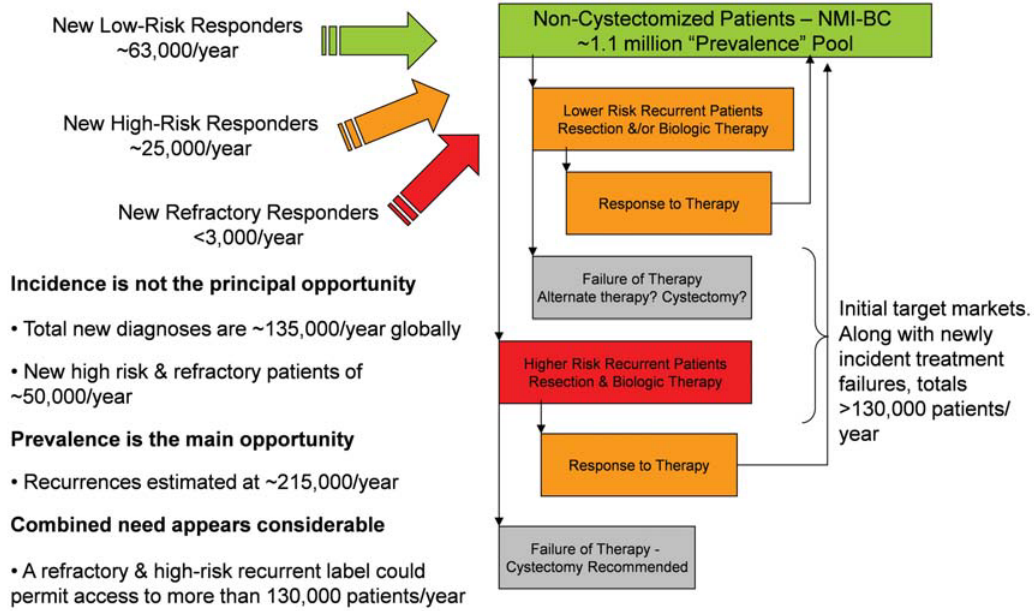
In Bioniche's Phase II clinical study, acceptable patient safety data was recorded with satisfactory complete response rates, in patients who had previously received BCG treatment or no prior treatment. Bioniche believes that *Urocidin*TM, which is a sterile cell extract/DNA complex, is likely to exhibit less toxicity than that associated with BCG, a live bacterial immunotherapy. See Morales et al, "Intravesical Mycobacterial Cell Wall-DNA Complex in the Treatment of Carcinoma *in Situ* of the Bladder after Standard Intravesical Therapy has Failed", Journal of Urology Vol. 191 (March, 2009).

The administration regimens for intravesical therapies such as BCG and *Urocidin*TM are based on protocols used in various clinical trials. Dosing levels and schedules have not been established via empirical evidence that they are optimal in clinical practice or pre-clinical models. The current administration schedules will be tested in further clinical studies. Based on current clinical trial treatment protocols, most patients treated with *Urocidin*TM may be expected to receive between six doses (one induction course only) and 21 doses (a successful full regimen) over a period of between six weeks and two years.

Through its own analysis, Bioniche believes that the number of pre-existing patients with unresolved non-muscle-invasive bladder tumours (i.e., prevalence) actually outnumbers newly diagnosed patients (i.e., incidence). Such prevalence figures are not well-tracked by authorities, which appears to have led to the widespread under-estimation of the potential market for non-muscle-invasive bladder cancer therapies.

By compiling the three largest markets - the United States, the European Union and Japan - Bioniche has arrived at estimates of the addressable patient populations for a novel intravesical bladder cancer therapy such as *Urocidin*TM. Combining eligible newly-incident patients and unresolved recurrences, Bioniche believes that approximately 350,000 non-muscle-invasive bladder cancer patients could benefit from a better intravesical bladder cancer therapy in those three markets. The product label claims as permitted by regulatory authorities, the pricing and reimbursement as negotiated with payers and the ultimate efficacy and safety of the product will all drive the extent to which that potential market is able to be captured.

Bioniche believes that approval of *Urocidin*TM for non-muscle-invasive bladder cancer that is refractory (unresponsive) to BCG will permit the use of the product in up to 25% of all bladder cancer cases.



Treatment	Response Rate	Mechanism	Cost per Dose (US\$)	Average Dosing Regimen
BCG & IFN	<20%	Immunotherapy	BCG cost + \$800	6 induction doses; up to 21 doses over two years
Gemcitabine	<20%	Chemotherapy	>\$1,000	Weekly or twice weekly — 6 to 8 treatments
Epirubicin	<20%	Chemotherapy	\$hundreds	Single post-operative dose or once weekly for six weeks
Valrubicin	<20%	Chemotherapy	\$thousands	6 doses
Mitomycin C	<20%	Chemotherapy	>\$1,000	16 doses
BCG	<20%	Immunotherapy	\$122	6 induction doses; up to 21 doses over two years

Therapy	Description	Development Status
1. Mitomycin C (electromotive or hyperthermic)	Existing Chemotherapy, with new dosing and delivery methods	Phase III (active)
2. EOquin (Spectrum)	New chemotherapy, a pro-drug of mitomycin C.	Phase III (active)
3. Gemcitabine/Gemzar (Lilly)	Existing Chemotherapy	Phase III (active)
4. Gefitinib/Iressa (AstraZeneca)	Existing EGFR inhibitor, used with existing immunotherapy	Phase III (active)
Uracil Tegafor (UFT) (EMBARK study)	Existing chemotherapy, being tried as alternate maintenance therapy	Phase III (active)

5. Sunitinib/Sutent (Pfizer)	Existing kinase inhibitor	Phase II (active)
6. DTA-H19/PEI or BC-819 (BioCancell)	Toxin encoding gene therapy	Phase II (active)
7. Docetaxel (Taxotere®)	Existing Chemotherapy	Phase I (active)
8. Paclitaxel (ONCOFID-P-B™ and Abraxane®)	Existing Chemotherapy	Phase I (active)
9. OGX-427 (OncoGenex)	Antisense oligonucleotide	Phase I (active)
10. Chemophase® (Halozyme Therapeutics Inc)	Recombinant human hyaluronidase; used in combination with mitomycin	Phase I (active)
11. SCH 721015 (aka rAd-IFN)	Adenoviral-mediated interferon-beta	Phase I (active)
12. AdCD40L	Adenoviral vector carrying CD40L gene	Phase I (active)
13. Vicinium/VB4-845 (Viventia)	Toxin-loaded monoclonal antibody	Phase II (inactive)
14. Genistein	Existing Chemotherapy	Phase II (inactive)
15. CG0070 (BioSante/Cell Genesys)	Oncolytic live adenovirus	Phase I (inactive)
16. Suramin	Antagonist of VEGF	Phase I (inactive)

Pricing of existing intravesical non-muscle-invasive bladder cancer therapies varies widely, depending principally on their intellectual property protections, label claims and general availability. In the United States, per dose pricing of such intravesical therapies has ranged from as little as US\$122 to in excess of US\$4,000. Pricing of *Urocidin™* will be set by Endo, in consultation with Bioniche, once results from registration clinical trials are received and analyzed and following discussions with various stakeholder groups. In addition, it is expected that the per-dose pricing will take into account the prevailing price points of alternative therapies. Based on the Company's own enquiries and experience, marketed therapies for bladder cancer (chemotherapy and immunotherapy agents) and pricing structures are shown above.

Few new therapies appear to be in development for the treatment of bladder cancer. The most noteworthy products in development are shown above.

Targeting broader oncology opportunities

According to the World Health Organization, the global incidence of cancer is increasing because of rapidly aging populations in most countries. By the year 2020, it is estimated that there will be 16.2 to 16.9 million new cancer patients globally each year.

8. Regulatory Environment – Human Health

Regulation by government authorities in Canada, the United States and the European Union is a significant factor in the research and development activities of the Company. In order to clinically test, manufacture and market drug products for therapeutic use for humans, the Company must satisfy the

rigorous mandatory procedures and standards established by the regulatory agencies in the countries in which it currently operates or intends to operate.

The laws of most of these countries require the licensing of manufacturing facilities, carefully controlled research and the extensive testing of products. Biopharmaceutical companies must establish the safety and efficacy of their new products and control over manufacturing activities before being allowed to market their products. The safety and efficacy of a new drug must be demonstrated through clinical trials of the drug carried out in accordance with the mandatory procedures and standards established by regulatory agencies. In addition, prior regulatory approval is required before conducting any type of clinical research in humans.

The pharmaceutical industry is required to manufacture products according to Good Manufacturing Practice (“GMP”) guidelines. These are referred to as “cGMP” by the U.S. FDA (current Good Manufacturing Practices) but simply as GMP for the rest of the world. GMP rules may vary slightly between countries, but they provide manufacturers with guidance on what the government expects with respect to premises, equipment, sanitation, personnel, manufacturing control, quality control, testing, stability, and sample and documentation retention. In essence, GMP states that all aspects of the manufacture of a pharmaceutical product must be documented and controlled, from receipt of the materials used to make the product to shipment of the product to the customer. GMP is enforced through inspection by the Health Products and Food Branch Inspectorate (“HPFBI”) division of the Health Products and Food Branch of Health Canada (the “HPFB”) in Canada, the Food and Drug Administration (the “FDA”) in the United States and by individual country regulatory authorities in the European Union. GMP manufacturing applies not only to product manufactured following product licensing for commercial distribution, but also to product manufactured for use in clinical trials. This means that long before a product is commercialized, there is a need for GMP manufactured product.

Regulatory compliance can take several years and can involve substantial expenditures. For instance, the entire process for human therapeutics, from research to market introduction, may take as long as twenty years and cost from tens to hundreds of millions of dollars. There can be no assurance that difficulties or excessive costs will not be encountered by the Company in its efforts to secure necessary approvals. These could delay or prevent the Company from manufacturing or marketing its products.

Canada

In Canada, new drugs are reviewed and approved by the Therapeutic Products Directorate (“TPD”), while new biologics are reviewed and approved by the Biologics and Genetic Therapies Directorate (“BGTD”). New drugs and biologics must pass through a number of testing stages, including pre-clinical testing and clinical trials. Pre-clinical testing involves conducting a pharmacologic, pharmacokinetic, and toxicologic evaluation of a new product *in vitro* and in animals (*in vivo*). Successful results (that is, potentially valuable pharmacological and pharmacokinetic activity combined with an acceptable level of toxicity) enable the manufacturer of the new drug to file a Clinical Trial Application (“CTA”) with either the TPD or BGTD to begin clinical trials involving humans.

The CTA must contain specified information, including the results of the pre-clinical tests completed at the time of the submission and any available information regarding use of the product in humans. In addition, since the method of manufacture may affect the efficacy and safety of a new drug or biologic, information on the manufacturing methods and standards and the stability of the substance and dosage form must be presented to enable TPD or BGTD to conclude that the new drug that may eventually be sold to the public has the same composition as that determined to be effective and safe in the clinical trials. Production methods and quality control procedures for each approved product must be in place to

ensure an acceptably pure product (essentially free of contamination) and to ensure uniformity with respect to all quality aspects.

Provided the TPD or BGTD does not reject a CTA, clinical trials can begin. Clinical trials are carried out in three phases, or a combination thereof. Phase I involves studies to evaluate toxicity in humans. The new drug is administered to human patients who have met the clinical trial entry criteria in order to determine safety, human tolerance and prevalence of adverse side effects. Phase I studies are typically dose escalation studies and can assist with determining the dosage to be used in future studies. Phases II and III involve therapeutic studies. In Phase II, efficacy, dosage, side effects and safety are established in a small number of patients who have the disease or disorder that the new drug is intended to treat. In Phase III, there are controlled clinical trials in which the new drug is administered to a statistically significant number of patients who are likely to receive benefit from the new drug. In Phase III, the effectiveness of the new drug is compared to that of standard accepted methods of treatment or to placebo, in order to provide sufficient data for the statistical proof of safety and efficacy for the new drug.

If clinical studies establish that a new drug has value, the manufacturer submits a New Drug Submission (“NDS”) to the TPD or BGTD for marketing approval. The NDS contains all information known about the new drug, including the results of preclinical testing and clinical trials. Information about a substance contained in a NDS includes its proper name, its chemical name, details on its method of manufacturing and purification and its biological, pharmacological and toxicological properties. The NDS also provides information about the dosage form of the new drug, including a quantitative listing of all ingredients used in its formulation, its method of manufacture, packaging and labelling, the results of stability tests, and its diagnostic or therapeutic claims and side effects, as well as details of the clinical trials to support the safety and efficacy of the new drug. All aspects of the NDS are critically reviewed by the TPD or BGTD. If an NDS is found satisfactory, a Notice of Compliance is issued, permitting the new drug to be sold in Canada.

The TPD or BGTD has a policy of priority evaluation of new drug submissions for all drugs or biologics intended for serious or life-threatening diseases for which no comparable drug product has received regulatory approval in Canada and for which there is reasonable scientific evidence to indicate that the proposed new drug is safe and may provide effective treatment. In addition, a policy called the Notice of Compliance with conditions (NOC/c) policy will allow a Notice of Compliance to be issued for drugs or biologics intended for serious or life-threatening disease for which there is reasonable evidence of safety and efficacy, with the condition that the sponsor will conduct additional studies to support that evidence.

There are pricing regulations in Canada that govern how and what pricing of new drugs is set at. The PMPRB is the Patented Medicine Prices Review Board. It is a government agency in Canada which regulates drugs that are still under patent and which yet have no generic substitutes. This Board establishes the maximum prices that can be charged in Canada for patented drugs. Endo will be required to obtain their approval on the pricing that it charges for MCC in Canada.

The monitoring of a new drug or biologic does not cease once it is on the market. For example, a manufacturer of a new product must report any new information received concerning serious side effects, as well as the failure of the new product to produce desired effects. As well, if the TPD or BGTD determines it to be in the interest of public health, a Notice of Compliance for a new drug may be suspended and the new drug may be removed from the market.

An exception to the foregoing requirements relating to the manufacture and sale of new drugs is the limited authorization that may be available in respect of the sale of new drugs and biologics for emergency treatment. Under this Special Access Programme, the TPD may authorize the sale of a quantity of a new drug for human use to a specific practitioner for the emergency treatment of a patient under the practitioner’s care. Prior to authorization, the practitioner must supply the TPD with

information concerning the medical emergency for which the new drug is required, such data as is in the possession of the practitioner with respect to the use, safety and efficacy of the new drug, the names of the institutions at which the new drug is to be used and such other information as may be requested by the TPD. In addition, the practitioner must agree to report to both the drug manufacturer and the TPD the results of the new drug's use in the medical emergency, including information concerning any adverse reactions, and must account to the TPD for all quantities of the new drug made available.

The Canadian regulatory approval requirements for new drugs outlined above are similar to those of other major pharmaceutical markets. While the testing carried out in Canada is often acceptable for the purposes of regulatory submissions in other countries, supplementary testing may be requested by individual regulatory authorities during their assessment of any submission. There can be no assurance that the clinical testing conducted under the HPFB authorization or the approval of regulatory authorities of other countries will be accepted by regulatory authorities outside Canada or such other countries.

An additional regulatory requirement in Canada is that all manufacturers and testing laboratories of approved drugs or biologics are required to have an establishment license issued by HPFBI in order to be able to manufacture or test. This license is issued based on the manufacturer's compliance with GMP.

A separate directorate exists in Canada called the Natural Health Products Directorate. This directorate is responsible for the regulation of human natural health products and now requires mandatory licensing of these products, which were traditionally regulated as drugs, but were often unregulated due to lack of resources of the regulatory agency. A request for licensing of a natural health product requires a submission which supports the label claims, safety and efficacy of the product. Several products considered "compendial" products have been grandfathered due to existing established safety and efficacy data. In addition to product licensing, manufacturers of natural health products are now subject to establishment licensing requirements. A set of GMP standards specific to natural health products was established. Manufacturers are obligated to comply with these standards and will be audited for compliance to them.

United States

In the United States, the manufacture and sale of new drugs is controlled by the Food and Drug Administration ("FDA"). The Center for Drug Evaluation & Research (CDER) regulates drugs and biological therapeutics while the Center for Biologics Evaluation & Research (CBER) regulates biological products such as vaccines, blood and blood products. New drugs or biologics require FDA approval of a marketing application (i.e., a New Drug Application ("NDA") for drugs or a Biologics Licensing Application ("BLA") for biologics) prior to commercial sale. To obtain marketing approval, data from adequate and well-controlled clinical investigations demonstrating to the FDA's satisfaction a new drug's safety and effectiveness for its intended use are required. Such data are generated in studies conducted pursuant to an Investigational New Drug ("IND") submission, similar to the CTA that is required in Canada. As in Canada, clinical studies are characterized as Phase I, Phase II and Phase III trials or a combination thereof. In a marketing application, the manufacturer must also demonstrate the identity, potency, quality and purity of the active ingredients of the new drug, and the stability of those ingredients. Further, the manufacturing facilities, equipment, processes and quality controls for the new drug must comply with the FDA's cGMP regulations for drugs or biologic products, both in a pre-licensing inspection and in subsequent periodic inspections after licensing. In the case of a biologic product, an establishment license must be obtained prior to marketing and batch releasing. User fees are payable upon submission of a marketing authorization application for a new drug, including sponsor fees, establishment fees and submission fees, and these can total in excess of US\$1 million.

A five-year period of market exclusivity for a drug comprising a new chemical entity ("NCE") is available to an applicant that succeeds in obtaining FDA approval of an NCE, provided the active

ingredient of the NCE has never before been approved in a NDA. During this exclusivity period, the FDA may not accept for review any abbreviated application filed by another sponsor for a generic version of the NCE. Further, a three-year period of market exclusivity for a new use or new indication for a previously approved drug is available to an applicant that submits new clinical studies that are essential to support the new use or indication. During the latter period of exclusivity, the FDA may not approve an abbreviated application filed by another sponsor for a generic version of the product for that use or indication. Legislation was recently passed that allows for a twelve-year period of market exclusivity for new biologics. This biologics legislation is applicable to Bioniche and would be supplementary to, but run concurrent with, its issued and pending patents.

The FDA has “fast track” regulations intended to accelerate the approval process for the development, evaluation and marketing of new drugs used to diagnose or treat life-threatening and severely debilitating illnesses for which no satisfactory alternative therapies exist. Fast track designation affords early interaction with the FDA in terms of protocol design, and it permits (although it does not require) the FDA to issue a conditional marketing approval after completion of early stage clinical trials. The FDA may, however, require subsequent clinical trials or post-approval efficacy studies.

European Union

Regulatory requirements in the European Union are similar in principle to those of the United States. For novel products, a two-part product approval process by the European Medicines Agency (“EMA”), known as the “centralized process”, is required. Clinical testing and manufacturing facilities, as well as procedures data are presented in a Marketing Authorization Application filed with the Committee for Medicinal Products for Human Use (“CHMP”). The CHMP reviews the application in order to express an opinion about whether the new drug meets the requirements for marketing authorization. If a favourable opinion is received from the CHMP, then the applicant is free to market the product in all European Union countries.

An alternate means of approval in the European Union for products which are not novel is the use of either a decentralized procedure or a Mutual Recognition Procedure. In this case, one European Union country is chosen as the reference member country and application is made to that country. If approved, the application then goes to any other European Union countries in which registration is desired simultaneously for review based on the reference member country’s recommendations.

Clinical trials conducted in EU countries require pre-approval by the regulatory authority for each country where the trial will be conducted. Clinical Trial Applications (“CTAs”) are made to each country, simultaneously with Ethics Committee applications. Once both approvals are received, the trial may be initiated. This could trigger audits of the manufacturer of the clinical trial product or of the investigators by any of the EU country’s regulatory authorities.

General

In general, the process of completing clinical trials and obtaining regulatory approval for a new drug for human use takes a number of years and requires the expenditure of substantial human and financial resources. Once a new drug or product license application is submitted, there can be no assurance that a regulatory agency will review and approve the application in a timely manner. Also, regulatory agencies may require post-marketing surveillance programs to monitor a new drug’s side effects. Results of post-marketing programs may limit or expand the further marketing of new drugs. A serious safety or efficacy problem involving an approved new drug may result in a regulatory agency requiring withdrawal of the new drug from the market and possible civil action.

In addition to the regulatory product approval framework, biopharmaceutical companies, including the Company, are subject to regulation under provincial, state and federal law, including requirements regarding occupational safety, laboratory practices, environmental protection and hazardous substance control, and may be subject to other present and future local, provincial, state, federal and foreign regulation, including possible future regulation of the biotechnology industry.

ANIMAL HEALTH

1. Overview and Strategy

Bioniche Animal Health operates:

- marketing, production and research facilities in Belleville, Ontario, Canada;
- marketing and manufacturing facilities in Athens, Georgia and Pullman, Washington in the United States;
- a marketing office in Sydney, Australia;
- manufacturing facilities in Armidale, Australia; and
- marketing offices in Australia and Ireland.

The Company has a product portfolio of over 60 products with a main area of focus in reproduction and embryo transfer products, but also vaccines and natural health products.

Bioniche Animal Health markets its products directly to veterinarians in Canada, the United States, Australia, parts of Europe and through selected distributors in the rest of the world and is renowned for supplying valuable products with strong technical support.



The Animal Health division's revenues were C\$27.4 million in Fiscal 2011 and C\$27 million in Fiscal 2010. In Fiscal 2011, sales of food animal products were affected by depressed beef and pork markets in

North America and depressed dairy markets globally. The global economy and currency fluctuations impacted the market for equine products.

GEOGRAPHIC DISTRIBUTION OF CONSOLIDATED REVENUES BY BUSINESS UNITS

(expressed in millions of Canadian dollars)

	2011	2010	Growth*	2011	2010	Growth*
	Q4	Q4	%	YTD	YTD	%
NUTREQUIN	\$	\$	%	\$	\$	%
Animal Health - Canada	1,768	2,032	-13%	7,324	7,293	0%
Animal Health - USA	4,074	4,483	-9%	14,584	14,067	4%
Animal Health - Australia	1,256	1,096	15%	4,359	3,796	15%
Animal Health - Europe	290	318	-9%	1,099	1,837	-40%
<i>Sub total - Animal Health</i>	7,388	7,929	-7%	27,366	26,993	1%
Gain on sale of intangible assets	-	-	0%	-	883	-100%
Licensing and research collaboration	954	1,433	-33%	8,678	18,023	-52%
Total reported revenues	8,342	9,362	-11%	36,044	45,899	-21%

Revenues generated by the Company's Animal Health division have historically been used to finance the development of new products and support overall corporate growth. However, since Bioniche has successfully partnered *UrocidinTM*, it is now deploying current and new resources into the Animal Health business, to allow the division to pursue its own growth opportunities. Bioniche aims to expand its Animal Health product portfolio-through research and development into new proprietary technologies and also through in-licensing transactions.

Within its internally-generated product development portfolio, Animal Health opportunities include the following:

- MCC veterinary applications - livestock and canine applications.
- *Rhodococcus equi* vaccine - addressing a permanently disabling equine respiratory disease.
- Trophogen alliance - a proprietary superagonist hormone technology.
- Low molecular weight HA - for treatment of joint disorders in performance horses.

IN DEVELOPMENT				
Product	Research	Pre-Clinical	Clinical	Marketed
Mycobacterial cell wall formulation – canine cancer				
Mycobacterial cell wall formulation – livestock application				
<i>R. equi</i> vaccine				
New natural health products				
Recombinant FSH				
Low molecular weight HA				
Equine plasma				

In addition to proprietary technology development, Bioniche Animal Health has successfully leveraged, and continues to pursue, new business alliances that are synergistic with its core capabilities in the areas of breeding and reproduction, equine health and performance and distribution channel management. Examples of such alliances include:

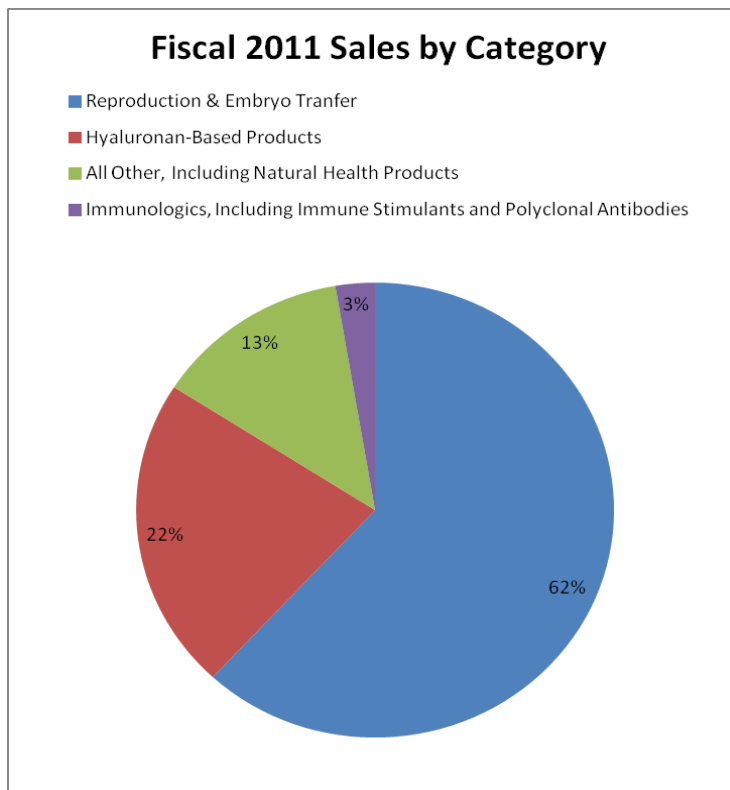
- In August, 2001, Bioniche Animal Health acquired the business and assets of Horizon Technology Pty Limited. The facility, located in Armidale, Australia, specialises in the manufacture of Pregnant Mare Serum Gonadotropin (PMSG), a reproductive hormone used to enhance fertility in livestock. The acquired technology is complementary to the Company’s current reproductive product line and is generating incremental revenue.
- On February 11, 2004, the Company acquired the assets of AB Technology Inc., an American veterinary products company in Pullman, Washington, which is considered a leader in the development of embryo transfer media, materials and equipment for the bovine and equine markets. This business fits well with the Company's business strategy and strengthens its focus on animal reproduction.
- On March 29, 2004, the Company acquired from Pfizer Inc. the intellectual property and other assets of the *Cue-Mate™* business, an innovative livestock reproductive technology. *Cue-Mate™* complements the range of reproductive technologies and services developed and marketed by the Bioniche Animal health division. *Cue-Mate™* is a progesterone delivery device for cows that allows dairy farmers and cattle producers to plan and manage the reproductive timing of their herds. *Cue-Mate™* is currently registered and commercially available in Australia and New Zealand.
- On June 2, 2010, the Company announced the signing of a partnership agreement with Bayer Animal Health, a division of Bayer Australia Limited, for the exclusive distribution of two Bioniche cattle reproduction products in Australia. The products -*Cue-Mate™* and *Pregnecol™* have a proven track record in delivering consistent results and enhancing reproductive performance in both beef and dairy cattle. Bayer's extensive network of sales representatives across Australia will assist the Company in both expanding the market for these products and in establishing a greater presence within it.

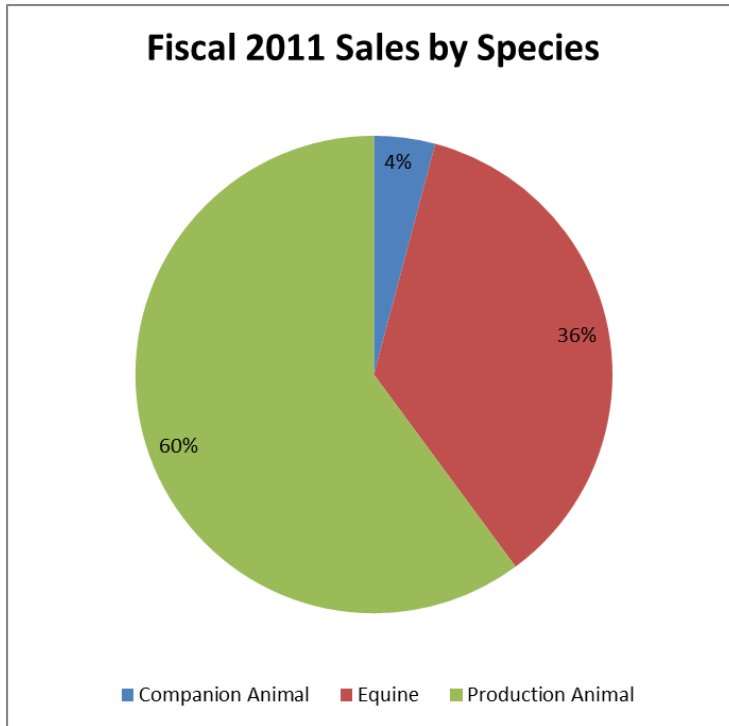
- On June 23, 2010, Bioniche signed an exclusive global veterinary license agreement for the superagonist hormone technology program of Trophogen Inc. (Trophogen). The agreement provides Bioniche commercial access to a patented and proprietary technology developed by Trophogen that will initially be developed into a next generation bovine FSH product, complimenting Bioniche's existing dominant share in this marketplace through sales of *FolltropinTM-V*.
- On August 25, 2010, Bioniche signed an exclusive global license agreement to an anti-anxiety botanical technology with the University of Ottawa. The University and its collaborators have spent 15 years developing a unique family of natural anti-anxiety compounds that Bioniche believes have commercial potential to combat behavioural disorders in dogs and horses, among other animals.

2. Product Portfolio

Bioniche's Animal Health products can be categorized into five main areas of focus:

- Reproduction and embryo transfer products
- Immunostimulant products
- Products based on hyaluronan
- Polyclonal antibodies
- Natural health products





3. Research and Development Pipeline

The Company's Animal Health business unit performs research in-house and in collaboration with diverse research partnerships in areas reflecting its five areas of core focus.

Immunostimulants - Canine Cancer

Companion animals represent 43% of the world veterinary market for medicines and vaccines. The market is growing at a regular pace and is influenced by the treatment of companion animals as family members, often receiving similar treatment as that of human family members. It is estimated that the US\$8 billion 2008 companion animal market could grow to US\$10 billion in 2011. The increasing life expectancy of pets is a driver of market growth. Cancer has become the key cause of canine mortality in the United States.

The Company is investigating the use of a new formulation of mycobacterial cell wall technology for the treatment, initially, of canine cancer. The Company believes there are significant markets in North America, Europe and Japan for such a therapy, which is expected to improve the quality of life and extend survival beyond what is achieved with current standards of care.

New formulations of mycobacterial cell wall technology may also be applied to potential applications in livestock reproduction.

Rhodococcus equi Vaccine

As part of successful reproductive management, protecting the health and viability of a newborn foal is a critical step towards ensuring it performs to its genetic potential at a later age. Bioniche is currently developing the world's first commercial vaccine against *Rhodococcus equi* (*R. equi*), a common and debilitating respiratory disease affecting young foals that can impair their future respiratory capacity and performance potential.

Currently, prevention methods include several management practices aimed to reduce the level of organisms on the farm and the use of expensive hyperimmune serum products on the foal. Treatment is costly, involving high dose antibiotics, intensive clinical management of the sick foal, and a limited to guarded prognosis for the foal. A preventative tool, such as a vaccine, would be an asset to the management of this disease.

The Company's *R. equi* vaccine has been tested and has demonstrated desirable efficacy in controlled challenge studies. Further studies are being conducted, and the Company expects to submit the resulting data to regulatory authorities in the next year.

Natural Health Products

The Company continues to explore opportunities in the expanding field of natural health products.

Research is ongoing to develop a botanical insect repellent and the Company is collaborating with Loyalist College in Belleville, Ontario, Canada and with the University of Ottawa, Ontario, Canada in the research and development of a novel manufacturing process involving extraction of active pharmaceutical ingredients using supercritical fluid carbon dioxide.

Bioniche has also licensed an anti-anxiety botanical technology from the University of Ottawa. The Company is planning for an initial product for dogs, to help reduce anxiety without the side effects of synthetic calming agents, which could be marketed in Canada within 12 months, followed by the U.S., Australasia and Europe. A potential human application of this technology is being discussed, and there has already been some interest expressed on the part of a potential marketing partner.

Equine Plasma Products

The Company already has equine plasma production in Canada and Australia, and plans to develop new plasma-derived products in the future using the Company's existing raw material supply chain.

4. Manufacturing

The production of the Company's Animal Health products takes place in several locations, as follows:

Belleville, Ontario, Canada: The Company purchased a vacant biotechnology pilot and manufacturing plant from Bristol-Myers Squibb Canada Inc. in 1999 and retrofitted it to accommodate Animal Health product development and production, as well as corporate head offices. *FolltropinTM-V* and *LutropinTM-V* are manufactured in this facility. The main ingredient for these products is porcine pituitary glands, which are sourced within North America from a company with whom the Company has had a long-term relationship. *ColimuneTM* is also manufactured in the Belleville facility, as are the Company's natural health products. The Company also owns a 39-hectare farm property outside Belleville, Ontario, which is used to keep horses for *ColimuneTM* production.

In March, 2011, the Company completed the construction of a new Animal Health and Food Safety Vaccine Manufacturing Centre at the east end of the manufacturing plant in Belleville, Ontario. This facility has been undergoing commissioning and validation. This is a complicated and lengthy process that is expected to continue until early 2012, after which production scale-up will occur.

Athens, Georgia, USA: The Company leases a production laboratory that produces the mycobacterial cell wall portfolio of Animal Health products, and distributes these throughout the United States, Canada and Australia. The Company also leases an office in Bogart, Georgia, USA that is terminable on 12 months' notice.

Pullman, Washington, USA: In February, 2004, the Company acquired the assets of AB Technology Inc. of Pullman, Washington. This included the leased premises of office, manufacturing and warehouse space. The Company's line of embryo transfer media products are manufactured in this facility.

Armidale, New South Wales, Australia: The Company owns a manufacturing facility and a 121 hectare farm in Armidale, Australia. *PregnecolTM* is manufactured at this facility, using equine serum sourced from its horse farm nearby. Because Australia is an isolated continent with strict biocontainment regulations, the Company believes that this serum has a quality advantage in the marketplace.

5. Market Opportunities

The worldwide animal health market is currently valued at \$20.1 billion per year in 2010 (Vetnosis), which represented 7.8% growth over the previous year.

Market growth is expected to be driven by a growing demand for animal proteins in developing nations, as well as strong consumer needs for companion animal health care.

Emerging markets such as in Eastern Europe, Latin America and Asia are witnessing an increase in share of the total revenues generated in the animal health industry because of the increasing importance given to animal health by the livestock breeders. As these regions have shown strong economic growth over the past few years, livestock breeders are increasing their focus on better management of livestock, thereby catering to the growing nutritional demands of their populations.

With various kinds of diseases (such as mad cow disease, influenzas, foot and mouth disease) reducing global animal production, animal healthcare is gaining importance. Emerging economies offer significant potential for the animal health industry in the near future.

In addition, the mature markets of North America and Western Europe are supporting the expansion of the animal health market as these regions are characterized by strong growth, particularly in the companion animal sector.

In a report titled, "Global Animal Health Market: Emerging Markets Driving Growth" - August, 2009, two segments of animal health industry are analyzed: Companion animals and livestock (farm) animals. The animal health market grew at a slower rate during the global recessionary economic phase, with particular impact on the U.S. and Europe. However, two factors that are working in favour of the industry are pet owners' commitment to the wellbeing of their companion animals and the economic benefits for the treatment of livestock or farm animals.

The livestock segment, a high volume market that represents approximately 57% of the international animal health market, is guided mostly by economic concerns as the market has to meet the growing protein requirements in developed and developing countries. Increase in demand for protein inevitably leads to increase in demand for food-producing animals.

The animal health market globally expanded at a rate of 5% per year in nominal value terms between 1998 and 2008, reaching US\$18.6 billion in sales in 2008 (a 7.2% increase over 2007). Future growth in

animal health is expected to occur in emerging markets, the companion animal market, and in the livestock segment.

6. Regulatory Environment – Animal Health

The development of animal health products requires approval by various government authorities, depending on whether the product is a pharmaceutical, biologic or feed, and depending on the jurisdiction in which approval is required.

Canada

In Canada, the Company develops and markets three main types of animal health products – biologics, feeds and drugs. Biologics are regulated by the Veterinary Biologics Section (“VBS”) of the Canadian Food Inspection Agency (“CFIA”) pursuant to the *Health of Animals Act* and the regulations thereunder. Feeds are regulated by the Feeds Section of the CFIA and drugs are regulated by both the Veterinary Drugs Directorate (“VDD”), a division of the Health Products and Food Branch of Health Canada (“HPFB”) and the Health Products and Food Branch Inspectorate (another division of the HPFB) pursuant to the *Food and Drugs Act* and the regulations thereunder.

In order to grant a license to market a veterinary biologic in Canada, the VBS must be provided with a complete submission, which includes intensive characterization of the starting materials, evidence of control over the manufacturing process, evidence of safety and efficacy of the product in the target animal, validated methods to measure the potency of each batch of product, results of quality control tests of the final product and stability of the final product. The facilities used for manufacturing and testing must also be licensed, and a fee is charged by the VBS for its review of the product and the facility. The timeframe for an approved submission could range from six to twenty-four months. Review of biologics applications and annual licensing fees are under cost recovery programs, and the cost of annual maintenance to the Company is approximately \$5,000 for its current line of biologics. At this time, there is no specific requirement for compliance with Good Manufacturing Practices (“GMP”) for veterinary biologics, however, the trend in recent years is toward GMP compliance by manufacturers and it is expected that such a regulation will eventually be adopted.

The product development and approval process for new animal drugs in Canada is similar to the requirements for human drugs, with the exception that the submission review is performed by the VDD rather than the Therapeutic Products Directorate (“TPD”), since the VDD reviewers have specific experience in animal drugs. An Investigational New Drug (“IND”) submission is required before clinical trials can begin. The IND submission must establish the chemical characterization of the product, its manufacturing process and the safety in non-target animal species (laboratory animals). Following approval of the IND submission, target animal safety and efficacy studies can be completed. An additional requirement for veterinary drugs is the assessment of human safety if the drug is to be given to food-producing animals. This can include extensive studies to measure the residues of the drug in the milk and edible tissues of the animal as well as an establishment of the safety of those residues in humans. Following successful review of a New Drug Submission, a Notice of Compliance will be issued, as well as a Drug Identification Number (“DIN”).

The cost of review of veterinary drug submissions can range from \$5,000 to \$70,000, depending on whether it is a new or old drug and whether the product is intended for a food producing animal or not. In addition to the product approval process for new drugs, annual maintenance fees are required to maintain the facility license and the DINs. Government audits are carried out on all drug manufacturers to ensure compliance with GMP.

Veterinary natural health products currently fall under food and drug regulations in Canada and are regulated as new drugs, however, Health Canada, in cooperation with the Canadian Animal Health Institute (CAHI), has developed a proposed Interim Notification Program for low-risk veterinary health products (LRVHPs) used in cats, dogs, and horses that are not intended for food. The proposed Interim Notification Program applies to LRVHPs, such as homeopathic preparations, botanicals, vitamins and minerals.

Health Canada considers the Interim Notification Program to be a temporary measure pending the amendment to the drug regulations to improve the regulation of low-risk veterinary health products.

On a voluntary basis, a sponsor could apply for a notification number with the Program Administrator. If the product meets pre-specified conditions, a notification number may be issued.

In Europe and the U.S., there are no specific rules for the regulation and control of veterinary NHPs and, therefore, the expectation is that a request for designation be done before marketing any NHPs that might be considered a new drug in those jurisdictions.

United States

In the United States, governmental regulation of animal health products is primarily split between two agencies: The United States Department of Agriculture (“USDA”) and the Food and Drug Administration (“FDA”). Vaccines for animals are considered veterinary biologics and are regulated by the Center for Veterinary Biologics (“CVB”) of the USDA under the auspices of the *Virus-Serum-Toxin Act*. Alternatively, animal drugs, which generally include all synthetic compounds, are approved and monitored by the Center for Veterinary Medicine (“CVM”) of the FDA under the auspices of the *Federal Food, Drug and Cosmetic Act*.

The purpose of the *Virus-Serum-Toxin Act* is to ensure that veterinary biologics sold in the United States are safe and efficacious. Pre-market testing on each batch of product is performed by the manufacturer and the CVB prior to approval of the product for sale. This testing is based on establishing a standard reference material that has been well characterized and shown to be directly linked to efficacy of the product. Recent trends to move away from *in vivo* potency testing has provided challenges in developing meaningful *in vitro* methods that correlate to biological activity.

Although the procedures for licensing products by the USDA are formalized, the acceptable standards of performance for any product are agreed upon between the manufacturer and the CVB. For novel products that are unlike others already licensed, the agreement on expected performance standards is typically reached through a dialogue between the CVB and the manufacturer. The formal demonstration of acceptable efficacy of the product is typically done in carefully controlled laboratory/challenge trials. This is normally a much faster process than demonstration of efficacy in clinical trials using client-owned animals. Recent trends with CVB are toward demonstrating efficacy in a field/natural challenge environment.

GMP requirements for animal drugs are the same as those for human drugs and, therefore, strict quality assurance and quality control procedures must be adhered to during the processing of animal drugs. The drug development process for human therapeutics is much more involved than that for animal drugs. The entire process for human therapeutics from research to market introduction may take as long as 20 years and cost tens to hundreds of millions of dollars. (See “Human Health Division – Regulatory Environment”). By contrast, management estimates that it can take up to 11 years and US\$5 million or more to develop a new drug for animals, from commencement of research to market introduction. Approximately three years of this period is spent in the clinical trial and review process. This time requirement for animal drugs is significantly shorter than the analogous time requirement for human

drugs, in part, because clinical trials may be conducted immediately in the animal for which the drug is intended. Also, for animal drugs, unlike human drugs, advantages over existing therapies do not have to be demonstrated. In addition, with the enactment of the *Animal Drug Availability Act* (“ADA”) in October 1996, substantial reductions in the time and cost to license some new animal drugs by the FDA were anticipated (although two to three years is usual). The ADA was designed to streamline the animal drug approval process in order to provide more registered drugs for animal use. The ADA mandates a binding pre-submission conference, at which the CVM and the applicant agree on the types of data the FDA will require. The ADA also removes the requirement that field investigations be done in every instance, and allows the CVM to accept different types of proof of a drug’s safety and efficacy.

In 2003, the Animal Drug User Fee Act (ADUFA) came into effect allowing the FDA to collect fees from sponsors of new animal drug applications for activities related to applications, establishments and maintenance. This was followed in 2008 by AGDUFA (Animal Generic Drug User Fee Act) which allows for collection of similar fees for sponsors of generic animal drugs. The fees for ADUFA are substantial and can be a deterrent for small companies or for companies developing products with limited markets. The FDA, therefore, is willing to waive certain fees for small companies and for products which will have either a minor use or are used in minor species (MUMS drugs).

Regulations governing the export of drugs and biologics have also been relaxed by the passage of the *Export Reform Enhancement Act* of 1996. Under this Act, drugs and biologics produced in the United States do not have to be licensed for sale in the United States before export if they are approved for sale in the importing country.

European Union

European Union requirements for approval of animal drugs are similar to Canadian and U.S. requirements. Clinical trials must be carried out to establish safety and efficacy in the target animal and safety in humans if the target animal is food-producing. The product and its starting materials must be adequately characterized and tested, and the facilities in which they are manufactured must comply with GMP.

In the European Union, the requirements for animal biologics are similar to those for drugs, in that GMP must be adhered to throughout the manufacturing process, and safety and efficacy must be established. Adequate characterization of starting materials is essential, as there are safety concerns with products of biological origin. For these reasons, it can be much more costly and take much longer to obtain approval to market a veterinary biologic in Europe than in North America.

FOOD SAFETY

1. Overview and Strategy

Bioniche Food Safety was established in July, 2001 and is responsible for researching, developing, manufacturing and marketing veterinary biopharmaceutical products to improve the safety of food and water supplies worldwide. It operates from the Company’s facility in Belleville, Ontario.

The leading initiative for this division is the development and commercialization of a cattle vaccine to reduce the spread of the *E. coli* O157 bacterium, which can be deadly to humans. To develop and commercialize the vaccine technology, the Company entered into a licence and collaborative agreement with the Alberta Research Council, pursuant to which Bioniche retained the worldwide rights to commercialize the vaccine. The Company has developed the vaccine and now markets it as *Econiche*TM.

In October, 2008, the Company received full licensing approval from the Canadian Food Inspection Agency (CFIA) for *Econiche*TM. A full license allows *Econiche*TM to be available for unrestricted use by Canadian cattle producers and their veterinarians. The vaccine is priced at C\$3 per dose, and is available to cattlemen through their veterinarians. Sales have been constrained to date, due in part to limited production capacity and the need to provide vaccine for regulatory purposes and market-related studies. The Company continues to pursue the registration of the *E. coli* vaccine in the United States, as well as in other global markets.

2. *Econiche*TM

Why is it important to vaccinate against *E. coli* O157?

E. coli O157 has emerged as an important environmental pathogen from contaminated food or water. *E. coli* bacteria are normally found in the intestinal tract of all animals, where they do not cause disease in the host. However, some *E. coli* bacteria cause digestive disturbances and other significant systemic disease in humans.

The incidence of *E. coli* O157 in beef and dairy cattle is widespread, and manure used as fertilizer and run-off from beef and dairy cattle operations can contaminate the general environment, as well as surface and ground water. This is illustrated below.

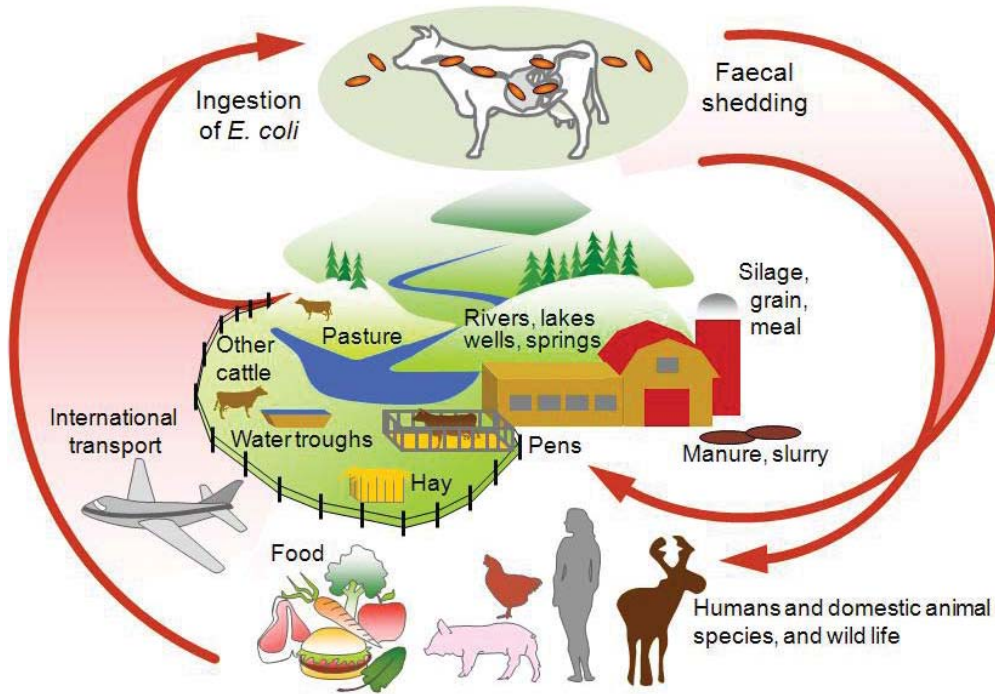
The contamination of meat, vegetables, fruits and water as a result of exposure to *E. coli* O157 from livestock feces is a documented threat to human health. Human infection with this bacterium can cause severe diarrhea (hemorrhagic colitis) and in some cases, haemolytic-uremic syndrome (HUS), a form of kidney failure that is lethal in 3%-5% of cases.

The symptoms can result from infection with as few as 10 *E. coli* O157 bacteria (some infected animals shed billions of bacteria per gram of their feces) and those infected potentially experience lasting damage to kidney, pancreas and/or brain function.

Despite numerous interventions, human illness from contaminated meat continues to occur. Outbreaks are also associated with fruits, raw edible vegetables, drinking and recreational water.

According to the United States Centers for Disease Control and Prevention (CDC), Shiga toxin-producing *E. coli*, or STEC, including the O157 strain "live in the guts of ruminant animals, including cattle, goats, sheep, deer, and elk. The major source for human illnesses is cattle. STEC that cause human illness generally do not make animals sick. Other kinds of animals, including pigs and birds, sometimes pick up STEC from the environment and may spread it."

*Econiche*TM has been shown to reduce the number of cattle that shed the bacteria *E. coli* O157 and the presence of the bacteria on the animal, thus reducing the presence of bacteria in the environment and minimizing the threat of food and water contamination.



Courtesy of Dr. John Fairbrother

Efficacy and status of licensing approval for *Econiche*TM

Studies of the vaccine under field conditions and in controlled challenge models have involved more than 30,000 cattle and have shown the following:

- up to 99.5% reduction in shedding of *E. coli* O157 bacteria in the manure of vaccinated cattle
- 97.5% reduction in *E. coli* O157 bacterial colonization in the cattle intestines
- 85% fewer animals shedding *E. coli* O157 bacteria in their manure
- 63.9% reduced duration of shedding *E. coli* O157 bacteria in the manure of affected animals

In October, 2008, the Company received full licensing approval from the CFIA, making *Econiche*TM the first fully licensed vaccine to reduce the shedding by cattle of *E. coli* O157.

The Company continues to pursue the registration of the *E. coli* vaccine in the United States. In February, 2008, the Company received notice from the United States Department of Agriculture (USDA) that the latest data for its *E. coli* O157 cattle vaccine "meets the 'expectation of efficacy' standard" and is eligible for a conditional license, provided that the Company undertakes a number of steps, including having one step in the manufacturing process completed in a U.S. facility and developing an agreed trial protocol to support full registration.

The conditional license, when granted, will provide the Company full access to the US market with the restriction that the Company will not be permitted to use a trademark name for the vaccine. The Company and its U.S. manufacturing partner continue discussions with the USDA about both conditional licensing and full licensure.

3. Research and Development Pipeline

IN DEVELOPMENT				
Product	Research	Pre-Clinical	Clinical	Marketed
<i>E. coli</i> O157 vaccine (<i>EconicheTM</i>)				
Recombinant <i>E. coli</i> O157 vaccine				
<i>Salmonella</i> vaccine				

The Company is working with collaborators to develop a next-generation recombinant *E. coli* O157 vaccine, which is expected to be more cost effective and safer for handling during the manufacturing process than the existing product.

The Food Safety division is also conducting research and development on other animal vaccines intended to improve the safety of food and water, including a vaccine against *Salmonella*, which is a disease harboured by animals that can cause human illness. This vaccine is in early stage, proof of concept testing.

4. Manufacturing

The Company has been producing the *E. coli* O157 vaccine in limited quantities in laboratories at its Belleville, Ontario facility in order to supply at least part of the market requirements in the early commercialization years. The Company is currently constructing an Animal Health and Food Safety Vaccine Manufacturing Centre at its existing facility to prepare for global market requirements.

The construction project was completed at the end of March, 2011, after which commissioning and validation began. This process is expected to be completed by early 2012, to be followed by production scale-up. The new facility will provide capacity to produce an annual minimum of 40 million doses of the *E. coli* O157 vaccine and will be used for the production of other Animal Health and Food Safety vaccines in development by the Company. The facility is designed to meet all international regulatory standards for manufacturing of biologics.

The production of sterile biologics, such as animal vaccines, is a highly controlled manufacturing process. The Animal Health and Food Safety Vaccine Manufacturing Centre will include air filtration and air flow balancing, autoclaving, centrifugation, depyrogenation, fermentation, filling lines, lyophilization, microfluidization, packaging equipment, QA/QC controls, steam systems, sterile product filtration, sterile water systems, ultra-cold storage, worker health and safety management and others.

The facility has been financed by repayable contributions from the Ontario Ministry of Economic Development & Trade's Advanced Manufacturing Investment Strategy (C\$10 million), the Business Development Bank of Canada (C\$5 million), Industry Canada's Industrial Technologies Office (C\$7.6 million) and Agriculture and Agri-Food Canada's Agri-Opportunities Program (C\$5 million).

The terms of these financial arrangements are described in detail in the "Government Assistance" section on page 47.

5. Market Opportunities

A 2010 study estimates the total economic impact of foodborne illness across the U.S. to be a combined US\$152 billion annually. This is the estimated sum of medical costs (hospital services, physician services, and drugs) and quality-of-life losses (deaths, pain, suffering, and functional disability). This cost includes both costs to the person made ill (i.e., pain and suffering losses) and costs to others in society (i.e., costs to insurance companies that pay medical expenses).

One common foodborne illness is *E. coli* O157 infection. The Company's *Econiche*[™] cattle vaccine product is designed to reduce shedding of the dangerous *E. coli* O157 bacteria by cattle. Despite numerous interventions, human illness from contaminated meat continues to occur. Outbreaks are also associated with fruits, raw edible vegetables, drinking and recreational water.

The societal and economic impacts of this disease are thought to be considerable:

- the CDC estimates that *E. coli* O157 infection affects some 73,000 people annually in the United States, and that 8% of those people develop HUS. Medical expenses, lost productivity and death contribute to *E. coli* O157 infection-related costs. A Company-sponsored study suggests that more than 26,000 people are made ill by *E. coli* O157 each year in Canada, also at considerable human and economic cost; and
- a number of large-scale recalls of hamburger meat have occurred as a result of *E. coli* O157 contamination. Since February, 2002, more than 55 million pounds of beef have been recalled in the United States. The cost of *E. coli* O157 to the food industry as a result of recalls, destroyed food, control measures and lost demand due to loss of consumer confidence is estimated to be in the billions of dollars, in the United States alone.

Bioniche's target markets for *Econiche*[™] are countries with significant commercial cattle industries. There are an estimated 110 million cattle in North America alone. Approximately 25 million of these North American cattle are conditioned in feedlots, the first target market for the Company's *E. coli* vaccine. Dairy cattle are an additional target market, of which there are approximately 14 million animals in North America.

Cattle herd numbers in other parts of the world include:

- European Union: 29 million beef and 25 million dairy cattle;
- South America: 64 million beef and 35 million dairy cattle; and
- New Zealand and Australia: 31.6 million beef and 6.1 million dairy cattle.

From a global market perspective, there are several potential drivers that will help encourage adoption of vaccination as an on-farm risk reduction measure.

In the United States, there is a value associated with brand protection within an integrated system. Where the supply of animals is controlled, the implementation of a pre-slaughter *E. coli* O157 risk reduction tool can be monetized and may be both economically viable and prudent.

Consistent with this, the Food Safety Inspection Service of the USDA has drafted a guidance document related to *E. coli* O157 in beef that states: "*The Food Safety Inspection Service (FSIS) recommends that slaughter establishments receive their cattle from beef producers that implement one or more of the documented pre-harvest management practices to reduce fecal shedding.*" An additional stakeholder is

the multi-billion dollar produce industry that has suffered significant losses due to contamination of fresh produce from inadvertent environmental *E. coli* O157 contamination.

In Australia, Bioniche believes that the A\$4.9 billion economic contribution of the beef exports justifies consideration of adding further protective measures to preserve and enhance the reputation of Australian beef exports to key customers such as Japan, US and Korea. This lucrative export market is very sensitive to food safety concerns and the maintenance of Australia's reputation of being a producer of quality healthy food is of critical importance. Japan has experienced multiple foodborne outbreaks of *E. coli* O157, most recently in 2009 when *E. coli* O157 closed the Pepper Lunch Restaurant chain nationwide. Globally, beef consumption is expected to increase, particularly with rising living standards in China, leading the world in the growing demand for beef.

6. Regulatory Environment

The development of food safety products by the Company requires approval by various government authorities, depending on the claims the Company wishes to make about these products. The typical products which the Company is developing, including the *E. coli* O157 vaccine, will be used to reduce infection of a food-producing animal with a bacteria which is pathogenic to humans, but may not be harmful to the host animal. These products will be regulated as veterinary biologics and, therefore, fall under the jurisdiction of the Canadian Food Inspection Agency's Veterinary Biologics Section. Jurisdiction over the *E. coli* O157 vaccine in the United States is with the United States Department of Agriculture (USDA).

INTELLECTUAL PROPERTY

1. Intellectual Property Portfolio

Core Patent Technologies

The Company believes that patent and trade secret protection is important in its business, and that its success will depend, in material part, on its ability to obtain and enforce patents, to maintain trade secret protection and to operate without infringing the proprietary rights of others.

The Company continued to expand its intellectual property portfolio over the past three years, with 57 patents issued in various international jurisdictions related to the Company's proprietary technologies during this period. The Company continues to place high importance on the long-term protection of its intellectual property through patents in order to give greater return to stakeholders as the technologies are commercialized.

2. Patents Issued and Pending Applications for Core Technologies

The Company pursues a policy of actively seeking patent protection for its proprietary technologies. The Company believes that patent and trade secret protection is important in its business, and that its success will depend, in part, on its ability to obtain and enforce strong patents, to maintain trade secret protection and to operate without infringing the proprietary rights of others. For the fiscal year 2011 (July, 2010 – June, 2011), the Company was issued twenty-three patents in major and minor international jurisdictions for its various technologies: Three patents issued for the mycobacterial cell wall technologies; twelve patents issued related to the oligonucleotide technologies; and ten related to antiviral technology.

The Company has six pending patent applications related to mycobacterial cell wall technologies collectively, and twenty-six pending patent applications related to oligonucleotides in various international jurisdictions. Additionally, there are twenty-five related to antivirals, and four related to botanicals. The Company has been recently issued an oligonucleotide application in Japan, and has been informed of allowances of botanical insect repellent applications in Australia and the U.S.

The table below summarizes the total number of worldwide patent applications pending and patents issued at the end of Fiscal 2011 (June 30, 2011).

Technology	Number of Patent Applications Pending	Number of Patents Issued or in EP Validation Stage	Total Number of Patents and Applications per Technology
MCC	4	123	127
MCWE	2	46	48
Oligonucleotides	26	120	146
Botanical	4	8	12
Reproductive	0	24	24
Antiviral	25	13	38
Total No.	61	334	395

3. Considerations and Risks

There can be no assurance that pending patent applications will be allowed, that the Company will develop additional proprietary products that are patentable, that issued patents will provide the Company with any competitive advantage or will not be challenged by any third parties, or that patents of others will not have an adverse effect on the ability of the Company to do business.

Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products or design around the products patented or held in trade secret by the Company. In addition, the Company may be required to obtain licenses under patents or other proprietary rights of third parties. No assurance can be given that any licenses required under such patents or proprietary rights will be available on terms acceptable to the Company. If the Company does not obtain such licenses, it could encounter delays in introducing one or more of its products to the market while it attempts to design around such patents, or it could find that the development, manufacturing or sale of products requiring such licenses could be foreclosed. Third parties may claim that the Company infringes upon their intellectual property. Any such claims, with or without merit, could materially harm the Company's business and operating results. In addition, the Company could incur substantial costs in defending itself in suits brought against it related to such patents or in suits in which it attempts to enforce its own patents against other parties.

Until such time, if ever, that patent applications are filed, the ability of the Company to maintain the confidentiality of its technology may be crucial to its ultimate possible commercial success. It is the Company's policy to require its employees, consultants and parties to research agreements to execute confidentiality agreements with the Company. While the Company has adopted procedures designed to protect the confidentiality of its technology, no assurance can be given that such arrangements will be effective, that third parties will not gain access to the Company's trade secrets or disclose the technology, or that the Company can meaningfully protect its rights to its trade secrets.

CAPITAL STRUCTURE

The authorized capital of the Company consists of an unlimited number of Common Shares, and an unlimited number of Preferred Shares issuable in series. As of September 22, 2011, there were 102,375,477 issued and outstanding Common Shares. The combined total of shareholdings held by directors and officers at September 22, 2011 is 8,979,580 Common Shares, representing approximately 8.77% of outstanding Common Shares.

The Series 1 Preferred Shares are redeemable by the Company at \$1,000 for each share, together with dividends, if any, which have been declared but not paid. The Series 1 Preferred Shares are non-voting and are entitled to a fixed, non-cumulative preferential dividend at the rate of 12% per annum. As at June 30, 2011, no dividends have been declared or paid. On June 1, 2011, all Series I shareholders were informed of the Company's intent to redeem these shares for \$1,000 per share. The redemption of these shares occurred in July 2011.

On November 3, 2004, the Company completed an equity financing of C\$10 million with the Fonds de solidarité des travailleurs du Québec ("FSTQ") and C\$2 million with the Fonds d'investissement bioalimentaire ("Fonds bio"). The financing consisted of a private placement offering of 12,000,000 newly created Series 2 Preferred Shares for a subscription price of C\$12 million. The FSTQ subsequently acquired the interest of the Fonds bio.

The Series II Preferred Shares are convertible at the option of the holder into Common Shares for five years plus one day at a conversion ratio which is obtained by dividing the fully-accreted value by the applicable conversion price as follows: 25% at \$1.45; 50% at \$2.50; and 25% at \$3.75. The fully-accreted value is calculated as the aggregate subscription price of the preferred shares plus 6% per annum until the earlier of conversion or five years from the date of issuance. After the initial five-year plus one-day term, any Series II Preferred Shares outstanding are convertible at the option of the holder, into Common Shares at the fully-accreted value divided by the average market price of the Common Shares less the greater of 5% or the maximum discount permitted by the Toronto Stock Exchange (subject to the issuance of a maximum of 6,521,677 Common Shares in the aggregate on conversion of the remaining Series II Preferred Shares). On June 4, 2007, 3,000,000 Series II Preferred Shares were converted into 2,388,323 Common Shares. If the trading price of the Common Shares exceeds \$13.50 for 60 consecutive days, the Company may require the holders to convert the Series II Preferred Shares into Common Shares at the conversion ratio applicable on the date of conversion. The Series II Preferred Shares have voting rights on the basis of the number of Common Shares that the holder would have if the Series II Preferred Shares were converted into Common Shares on the date of the applicable shareholders' meeting. On October 4, 2010, the Fonds de solidarité FTQ converted the remainder of its Series II Preferred Shares amounting to 9,000,000 Series II Preferred Shares into 6,521,677 Common Shares.

MARKET FOR SECURITIES

The graph below sets out the movements in the Company's Share price on the TSX over the period from July 1, 2010 to June 30, 2011 (Fiscal 2011) and on the ASX from January 27, 2011 to June 30, 2011.

Toronto Stock Exchange (TSX)

Month	Average High	Average Low	Average Close	Total Volume
July 2010	1.11	0.81	1.04	1,606,607
August 2010	1.25	0.96	1.16	2,836,036
September 2010	1.75	1.11	1.52	3,852,528
October 2010	1.94	1.45	1.68	5,359,522
November 2010	1.73	1.3	1.47	5,389,313
December 2010	1.54	1.4	1.5	3,619,849
January 2011	1.53	1.3	1.49	2,634,058
February 2011	1.51	1.33	1.45	3,636,579
March 2011	1.47	1.16	1.23	2,537,899
April 2011	1.3	1.13	1.16	2,288,566
May 2011	1.18	0.92	0.95	1,495,345
June 2011	1.26	0.83	0.89	1,759,748
TOTAL/AVERAGE	1.46	1.14	1.30	37,016,050

Australian Securities Exchange (ASX)

Month	Average High	Average Low	Average Close	Total Volume
January 2011	1.51	1.49	1.51	99,034
February 2011	1.39	1.46	1.47	257,388
March 2011	1.28	1.25	1.26	247,079
April 2011	1.18	1.10	1.12	611,152
May 2011	1.00	0.98	1.00	253,428
June 2011	0.88	0.88	0.88	74,254
TOTAL/AVERAGE	1.21	1.19	1.21	1,542,335

DIVIDEND POLICY AND RECORD

The Company's current intention is to reinvest its earnings to finance the growth of its business. The Company does not intend to pay dividends on its Common Shares in the foreseeable future. The Board of Directors of the Company will review this policy from time to time, having regard to the Company's financial condition, financial requirements, and other factors considered relevant.

HUMAN RESOURCES AND FACILITIES

As of September 22, 2011, the Company had 225 full-time and part-time employees. The Company's registered and head office is located at 231 Dundas Street East, P.O. Box 1570, Belleville, Ontario, K8N 5J2. It is from this location that administrative, sales and financial matters are handled. This Company-owned facility consists of a 137,000 square foot biotechnology pilot and manufacturing plant purchased from Bristol-Myers Squibb Canada Inc. in July 1999. The Company has renovated one-third of this facility. The facility currently comprises: (i) corporate offices; (ii) a pharmaceutical production unit which is regulated by Health Canada's Health Products and Food Branch Inspectorate; (iii) two biological production units which are regulated by the Canadian Food Inspection Agency's Veterinary Biologics Section; (iv) quality control and research laboratories; (v) an animal health research and development unit; (vi) animal housing facilities, and (vii) a natural health products production unit which is regulated by Health Canada's Natural Health Products Directorate, and (viii) warehouse and distribution areas.

The Company owns a 27,000 square foot GMP facility in Montréal at 275 Labrosse Avenue, Pointe-Claire, Québec. In the short-term, this facility will be used primarily for pilot-scale production of some of the Company's technologies. In the longer term, this facility will be the production point for global supply of MCC for bladder and other cancers. The Company has also leased 3,868 square feet of office space at 171 Place Frontenac, Pointe-Claire, Québec H9R 4Z7, which is near the manufacturing facility.

On June 3, 2005, the Company entered into a ten-year lease for the facility located at 271 Labrosse Avenue, adjacent to the existing manufacturing facility. The facility was leased to the Company from Renaissance (London) Investments Inc., a company owned and controlled by Graeme McRae, the Company's Chief Executive Officer. Under the terms of the lease, the Company had the option to purchase the facility by May 31, 2006 by assuming the balance of the loan outstanding. This option to purchase was extended effective May 31, 2006 for an additional two years and further extended to May 28, 2011, then to May 28, 2012. On June 24, 2011, the Company exercised its option to purchase this building and as part of the purchase agreement, the lease agreement was terminated.

The transaction was recognized at its carrying amount, resulting in no change in the carrying value of the Company's property, plant and equipment. The balance of the lease obligation, net of advances, in the amount of \$145 was extinguished and the Company assumed the mortgage related to the building, in the amount of \$600.

The facility consists of 14,000 square feet and will be used for office and laboratory space, with the potential to add additional manufacturing space in the future. This facility will allow the Company to expand the production capacity of its existing MCC manufacturing to meet the projected eventual demand for *Urocidin*TM for the North American and European clinical trials. The purchase of this facility by a related party was necessitated by the Company's liquidity position at the time of acquisition.

The Company owns a 39-hectare farm property outside Belleville, Ontario which is used to keep horses for *Colimune*[®] production. The Company's pre-clinical and formulation research is conducted at its leased 1,460 square foot research facility located within the Biotechnology Research Institute of the Canadian National Research Council in Montréal, Québec. The lease for these premises expires on December 31, 2011, and an extension to the lease is being negotiated. At the same time, the Company is currently investigating alternatives for the long-term. The Company's clinical trials are carried out by leading clinical investigators at major hospitals and specialty clinics worldwide.

The Company leases a 1,250 square foot laboratory located at 119 Rowe Road, Athens, Georgia in the United States. The term on the lease ended on November 20, 2008 and is now a month to month tenancy. This facility produces and distributes animal immunostimulant products to the United States, Canada, Ireland, Australia, South Africa and several South American, Central American and Middle Eastern

countries. The Company also leases a 1,200 square foot office in Bogart, Georgia, terminable on 12 months' notice.

In February 2004, the Company acquired the assets of AB Technology Inc. of Pullman, Washington. This included the leased premises of 7,605 square feet of office and manufacturing space and 583 square feet of warehouse space. This lease is currently set up as a month to month arrangement.

The Company owns a manufacturing facility and a 300-acre farm in Armidale, Australia. The Company leases an additional 1,100 acres of nearby farm land. The manufacturing facility specializes in the manufacture of pregnant mare serum gonadotrophin (PMSG), a reproductive hormone used to enhance fertility in livestock.

On March 29, 2006, Bioniche Animal Health Canada Inc., one of the Company's subsidiaries, purchased two residential/commercial properties. These properties, at 219 and 225 Dundas Street East, Belleville, Ontario abut the property currently owned by the Company in Belleville. As a way of supporting the local community, the Company has leased 225 Dundas Street to Hospice Quinte, under generous terms for ten years. Hospice Quinte, a registered charity, offers respite care services to the dying and their families. The Company is currently evaluating potential different uses for the 219 Dundas Street East property.

On August 26, 2007, the Company's Australian subsidiary, Bioniche Animal Health (A/Asia) Pty. Ltd. leased the offices located at Suite 5, 242 Hawthorn Road, Caulfield, Victoria, Australia as office spaces for the sales and marketing team. The Company terminated this lease and has now leased new offices located at Level 6, 40 King Street, Sydney NSW 2000 Australia.

RISKS AND UNCERTAINTIES

The primary risks that may affect the Company are summarized below. If any of the risks or uncertainties occurs, the business, financial condition, prospects, or results of operations for the Company would likely suffer.

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 the Company 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, 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.

Cash Flow and Financial Resources

The Company's cash flow used in operations for the year ended June 30, 2011 was \$13.0M, as compared to cash provided by operations of \$16.6M in 2010. This decrease is primarily related to the up-front payment of \$22.3M under the License, Development and Supply Agreement with Endo in the year ended June 30, 2010, offset by other changes in non-cash working capital balances in Fiscal 2010.

The Company's investing activities used cash of \$19.2M during the year ended June 30, 2011, primarily on construction costs and purchases of property plant and equipment of \$18.7M for the Vaccine Manufacturing Centre in Belleville, Ontario (\$7.8M in Fiscal 2010).

The Company's financing activities provided \$36.6M during the year ended June 30, 2011 from the closing of the concurrent share offerings netting \$26.0M and from loan advances to fund the Vaccine Manufacturing Centre of \$9.8M.

At June 30, 2011, the Company's net working capital totalled \$23.0M, excluding the current portion of non-refundable deferred licensing revenue, as compared to working capital of \$16.5M at June 30, 2010. Shareholders' equity at June 30, 2011 totalled \$21.9M, as compared to \$8.5M at June 30, 2010. The increase is due to the concurrent financings, as referred to above, raising \$26.0M of new capital, offset by the current loss of \$15.3M, resulting in a cumulative deficit of \$112.3M.

Long-term liabilities at June 30, 2011 totalled \$18.1M, excluding non-refundable deferred licensing revenue of \$17.9M, which is \$6.2M more than the \$11.9M reported at June 30, 2010. The increase reflects advances received from repayable government assistance and from the Business Development Bank to fund construction costs of the Vaccine Manufacturing Centre, less repayments of capital leases and long-term debt and to the recognition of an employee future benefit liability. The up-front payment related to the licensing agreement with Endo is reflected as non-refundable deferred licensing revenue, the current portion being \$1.5M and the long-term portion being \$17.9M. The total amount received was \$22.3M, which will be recognized in income over 15 years from the date of the Agreement (July 10, 2009), which is the term over which the Company maintains substantive contractual obligations.

The Company has incurred significant losses and has an accumulated deficit of \$112.3M as at June 30, 2011, including a current loss of \$15.3M for the year then ended. In spite of this, the Company's capital structure and current liquidity has improved over the last two fiscal years and is a strong financial position to complete its commercialization activities.

At June 30, 2009, the Company was facing significant financial challenges and there were serious concerns about the Company's ability to continue as a going concern. As of June 30, 2011, the Company has enough cash for operations until the first quarter of Fiscal 2013.

However, the immediate liquidity challenges were resolved with the signing on July 10, 2009 of a License, Development and Supply Agreement with Endo Pharmaceuticals Inc. ["Endo"] that provided US\$20M, followed by US\$14M and US\$4M in milestone revenues in the years ended June 30 2010 and 2011 respectively.

Further, the Company raised an additional \$28.9M of gross proceeds through two concurrent offers in Canada (\$16.7M) and Australia (\$12.2M) in December, 2010 and January, 2011 respectively. These transactions enabled the Company to settle a revolving credit facility in full of \$6.5M including financing fees of \$2.1M, and resolve a number of other liabilities in Fiscal 2010.

As a consequence of these transactions, the Company's key liquidity ratios have much improved. The current ratio (current assets:current liabilities) has improved from 0.97:1 as at June 30 2009 to 2.21:1 and 2.83:1 at June 30, 2010 and 2011 respectively. Similarly, the Company's debt to equity ratio (not including Non-Refundable Deferred Licensing Revenue) has improved over the same period from 2.81 at June 30, 2009 to 1.30 at June 30, 2011. As of June 30, 2011, the Company has enough cash for operations until the first quarter of Fiscal 2013.

Overall, cash, capital resources and liquidity has improved dramatically over the past two years, and, with the completion of the concurrent offers in December, 2010 and January, 2011, the Company has been able to demonstrate its ability to continue as a going concern. With a strong cash and working capital

position at June 30, 2011, the Company believes that it has the resources it needs to complete development and commercialization activities for pipeline products and bring them to market starting in Fiscal 2012 through the end of Fiscal 2013.

Foreign Currency Risks

The Company is exposed to foreign currency risks as a result of the sales of products, purchases of materials, and costs of manufacturing operations in currencies other than the Canadian dollar. The Company operates internationally and a substantial portion of its revenue from product sales is denominated in US dollars, Euros, New Zealand dollars and Australian dollars. This results in financial risk due to fluctuations in the value of the Canadian dollar relative to these currencies. The Company has a natural hedge for a portion of this risk, in that many of its expenditures are in U.S. dollars, Euros and Australian dollars. Fluctuations in payments made for the Company's products could cause unanticipated fluctuations in the Company's consolidated operating results. At June 30, 2011 and 2010, the Company has not entered into any currency hedging contracts to manage foreign currency risk.

Government Regulations

The manufacture and sale of animal and human therapeutic products are governed by numerous statutes and regulations in the United States, Canada, Ireland, and other countries where the Company 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, pre-clinical, and clinical data prior to marketing approval, adherence to GMP during production and storage, and regulation of marketing activities, notably advertising and labeling.

The Company's products and processes will require significant development, pre-clinical 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 submissions, which may result in delays or failure to obtain regulatory approval. Any delay or failure to obtain regulatory approvals could adversely affect the ability of the Company 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, nor that they will receive the requisite regulatory approval. Foreign markets, other than the United States and Canada, impose similar restrictions.

Clinical Trial Results

Clinical trials are long, expensive and uncertain processes, and Health Canada or the U.S. FDA may ultimately not approve any of the Company's product candidates. The Company may never develop any commercial drugs or other products that generate revenues. The products under research have not yet received regulatory approval. The Company cannot market a pharmaceutical product in any jurisdiction until it has completed thorough pre-clinical testing and clinical trials in addition to that jurisdiction's extensive regulatory approval process. In general, significant research and development and clinical studies are required to demonstrate the safety and effectiveness of products before the Company can submit any regulatory applications. Clinical trials may not be commenced or completed on schedule, and Health Canada or the FDA may not ultimately approve the Company's product candidates for commercial sale. Further, even if the results of the Company's pre-clinical studies or clinical trials are initially positive, it is possible that the Company will obtain different results in the later stages of drug

development or that results seen in clinical trials will not continue with longer term treatment. Drugs in late stages of clinical development may fail to show the desired safety and efficacy traits despite having progressed through initial clinical testing. For example, positive results in early Phase I or Phase II clinical trials may not be repeated in larger Phase II or Phase III clinical trials. The results of the Company's Phase III clinical trials with *Urocidin*TM in bladder cancer may not meet the primary endpoints of the studies, despite promising pre-clinical and early stage clinical data.

In addition, unacceptable toxicities or adverse side effects may occur at any time in the course of pre-clinical studies or human clinical trials or, if any products are successfully developed and approved for marketing, during commercial use of any approved products. The appearance of any such unacceptable toxicities or adverse side effects could interrupt, limit, delay or abort the development of any of the Company's product candidates or, if previously approved, necessitate their withdrawal from the market. Furthermore, disease resistance or other unforeseen factors may limit the effectiveness of the Company's potential products. The clinical trials of any of the Company's drug candidates could be unsuccessful, which would prevent it from advancing, commercializing or partnering the drug. The Company's failure to develop safe, commercially viable drugs would substantially impair its ability to generate revenues and sustain its operations and would materially harm its business and adversely affect its share price.

Intellectual Property Issues

The Company's success will depend, in part, on its ability to obtain, maintain and enforce patent rights, maintain trade secret protection and operate without infringing the proprietary rights of third parties. There can be no assurance that pending patent applications will be allowed, that the Company will develop additional proprietary products that are patentable, that issued patents will provide the Company with any competitive advantage or will not be challenged by any third parties, or that patents of others will not have an adverse effect on the ability of the Company to do business. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products, or design around the products patented or held in trade secret by the Company. In addition, the Company may be required to obtain licenses under patents or other proprietary rights of third parties. No assurance can be given that any licenses required under such patents or proprietary rights will be available on terms acceptable to the Company. If the Company does not obtain such licenses, it could encounter delays in introducing one or more of its products to the market while it attempts to design around such patents, or could find that the development, manufacturing or sale of products requiring such licenses could be foreclosed. Third parties may claim that the Company infringes upon their intellectual property. Any such claims, with or without merit, could materially harm its business and operating results. The Company could incur substantial costs in defending itself in suits brought against it on such patents or in suits in which it attempts to enforce its own patents against other parties.

Until such time, if ever, that patent applications are filed, the ability of the Company to maintain the confidentiality of its technology may be crucial to its ultimate possible commercial success. While the Company has adopted procedures to protect the confidentiality of its technology, no assurance can be given that such arrangements will be effective, that third parties will not gain access to the Company's trade secrets or disclose the technology, or that the Company can meaningfully protect the rights to its trade secrets.

Competition

Technological competition from pharmaceutical companies, biopharmaceutical companies and universities is intense, and is expected to increase. Potential competitors of the Company have developed, or may develop, product development capabilities or financial, scientific, marketing and human resources exceeding those of the Company. Competitors may develop products before the Company develops its own products, obtain regulatory approval for such products more rapidly than the Company, or develop

products which are more effective than those which the Company intends to develop. Research and development by others may render the Company's technology or products obsolete or non-competitive, or produce treatments or cures superior to any therapy developed, or to be developed, by the Company, or otherwise preferred to any therapy developed by the Company.

Dependence on Collaborative Partners, Licensors and Others

The Company's activities will require it to enter into various arrangements with corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, manufacturing, marketing and commercialization of its products. The Company intends to attract corporate partners and enter into additional research collaborations. There can be no assurance, however, that the Company will be able to establish such additional collaborations on favourable terms, if at all, or that its current or future collaborations will be successful.

Should any collaborative partner fail to develop, manufacture, or commercialize successfully any product to which it has rights, or any partner's product to which the Company has rights, the Company's business may be adversely affected. Failure of a collaborative partner to continue to participate in any particular program could delay or halt the development or commercialization of products generated from such program. In addition, there can be no assurance that the collaborative partners will not pursue other technologies or develop alternative products either alone or in collaboration with others, including the Company's competitors, as a means for developing treatments for the diseases targeted by the Company's programs.

Furthermore, the Company will hold licenses for certain technologies. There can be no assurance that these licenses will not be terminated, or that they will be renewed on conditions acceptable to the Company.

Potential Product Liability

Pharmaceutical products involve an inherent risk of product liability claims and associated adverse publicity. Product liability insurance is costly, and availability is limited and may not be on terms which would be acceptable to the Company. An inability to maintain sufficient insurance coverage on reasonable terms or otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products. A product liability claim brought against the Company or withdrawal of a product from the market could have a material adverse effect upon the Company and its financial condition.

Key Personnel

The Company's success is also dependent upon its ability to attract and retain a highly-qualified workforce, and to establish and maintain close relations with research centres. Competition is intense 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.

Suppliers

The Company is dependent on certain third parties for the supply involved in the manufacturing of certain key products. Although it seeks to secure alternative suppliers, an interruption in the availability of certain

raw material sources could have a material adverse effect on the Company's business and financial condition.

Manufacturing Facilities

The Company relies on having properly validated, fully functioning, and sufficiently sized manufacturing facilities in which to produce its products for market. Should systems fail, or a disaster strike, the ability to produce products would be negatively affected which, in turn, would affect revenue generation. The Company does not currently have backup manufacturing capacity for some of its key products. As a result, it would be forced to turn to external manufacturers should an unexpected event as described above occur.

Volatility of Share Prices, Absence of Dividends and Fluctuation of Quarterly Results

Share prices are subject to change because of numerous different factors related to Company activity, including reports of new information, change 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, an announcement by the Company or any of its competitors concerning technological innovation, etc. During the past few years, shares of the Company, 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. The Company has not paid dividends on its Common Shares to date and does not expect to pay dividends in the foreseeable future. The Company's quarterly operating results have fluctuated in the past and may continue to fluctuate in the future.

DIRECTORS AND OFFICERS

The name, municipality of residence, position with the Company and principal occupation of each of the Directors and Officers of the Company as of September 28, 2011 is set out below.

Name and Municipality of Residence	Position with the Company	Principal Occupation	Director of Company since
Armen Aprikian, MD, FRCS (C) (4) Montréal, Québec	Observer to Board	Head, Division of Urology, Department of Surgery, McGill University, and Head, Department of Oncology, McGill University Health Centre.	N/A
Stanley Alkemade, DVM Arva, Ontario (4),(5),(6)	Director	President of BioMedEx, a pharmaceutical industry consulting firm.	September 1999
Cindy Benning (5) mgt. rep. Frankford, Ontario	Senior Vice-President, Operations, Quality and Regulatory Affairs	Senior Vice-President of the Company since September, 2011; previously held other positions within the Company.	N/A

Debi Butler Corbyville, Ontario	Corporate Controller	Previously Interim Controller.	N/A
Albert Beraldo Toronto, Ontario (1),(2),(6)	President, Alveda Pharmaceuticals Inc.	Previously a director and employee of the Company.	November 6, 2008
Monique Champagne Ile Bizard, Québec (4) mgt. rep.	Vice-President, Clinical Research	Previously Director, Clinical Research since March, 2006; before joining the Company, held research and development management positions at Xanthus Life Sciences, Supratek Pharma Inc., PriceWaterhouseCoopers, Quintiles Canada, Wyeth-Ayerst Research and Scat Canada Inc.	N/A
Rick Culbert Belleville, Ontario	President, Bioniche Food Safety	Previously President Bioniche Animal Health Canada Inc.	N/A
Margaret (Peggy) Cunningham, Ph.D. Halifax, Nova Scotia (1), (2), (3) (6)	Director	Dean Faculty of Management, R.A. Jodrey Chair in Management, Dalhousie University since April 2010; previously Director, School of Business Administration, Dalhousie University	October 24, 2003
Mohamed Elrafih Belleville, Ontario	Vice-President, Manufacturing Operations	Vice-President of the Company since November 2001; previously held positions within the Company.	N/A

Brian Ford, CA, (5) mgt. rep. Ameliasburg, Ontario	Chief Financial Officer	Joined the Company in September, 2009; previously the proprietor of PetersFord Consulting	N/A
Andrew Grant Belleville, Ontario	President, Bioniche Animal Health (Global)	Previously President, Bioniche Animal Health Export Sales, Europe and Australia, Director of Bioniche Animal Health (A/Asia) Pty. Ltd., and Bioniche Animal Health Europe Limited	N/A
Cameron Groome Mississauga, Ontario	Executive Vice-President, Corporate and Strategic Development	Executive Vice-President, Corporate and Strategic Development since June 2006. Previously worked as an equity analyst, industry commentator, investment banker and corporate advisor.	N/A
James Johnson Ph.D. (2),(4),(6) Highlands, North Carolina	Director	Founder & Partner, Johnson & Associates. Previously Partner, King & Spalding LLP, law firm. Prior to that, Partner, Kilpatrick Stockton, law firm.	December 1997
Bruce McLeod Belleville, Ontario	Vice-President, Human Resources	Previously worked as Director of Human Resources with Farm Credit Canada and prior to that HR Manager with the Saskatchewan Workers' Compensation Board.	N/A
Graeme McRae (2), (4), (5), (6) Belleville, Ontario	Chairman of the Board, President and Chief Executive Officer, Director	Chairman of the Board, President and Chief Executive Officer of the Company; Founder of the Company.	June 1979
Jim Phillips Orangeville, Ontario	Senior Vice-President, Industry Relations	Previously President, Bioniche Animal Health (Global) and President, Bioniche Animal Health USA, Inc.	N/A

Mairi Phillips Belleville, Ontario	Director Legal Services and Corporate Secretary	Previously held other positions within the Company	N/A
Nick Photiades (1), (3),(5) Brossard, Québec	Director	Management and strategic planning consultant	September 17, 2009
Dragan Rogan (4) mgt. rep. Belleville, Ontario	Chief Veterinary Scientific Officer	Previously Vice- President, Research and Development, Animal Health from 1989 to 2010.	N/A
Jennifer Shea Belleville, Ontario	Vice-President, Communications, Investor & Government Relations and Assistant Secretary	Previously Corporate Communications Manager promoted to Director, Corporate Communications, Investor & Government Relations since April, 2004.	N/A
Lyle Vanclief (1),(3), (5), (6) Ameliasburg, Ontario	Director	Agricultural and Agri- Food Consultant; former Cabinet Minister (Agriculture and Agri- Food) and Member of Parliament, Government of Canada; former agricultural entrepreneur.	September 20, 2005
Gary Weber Severn, Maryland	President, Bioniche Food Safety, USA	Previously worked for United States Department of Agriculture (USDA) as National Program Leader for Animal Science and the National Cattlemen's Beef Association as Director of Animal Health, Inspection and Science Policy and Executive Director of Regulatory Affairs	N/A

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Corporate Governance & Nominating Committee

(4) Member of the Scientific Audit Committee

(5) Member of the Risk Management Committee *

(6) Each Director has been elected to hold office until the date of the Company's next annual meeting of shareholders

* Mr. Rick Sutin, senior partner at Norton Rose, sits on the Company's Risk Committee.

The following are brief biographies of the Directors and Officers of the Company:

Dr. Stanley Alkemade received his veterinary degree from the University of Melbourne, Australia. He came to Canada in 1971 and ran a mixed veterinary practice in Seaforth, Ontario for the next ten years. He has lectured in the Animal Health Technology program at the Centralia College of Agricultural Technology. In 1986, he joined Vetrepharm Canada Inc. as Technical Director and was responsible for research and development, product registrations, corporate technical services and facilities design. He is now the President of BioMedEx, a project management firm for the pharmaceutical industry.

Dr. Armen Aprikian (observer to the Board). Dr. Aprikian is the Head, Division of Urology, Department of Surgery, McGill University, and Interim Chief of Department of Oncology, McGill University Health Centre.

Ms. Cindy Benning joined the Company in 1993 as Quality Control Supervisor. She was appointed to the position of Vice-President, Corporate Quality & Regulatory Affairs in December 2001. In July of 2005 she took on additional responsibilities related to the Company's operations, with a new title of Vice-President of Operations, Quality & Regulatory Affairs. She has held various positions in Quality Control and/or Regulatory Affairs. Ms. Benning holds a Technology Diploma in Biological Sciences from St. Clair College and also graduated with a Bachelor of Science Degree from the University of Waterloo in 1998. With her extensive experience in GMP, cGMP & Quality Assurance as well as in Regulatory Affairs for both human and veterinary health products in international regulatory markets, she is an important resource for the company's clinical development program and facility expansion plans.

Mr. Albert Beraldo is the President of Alveda Pharmaceuticals Inc., a privately owned Canadian company that is a leading supplier of pharmaceuticals to the Canadian health care market. Mr. Beraldo formerly served as President and CEO of Bioniche Pharma Group Limited until 2005. He also previously served as a director of the Corporation from 1984 to 2005. Mr. Beraldo has a Bachelor of Commerce degree from the University of Windsor and has a Chartered Accountant designation from the Canadian Institute of Chartered Accountants. He worked in public accounting with Ernst and Whinney until he joined Vetrepharm as Financial Controller in 1983.

Ms. Debi Butler is a Certified General Accountant with an Honours Bachelor of Commerce degree from Laurentian University. Debi joined Bioniche in 2000 and has held progressive roles in the Company's finance department before being appointed as Corporate Controller in 2009. Debi has over thirty years of accounting experience gained in the fields of banking, public accounting and both private and publicly traded companies.

Ms. Monique Champagne joined the Company in March, 2006 as Director, Clinical Research with 19 years of experience in international research. She held research and development management positions at Xanthus Life Sciences, Supratek Pharma Inc., PriceWaterhouseCoopers, Quintiles Canada, Wyeth-Ayerst Research and Scat Canada Inc. Ms. Champagne received her Master's degree in Pharmaceutical Science and her Bachelor's degree in Pharmacy, both from the University of Montréal. Monique was recently promoted to the position of Vice-President, Clinical Research.

Mr. Rick Culbert has a diploma in Animal Health Technology from Centralia College of Agricultural Technology; and is a graduate of the Advanced Agricultural Leadership Program, University of Guelph. Rick joined Bioniche (then Vetrepharm Inc.) in 1980 as the Ontario Regional Manager. He has held progressively senior roles in the Animal Health division of the Company before being appointed as President of Bioniche Animal Health Canada, Inc. in 2002 and was promoted to President, Bioniche Food

Safety in July 2007. Mr. Culbert is a member of the Canadian Animal Health Institute's Board of Directors.

Dr. Margaret Cunningham has a Ph.D. in marketing from Texas A&M University and an MBA from the University of Calgary. Dr. Cunningham is currently the Dean, Faculty of Management and R.A. Jodrey Chair in Management at Dalhousie University. She formerly served as Director, School of Business Administration, Dean Research, Faculty of Management, and R.A. Jodrey Chair at the university. Previously, she was a Professor of Marketing and the Director of the Centre for Corporate Social Responsibility at the School of Business, Queen's University.

Mr. Mohamed Elrafih joined the Company in 1984 and became Vice-President, Manufacturing Operations in November 2001, responsible for all manufacturing and plant operations for the Company. Mr. Elrafih graduated from the University of Western Ontario with a Bachelor's Degree in Science (Microbiology). He has held positions of increasing responsibility in the manufacturing operations of the Company.

Mr. Brian Ford joined the Company in September 2009 as the new Chief Financial Officer. Mr. Ford is a chartered accountant and financial professional with over 26 years of experience serving private corporations and publicly traded entities. Most recently, he was the Proprietor of PetersFord Consulting, a firm focused on finance and business risk services. Previously, he held several positions with increasing responsibilities with Ernst & Young, his last position being Principal of Business Risk Services in the firm's Toronto office. He has earned a Graduate Diploma in Accounting from the University of McGill, a B.A. (Economics, History, English) from the University of Guelph, and is a Member of the Ontario Institute of Chartered Accountants.

Mr. Andrew Grant joined Bioniche in 1998 as General Manager, Bioniche Animal Health Australia and New Zealand. In 2001, he was promoted to Managing Director, Bioniche Animal Health Australia/New Zealand and held that position until his transfer to Managing Director Animal Health, Europe and the Middle East in 2004. In 2007, Mr. Grant was promoted to Divisional President, Bioniche Animal Health Export Sales, Europe and Australia. With this appointment, he and his family relocated to the Bioniche Corporate Offices in Belleville, Ontario, Canada. Mr. Grant has since been appointed as President, Bioniche Animal Health (Global) in January, 2011. He graduated from Saint Stanislaus College, Bathurst, NSW, Australia and holds a certificate in Marketing from the University of Technology in Sydney Australia. He is also a member of the Australian Institute of Company Directors. Prior to his employment with Bioniche, Andrew was a National Field and Product Manager for Boehringer Ingelheim in Australia.

Mr. Cameron Groome joined the Company in June 2006 and currently serves as the Executive Vice President Corporate and Strategic Development. Mr. Groome graduated with a Bachelor of Commerce, Finance and Marketing, from Concordia University (Montréal, Québec). He previously headed the life sciences investment banking activities for a major Canadian investment dealer. He has more than fifteen years of experience as an equity analyst, investment banker, and corporate advisor and industry commentator in the Canadian life sciences industry.

Dr. James Johnson has a doctorate in biochemistry in addition to his law degree and is a partner at Johnson & Associates. Previously he was a partner of King & Spalding LLP based in Atlanta, Georgia. Prior to that he was a partner at the law firm of Kilpatrick Stockton. He has extensive experience in chemical and biotechnology patent prosecution and licensing.

Mr. Bruce McLeod joined the Company in May 2008. Mr. McLeod has had seven years of experience in both operations and human resources with Farm Credit Canada, most recently as Director of Human Resources. Previously, he served as the Human Resources Manager with the Saskatchewan Workers' Compensation Board and Instructor in the Business Division of the Saskatchewan Institute of Applied

Science and Technology. Mr. McLeod graduated with a B.A. from Carleton University and holds a Certificate in Adult Education from Saint Francis Xavier University.

Mr. Graeme McRae is the founder of both Vetrepharm Inc. and Bioniche Inc., two of the predecessor companies to the Company. Born in Australia, Mr. McRae has had a lengthy and diversified career in the pharmaceutical industry in both Australia and Canada. In 1971, Mr. McRae joined Pfizer Animal Health in Australia and held various sales and managerial positions with that company. Mr. McRae was transferred to Canada in 1975. In 1979, Mr. McRae founded Vetrepharm to focus on research and development in animal health, with an emphasis on developing non-antibiotic solutions for animal health problems. Bioniche Inc. was founded in 1992 by Mr. McRae to develop Vetrepharm's technologies for human health applications. Mr. McRae serves as Chairman, President & CEO of the Company.

Mr. Jim Phillips joined Bioniche (then Vetrepharm Inc.) in 1985 as Territory Sales Representative, having worked previously as a Research and Testing Technician in the Racetrack Division of Agriculture Canada. He has held progressively senior roles in the Animal Health division of the Company before being appointed as President of Bioniche Animal Health USA, Inc. in 1997 and was promoted to President, Bioniche Animal Health (Global) in July 2007. In January, 2011, Mr. Phillips was appointed as Senior Vice-President, Industry Relations for Bioniche Animal Health, a role that involves seeking out business development opportunities. He graduated from the University of Guelph with a Diploma in Agriculture and has taken numerous management leadership courses during his career. He has a longstanding interest in horse racing and sport horses.

Mrs. Mairi Phillips joined Bioniche in 2002 as a Legal Assistant, was promoted to In-House Law Clerk, Manager, Legal Services and subsequently Director Legal Services and Corporate Secretary. As such, she drafts and reviews contracts with outside parties and participates in the negotiation of all contracts for the Company and its subsidiaries. Mrs. Phillips coordinates the services of various outside law firms when specialized skill sets are required during the negotiation process. As Corporate Secretary, she maintains all corporate records and filings required of a publically traded company. Mrs. Phillips graduated from Canada College in 1989 and is a Notary Public. She has worked as a Law Clerk/Paralegal for 20 years in Colorado, Ontario and British Columbia and continues to supplement her education through various specialized courses.

Mr. Nick Photiades is currently a management and strategic planning consultant. In November 2008 he retired after a career with the Business Development Bank of Canada where he was Senior Director, Life Sciences, Venture Capital Division. During his last fifteen years at BDC, he invested in many high technology companies and assisted them in negotiating licensing, partnership agreements and in raising funds in Canada, USA and Asia; several of his invested companies were successfully divested. Mr. Photiades holds a Bachelor of Science degree in Physics from Concordia University and a graduate Diploma in Management from McGill University. He has served as a director in several public and private high technology companies mainly in the biotechnology area; he also served on the board of directors of the Chamber of Commerce of Metropolitan Montréal and presently serves in St. Mary's Hospital Foundation Board.

Dr. Dragan Rogan joined the Company in 1989. He received his Ph.D. in Virology and Cell-Mediated Immunity at the University of Belgrade, Yugoslavia after completing his Masters and Doctorate in Veterinary Medicine. Dr. Rogan was a University Professor of Microbiology and Immunology in Belgrade before becoming a Visiting Scientist at the Vaccine and Infectious Diseases Organization in Saskatoon, Saskatchewan in 1986. He obtained his Ph.D. and emigrated to Canada in 1989, when he joined the Company as Senior Scientist, went on to become Scientific Director, then Vice-President of Research & Development for the animal health operations of the Company and was recently appointed the Chief Veterinary Scientific Officer. He leads a team of researchers, with expertise in bacteriology; biochemistry; molecular biology; reproductive physiology; and virology.

Ms. Jennifer Shea joined the Company in April 2004 as the Corporate Communications Manager, promoted to Director, Corporate Communications, Investor and Government Relations and recently promoted to Vice-President, Communications, Investor and Government Relations. Ms. Shea also holds the position of Assistant Corporate Secretary. She previously worked in progressive Corporate Communications positions with hospitals in Kingston and Belleville, Ontario for eighteen years. Jennifer is a graduate of the Broadcast Journalism program at Loyalist College.

The Hon. Lyle Vanclief is an agricultural and agri-food consultant. He served as a Member of Parliament for the Government of Canada from 1988 to 2004. Throughout his political career, The Hon. Mr. Vanclief held several parliamentary appointments, his most recent as Minister of Agriculture and Agri-Food. Prior to serving in public office, he previously spent 25 years as an agricultural entrepreneur in his home community of Ameliasburg, Ontario (Prince Edward County). He has completed the Director Education Program and has been certified at the Rotman School of Management. He graduated with a Bachelor of Science degree in Agriculture from the University of Guelph in 1966. The Hon. Mr. Vanclief was inducted into the Canadian Agricultural Hall of Fame at the Royal Agricultural Winter Fair in November, 2010 in Toronto.

Dr. Gary Weber joined the Company in April 2008 after working as a self-employed consultant assisting select clientele to deal effectively with the forces of change affecting the food and agriculture sector in the United States. Previously, Dr. Weber worked for the United States Department of Agriculture (USDA) as National Program Leader for Animal Science; and the National Cattlemen's Beef Association as Director of Animal Health, Inspection and Science Policy and Executive Director of Regulatory Affairs. Dr. Weber holds both a B.Sc. and M.Sc. degree in Animal Science from Purdue University and a Ph.D. from Michigan State University.

Committees of the Board of Directors

The Board discharges its duties in relation to certain specific functions through the following committees of the Board:

- Audit Committee;
- Risk Committee;
- Corporate Governance and Nominating Committee;
- Compensation Committee; and
- Scientific Audit Committee.

On occasion, the Board also appoints sub-committees to deal with specific Company issues.

Each of the abovementioned committees reviews and evaluates, at least annually, its performance and the performance of its members, including, if applicable, reviewing compliance with its charter. Members of these Committees may include individuals who are not Directors. Copies of each of these charters are available on the Company's website at www.Bioniche.com.

Audit Committee

The Audit Committee is intended to facilitate and provide a means of open communication between management, the external auditors and the Board. The Committee was established to assist the Board in fulfilling its oversight responsibilities with respect to the following areas:

- external audit;
- internal control and management information systems;
- accounting and financial reporting requirements;

- compliance with law and regulatory requirements;
- risks and risk management policies; and
- such other functions as are delegated to it by the Board.

Specifically, with respect to the Company's external audit function, the Committee assists the Board in fulfilling its oversight responsibilities relating to: The quality and integrity of the Company's financial statements; the independent auditors' qualifications; and the performance of the Company's independent auditors.

The members of the Audit Committee are:

- Dr. Margaret Cunningham (Chair);
- Mr. Albert Beraldo;
- Mr. Nick Photiades (Deputy Chair); and
- The Hon. Lyle Vanclief.

Risk Committee

The Risk Committee is committed to assisting the Board in achieving the following objectives:

- identify areas of risk to the Company; and
- oversee procedures to address and/or mitigate those areas of risk as appropriate.

Areas of risk include, but are not limited to:

- adequate insurance coverage, including product liability and Directors and Officers;
- safeguarding the environment;
- disaster recovery;
- business continuity, succession planning;
- safeguarding employees and safeguarding humans and animals involved in the Company's research and development procedures; and
- privacy.

The members of the Risk Committee are:

- Mr. Nick Photiades (Chair);
- Dr. Stanley Alkemade;
- Ms. Cindy Benning (Management Member);
- Mr. Brian Ford (Management Member);
- Mr. Graeme McRae;
- Mr. Rick Sutin; and
- The Hon. Lyle Vanclief (Deputy Chair).

** Rick Sutin, from the law firm of Norton Rose, has held the position of Corporate Secretary and Interim Corporate Secretary on occasion for the Company, but has not been directly employed by the Company. Mr. Sutin is a senior partner at the law firm, Norton Rose. He holds a B.A. (Hons.) from York University, an LL.B. from Osgood Hall, York University and was called to the Ontario Bar in 1977. Mr. Sutin has expertise in capital market transactions, mergers, acquisitions for private and publically traded corporations, securities law and sat on a number of boards.*

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is responsible for assisting the Board in the following areas:

- recommending nominees for election as Directors;
- identifying new candidates for appointment to the any Committee of the Board;
- establishing procedures to oversee the evaluation of the Board, its Committees and the contribution of individual Directors;
- analyzing the Company's needs when a vacancy does arise and identifying individuals who can meet such needs and who, by virtue of their skills, areas of expertise, industry knowledge, geographic location and geographic and industry contacts, are best able to contribute to the direction of the Company's business and affairs;
- assessing the Board's relationship with senior management of the Company;
- reviewing the Board and Chairman's effectiveness, including time commitments, conflicts of interests and continuing qualifications of Board members; and
- reviewing and recommending any changes to the Corporate Governance and Nominating Committee Charter, the Corporate Governance Charter, Code of Conduct and charters of each of the Committees at least annually.

The members of the Corporate Governance and Nominating Committee are:

- The Hon. Lyle Vanclief (Chair);
- Dr. Margaret Cunningham (Deputy Chair);
- Mr. Graeme McRae; and
- Mr. Nick Photiades.

In making recommendations to the Board regarding the appointment of Directors, the Committee assesses the suitability of candidates having regard to the existing competencies and skills which the Board as a whole possesses and, to the extent different, should possess.

Compensation Committee

The primary role of the Compensation Committee is to assist the Board with:

- establishing and reviewing the Company's overall compensation philosophy;
- reviewing its general compensation policies with respect to the Chief Executive Officer (and other Officers), including the corporate goals and objectives and the annual performance objectives relevant to them, at least annually;
- evaluating the Chief Executive Officer's performance in light of these goals and objectives and, based on its evaluation, determine and approve the annual salary, bonus, options and other benefits of the Chief Executive Officer. In determining his compensation, the Committee may consider a number of factors, including the Company's performance, the value of similar incentive awards to Chief Executive Officers at comparable companies, the awards given to the Chief Executive Officer in past years and other factors it considers relevant; and
- reviewing the adequacy and form of compensation of the Company's Directors, with a view to ensuring it realistically reflects the responsibilities and risks involved in being a Director of the Company.

The members of the Compensation Committee are:

- Mr. Albert Beraldo (Chair);
- Dr. Margaret Cunningham;
- Dr. James Johnson (Deputy Chair); and
- Mr. Graeme McRae (for all matters except his own compensation).

Scientific Audit Committee

The Board has also established the Scientific Audit Committee to oversee the strategic direction and integrity of the scientific development programs engaged in by the Company.

This Committee will audit and evaluate the Bioniche science for validity, content, compliance, timelines and effectiveness and, when necessary, make recommendations to the Board of Directors regarding expected outcomes and priorities of the science.

At least one member of the Committee will sit on the Bioniche Intellectual Property Committee. The Scientific Audit Committee will report an opinion to the Board of Directors on the intellectual property position of the Company at least once each calendar year.

The Committee will act as the final arbiters when a scientific impasse occurs between corporate operating divisions or departments, and will either resolve the matter or direct individuals within the corporation to develop a successful resolution.

The Committee will, from time to time, perform other duties consistent with the Board of Directors' mandate to the Committee.

The members of the Scientific Audit Committee are:

- Dr. James Johnson (Chair);
- Dr. Stanley Alkemade (Deputy Chair);
- Dr. Armen Aprikian*;
- Ms. Monique Champagne (Management Member);
- Mr. Graeme McRae;
- Dr. Dragan Rogan (Management Member); and
- Dr. Iqubal Velji (Management Member).

** Dr Armen Aprikian (Appointed October, 2008) is also an Observer at all Company Board meetings and is the Head, Division of Urology, Department of Surgery, McGill University, and Interim Chief of Department of Oncology, McGill University Health Centre.*

Code of Conduct

The Board has adopted a Code of Ethical Conduct and Business Practices (Code of Conduct) which sets out the Company's commitment to maintaining the highest ethical standards in its business relationships and the professional workplace generally. The Code of Conduct provides guidelines for ethical and professional conduct for all Directors and Officers of the Company, as well as its employees, to ensure the corporate reputation and continuing success of the Company.

The Code of Conduct sets our guidelines with respect to general business principles including:

- the need to abide by the applicable laws of each jurisdiction where the Company conducts business;
- political contributions;
- payments to government personnel and commercial bribery;
- discrimination and equal opportunity;
- free competition; and
- truthful communications.

The Code of Conduct also prescribes the manner in which employees must handle Company's funds and assets, such as:

- fees, commissions or payments may be paid only for clearly stated business purposes and reasonable expenses may be incurred when employees entertain customers, prospective employees or business associates;
- the Company's purchasing policy requires employees to provide supporting documentation for all payments by the Company for goods or services; and
- agreements with consultants engaged by the Company must clearly state the actual services to be performed by the consultant and the basis for earning the fee involved, which must be reasonable having regard to the value of the services rendered.

The Code of Conduct provides guidelines for avoiding and managing conflicts of interest that may arise particularly with respect to the acceptance of gifts or favours, related party transactions and prospective supply arrangements between the Company and an employee.

The Code of Conduct also provides guidance on key areas of the Company's business practices such as:

- confidentiality of Company information and records;
- intellectual honesty;
- workplace harassment;
- reporting unlawful activity; and
- compliance with the standards and practices of the Company.

A copy of the Code of Conduct is available on the Company's website at www.Bioniche.com.

CONFLICTS OF INTEREST

While no conflicts of interest have arisen, the following circumstances could give rise to potential conflicts of interest.

One of the Company's Directors is a related Director as his firms receive fees for services he provides to the Company. Stanley Alkemade provides consulting services to the Company. Nick Photiades has also provided consulting services to the Company relating to seeking financing for the expansion of the MCC manufacturing facilities.

One Director of the Company is indebted to the Company. Graeme McRae is Chairman of the Board, President & Chief Executive Officer of the Company and a Director. Details of this indebtedness are disclosed in the Company's Information Circular of its Annual Meeting of shareholders last held on November 9, 2010.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

On June 3, 2005, the Company entered into a ten-year lease for the facility located at 271 Labrosse Avenue, adjacent to the existing manufacturing facility. The facility was leased to the Company from Renaissance (London) Investments Inc., a company owned and controlled by Graeme McRae, the Company's Chief Executive Officer. Under the terms of the lease, the Company had the option to purchase the facility by May 31, 2006 by assuming the balance of the loan outstanding. This option to purchase was extended effective May 31, 2006 for an additional two years and further extended to May 28, 2011, then to May 28, 2012. On June 24, 2011, the Company exercised its option to purchase this building and as part of the purchase agreement, the lease agreement was terminated.

The transaction was recognized at its carrying amount, resulting in no change in the carrying value of the Company's property, plant and equipment. The balance of the lease obligation, net of advances, in the amount of \$145 was extinguished and the Company assumed the mortgage related to the building, in the amount of \$600.

AUDIT COMMITTEE INFORMATION

Audit Committee Charter

The charter of the Audit Committee of the Corporation's Board of Directors is attached to this Annual Information Form as Schedule A.

Composition of the Audit Committee

The members of the Audit Committee are currently, Margaret Cunningham (Chair), Albert Beraldo, Nick Photiades and Lyle Vanclief. Each of them is "independent" and "financially literate" for the purposes of Multilateral Instrument 52-110 – Audit Committees (MI 52-110).

Relevant Education and Experience

Dr. Margaret Cunningham has a Ph.D. in marketing from Texas A&M University and an MBA from the University of Calgary. She has been Associate Professor of Marketing at the School of Business, Queen's University since 1989.

Mr. Albert Beraldo is the President of Alveda Pharmaceuticals Inc., a privately owned Canadian company that is a leading supplier of pharmaceuticals to the Canadian health care market. Mr. Beraldo formerly served as President and CEO of Bioniche Pharma Group Limited until 2005. He also previously served as a director of the Corporation from 1984 to 2005. Mr. Beraldo has a Bachelor of Commerce degree from the University of Windsor and has a Chartered Accountant designation from the Canadian Institute of Chartered Accountants. He worked in public accounting with Ernst and Whinney until he joined Vetrepharm as Financial Controller in 1983.

Mr. Nick Photiades is currently a management and strategic planning consultant. In November 2008 he retired after a long career with the Business Development Bank of Canada where he was Senior Director, Life Sciences, Venture Capital Division. During his last fifteen years at BDC he invested in many high technology companies and assisted them in negotiating licensing, partnership agreements and in raising funds in Canada, USA and Asia; several of his invested companies were successfully divested. Mr. Photiades holds a Bachelor of Science degree in Physics from Concordia University and a graduate Diploma in Management from McGill University. He has served as a director in several public and private high technology companies mainly in the biotechnology area; he also served on the board of

directors of the Chamber of Commerce of Metropolitan Montréal and presently serves in St. Mary's Hospital Foundation Board.

Mr. Lyle Vanclief is an agricultural and agri-food consultant. He served as a Member of Parliament for the Government of Canada from 1988 to 2004. Throughout his political career, Mr. Vanclief held several parliamentary appointments, his most recent as Minister of Agriculture and Agri-Food. Prior to serving in public office, Mr. Vanclief previously spent 25 years as an agricultural entrepreneur in his home community of Ameliasburg, Ontario (Prince Edward County). Mr. Vanclief has completed the Director Education Program and has been certified at the Rotman School of Management. He graduated with a Bachelor of Science degree in Agriculture from the University of Guelph in 1966. Mr. Vanclief was inducted into the Canadian Agricultural Hall of Fame at the Royal Agricultural Winter Fair in November, 2010 in Toronto.

Pre-Approval Policies and Procedures

In accordance with its charter, the Audit Committee pre-approves all audit and non-audit services not prohibited by law to be provided to the Corporation by its external auditors. If the Audit Committee delegates to one or more of its members the authority to pre-approve any such permitted audit and non-audit services, any such pre-approval is then presented to the Audit Committee at its next scheduled meeting following the pre-approval.

The Audit Committee also reviews the fees paid by the Corporation to the external auditor and other professionals in respect of audit.

External Auditor Service Fees

Audit Fees

The aggregate fees billed by the Company's auditors, Ernst & Young, for audit services for the fiscal years ended June 30, 2011 and June 30, 2010 were \$230,800 and \$258,800 respectively.

Audit Related Fees

The aggregate fees billed by the Company's auditors, Ernst & Young, for assurance, prospectus, due diligence and related services related to the performance of the audit not included in the amount shown above for the fiscal years ended June 30, 2011 and June 30, 2010 were \$325,405 and \$Nil respectively.

Tax Fees

The aggregate fees billed by the Company's auditors, Ernst & Young, for tax compliance, tax advice and tax planning services for the fiscal years ended June 30, 2011 and June 30, 2010 were \$93,603 and \$117,933 respectively. These services were comprised of the preparation of tax returns and tax planning services.

All Other Fees

The aggregate fees billed by the Company's auditors, Ernst & Young, which were translation services for the fiscal years ended June 30, 2011 and June 30, 2010 were \$56,500 and \$51,200 respectively.

TRANSFER AGENTS

The Company's Canadian transfer agent and registrar is CIBC Mellon and the Company's ex-Australian register is held in Toronto, Ontario, Canada. In Australia, the Company's share registry is Link Market Services Limited in Sydney, New South Wales.

MATERIAL CONTRACTS

The Directors consider that the contracts described below and elsewhere in the Annual Information Form are those which an investor would reasonably regard as material and which they and their professional advisers would reasonably require to make an informed decision about potential investment in the Company.

This Section only contains a summary of the material contracts and their substantive terms.

Endo Pharmaceuticals Inc. - License, Development and Supply Agreement

Bioniche entered into a License, Development and Supply Agreement with Endo Pharmaceuticals Inc. on July 9, 2009 (Commencement Date) (Endo Agreement). Pursuant to the Endo Agreement, Bioniche has agreed to license to Endo the exclusive rights to develop, and market (to the extent that it has regulatory approval for) *Urocidin*TM in the United States, Canada and Mexico (Territory) for the treatment of non-muscle-invasive bladder cancer.

The Endo Agreement also granted Endo the option to take up exclusive rights to develop and market *Urocidin*TM globally, which Endo exercised on February 12, 2010.

The material terms of the Endo Agreement are:

- Bioniche has earned payments (up-front and milestones) of US\$38 million;
- Bioniche has the potential to receive a total of a further US\$92 million in payments in connection with the achievement of certain clinical, regulatory and commercial milestones during or after the commercialization of *Urocidin*TM;
- in addition to the above payments, Bioniche will receive a quarterly net sales-related price for supplying Endo with *Urocidin*TM;
- Endo will be granted a right of first negotiation for other clinical indications of Mycobacterial Cell Wall-DNA complex composition, where such clinical indications relate to urology or pelvic disease. Should Endo not elect to enter such negotiations and the parties conclude them to mutual satisfaction within a 120-day period, then for a period of six (6) months thereafter, the Company will not be permitted to enter into a licence agreement with a third party for the relevant territory and in respect of the applicable technology, on terms more favourable to that third party than were last offered to Endo;
- the Endo Agreement will expire on the last to occur of:
 - ten (10) years from the Commencement Date;
 - the date a biosimilar version of *Urocidin*TM is licensed in the Territory globally by a non-affiliated third party; or

- the expiry or the invalidation of the last patent claim covering *UrocidinTM*.

Upon the termination of the Endo Agreement on the occurrence of the latter of the above events or as a result of a material breach of the Endo Agreement caused by the Company, Endo will thereafter acquire a fully paid up, perpetual, exclusive and royalty-free licence to use the intellectual property to promote, make, import, use and sell of *UrocidinTM* in the Territory;

- neither party is permitted to assign or transfer the Endo Agreement without the prior written consent of the other party, except in the event that a change of control of either party occurs;
- the Endo Agreement can be terminated by:
 - Endo at any time upon prior written notice to Bioniche;
 - mutual written agreement;
 - either party where a material breach remains unremedied for a prescribed period;
 - Bioniche, if Endo challenges the validity or enforceability of a Bioniche Patent; or
 - Endo at any time, in light of adverse events that Endo reasonably believes will seriously impact the long term viability of *UrocidinTM*.

If the Endo Agreement is terminated by mutual agreement, or as a result of a material breach by Endo or Endo challenges the validity of any Bioniche patent in relation to *UrocidinTM*, Bioniche will acquire a fully paid up, perpetual, exclusive and royalty free licence to the intellectual property that Endo has developed in connection with *UrocidinTM*, for the purpose of manufacture, development and commercialization of that product; and

- the consequences of termination are:
 - if by Endo for a material breach by Bioniche, Endo will have an exclusive, royalty-free license to promote, distribute and sell *UrocidinTM*; and
 - if by Bioniche for a material breach by Endo, Bioniche will have a non-exclusive, royalty-free license to Bioniche and Endo's intellectual property to manufacture, develop and commercialize *UrocidinTM*, and all rights in any new drug applications or regulatory approvals shall revert to Bioniche.

Employment Agreement with Graeme McRae (Chairman, President and Chief Executive Officer)

The Company has entered into an employment agreement (Agreement) to formalize the terms of employment with its Chairman, President and Chief Executive Officer, Graeme McRae (CEO) (Agreement).

The material terms of the Agreement are:

- the term of employment commences on May 1, 1979 and ends when the Agreement is terminated in accordance with its terms;
- current base remuneration is C\$386,250 per annum, excluding superannuation, and is subject to ongoing review by the Compensation Committee and Board of Directors;

- the CEO is also entitled to:
 - superannuation at the level required by statute from time to time;
 - a bonus payable in accordance with the Company's Deferred Compensation Policy (as more particularly described below) based on the achievement of Company, divisional and personal objectives;
 - use of a Company motor vehicle; and
 - six weeks' holiday per annum;
- the Agreement can be terminated by the Company giving two (2) months' notice or payment of two (2) months' remuneration in lieu of notice in the form of salary, continuation for every one (1) year of completed service with the Company. Payment in lieu of notice is only payable to the CEO upon his or her resignation or termination of employment by the Company, "without cause"; and
- the CEO's eligible health benefits, pension contributions and right to use the Company motor vehicle will continue during this notice period.

Indemnity Agreements

Each of the Directors and the senior executives referred to this Annual Information Form (each an Indemnified Party) has entered into an Indemnity Agreement with the Company. Under this Indemnity Agreement, the Company provides certain indemnities to the Indemnified Party to the extent permitted by law, provided that the Indemnified Party acted honestly and in good faith in the best interests of the Company. In the case of a criminal or administrative proceedings enforced by monetary penalty, the Indemnified Party must also have had reasonable grounds for believing that their conduct was lawful.

The Company is required to indemnify each Indemnified Party from and against all or part of loss reasonably suffered or incurred in respect of a claim, including taxes payable by the Indemnified Party in respect of any payment made to the Indemnified Party under the Indemnity Agreement. The Company agrees to advance funds to the Indemnified Party for costs, charges and expenses of any claim including, without limitation, the Indemnified Party's reasonable travel and accommodation costs, charges and expenses, provided such funds are repaid by the Indemnified Party.

The Indemnity Agreement is deemed to have effect from the date the Indemnified Party became a Director or senior executive of the Company and shall continue until that person ceases to be a Director or senior executive.

The Company maintains significant liability insurance for its Directors and Officers, any claim under which is subject to an initial deductible loss payable by the Company.

Alberta Research Council (now known as Alberta Innovates – Technology Futures) – Sublicense and Collaborative Agreement

On June 15, 2001, the Company entered into a Sub-license and Collaborative Agreement with Alberta Research Council Inc. (ARC) (Agreement) to commercialize a cattle vaccine (Vaccine) to reduce the threat of *Escherichia coli* O157 (*E. coli*). ARC has a Head License Agreement with the University of British Columbia and University of Saskatchewan (Head Licensors) dated January 1, 2001 (Head License).

Under the terms of the Agreement, the Company is granted an exclusive perpetual worldwide licence (Licence) to commercialize the Vaccine and carry out the Development Program (as more particularly described in Schedule C of the Agreement). The Company is also granted a non-exclusive worldwide license to use any materials, enabling technology and related intellectual property discovered by the Company and ARC during the Agreement, which is owned or controlled by ARC.

The ongoing consideration payable to ARC by Bioniche for these rights include the payment of milestone payments and royalties based on Vaccine sales that are in accordance with normal market expectations and are not considered by the Company to be material.

If the Company fails to pay any amount payable under this Agreement, the amount payable will attract interest from the due date to the payment date, at the rate prescribed by ARC's bank plus 2%, with interest on overdue interest payable at the same rate.

Bioniche is required under the Agreement to indemnify ARC and its affiliates for certain liabilities, including any strict liability claims based on the promotion, marketing and sale of the *E. coli* vaccine.

The Company must not assign the Agreement or transfer, mortgage, charge or otherwise dispose of any of its rights, duties or obligations under the Agreement without the prior written consent of the Head Licensors and ARC.

The Agreement can be terminated by:

- ARC in the event of the Company's insolvency;
- ARC if the ARC Patent Rights or ARC Technology become subject to any security interest in favour of a third party claiming through the Company; and
- either Party in the event of an unremedied default by the other Party.

If ARC defaults on any obligation under the Head License, the Head Licensors will give notice to the Company, upon which the Company can either remedy the default of ARC, or, enter into an agreement with the Head Licensors on substantially similar terms to the Agreement. If the default remains unremedied, the Head Licensors may take steps to terminate the Head License.

Upon termination of the Agreement, the Company must deliver to ARC all ARC Patents and ARC Technology in its possession or control and shall have no further rights in respect of this information.

As at January 1, 2010, all contractual rights, obligations, assets and liabilities of ARC have been transferred, by law, to Alberta Innovates – Technology Futures, a corporation created by Ministerial Order pursuant to Section 14 (4) of the Alberta Research Innovation Act.

Ontario Ministry of Economic Development and Trade – Advanced Manufacturing Investment Strategy

On March 31, 2008, the Company entered into a Loan Agreement with the Ontario Ministry of Economic Development and Trade (Ontario) to fund the building of the Good Manufacturing Practices Animal Health and Food Vaccine Manufacturing Centre (Project) in Belleville, Ontario.

The material terms of the Loan Agreement are:

- the Company is eligible to receive up to C\$10 million for the Advanced Manufacturing Investment Strategy (AMIS Loan);
- must be wholly applied towards the costs of the Project which contemplates minimum expenditures of C\$107 million;
- the Project must be completed by September 30, 2013;
- the AMIS Loan will be advanced, by means of reimbursement on a quarterly basis of up to 50% of actual and eligible Project expenditures incurred by the Company, as evidenced by duly documented claims for progress payments made by the Company;
- the AMIS Loan will be interest-free for the first 5 years after the date of the first advance of funds (First Drawdown Date) is made (Incentive Period) provided the Company meets certain performance targets by the end of the Incentive Period. If those performance targets are not achieved, interest at 5.69% per annum will be payable with respect to the Incentive Period. Interest will accrue from the day after the Incentive Period until the tenth anniversary of the First Drawdown Date;
- no principal payments are due during the Incentive Period, unless there is an event of default. Within 30 days after each of the sixth, seventh, eighth and ninth anniversaries of the First Drawdown Date, the Company must repay twenty percent (20%) of the outstanding AMIS Loan principal and all accrued interest and the remaining balance of the outstanding AMIS Loan principal and all accrued interest must be repaid in full on or before 30 days after the tenth anniversary of the First Drawdown Date;
- to secure the repayment of the AMIS Loan and interest, the Company has given to Ontario:
 - a general security agreement limited to a C\$4 million charge over the assets, equipment and property located at the Project Facility;
 - a priorities agreement with the Business Development Bank of Canada (BDC) that gives that BDC's prior charge priority of up to C\$2 million, and thereafter Ontario's securities rank equally with the securities of BDC;
 - a collateral mortgage over the property and security interest; and
 - a fixed charge on acquired project equipment with a value of not less than C\$10 million.
- the Agreement provides that the Company must not enter into agreement or grant an option or right of its assets located at the Project facility, materially change the nature of its business or relocate principal operations outside Ontario;
- during the term of the AMIS Loan, the Company is restrained from:
 - selling any of its assets other than in the ordinary course of the sale of its inventory or surplus, damaged or worn out equipment, that is replaced with equipment of approximately equal value;
 - selling any property or providing any services to related parties other than on arm's length terms;
 - not materially change the nature of its business; or

- not allow a change of control or engage in any corporate re-organization or re-capitalization that would adversely affect Ontario's security arrangements;
- the Company must also provide Ontario with the opportunity to inspect the Project facility and ensure no event of default has occurred or will occur from the Disbursement; and
- the Company has also agreed to indemnify Ontario against all actions, proceedings and claims that may be asserted against them in connection with the Project, AMIS Loan or the Contract.

Business Development Bank of Canada - Commercial Loan Facility

On February 7, 2008, Bioniche accepted an offer of credit (Offer) with the Business Development Bank of Canada (BDC) in connection with the building of the Good Manufacturing Practices Animal Health and Food Vaccine Manufacturing Centre (Project Facility) (Project) in Belleville, Ontario.

The material terms of the loan the subject of the Offer (Loan) were:

- BDC will advance to the Company the amount of C\$5 million (Loan) by means of three (3) disbursements of C\$1,750,000, C\$2,750,000 and C\$500,000 respectively. The second tranche will be advanced to Bioniche, by means of reimbursement of 25% of actual and eligible Project expenditures incurred by the Company, as evidenced by duly documented claims for progress payments made by the Company;
- to secure the repayment of the Loan and interest, the Company has entered into:
 - a priorities agreement with the Ontario Ministry of Economic Development and Trade (Ontario) and BDC that gives BDC's prior charge priority of up to C\$2 million, Ontario's prior charge second priority of up to C\$4 million, and thereafter Ontario's securities rank equally with the securities of BDC;
 - a general security agreement providing a first security interest over personal property located at the Project Facility;
 - a collateral mortgage over the land and building located at the Project Facility limited to C\$5 million;
 - a joint and several guarantee of the Company's subsidiaries (Bioniche Animal Health Europe Limited, Bioniche Animal Health USA, Inc., Bioniche Animal Health (A/Asia) Pty. Ltd. and Bioniche Animal Health Canada Inc.), for 25% of the outstanding balance of the Loan; and
 - an irrevocable, unconditional Letter of Credit for C\$500,000 issued by a Canadian bank and renewable annually which shall be released provided the Loan has never been in default, all scheduled payments have been made, and when the other financial partners in the Project or existing financial partners of the Company have increased their advances which results in either a loan reduction or
 - a loan cancellation of at least C\$500,000 without reducing BDC's security position under the general security agreement and collateral mortgage described above;
- the Loan is to be repaid on a monthly basis, with the first repayment of C\$28,000 due on September 1, 2008, consecutive principal repayments each month of C\$44,000 and the final repayment due on February 1, 2018;

- the interest rate payable on the Loan is BDC's Floating Base Rate (namely, the annual interest rate announced by BDC from time to time) plus a margin of 2% per annum on the principal outstanding, with the interest payable monthly on the first day of the month following the first disbursement of C\$1,750,000 and each month thereafter;
- during the term of this Loan, the Company is restrained from:
 - any amalgamation, merger, acquisition or any other business combination, sale of the business or any of its assets, creation of an affiliated company or granting any operating license without BDC's prior written consent;
 - permitting any change in the Project or financing without BDC's prior written consent; and
 - using the proceeds of the Loan other than for the Project;
- the Company can prepay the Loan provided that it pays:
 - the interest owing at the time of prepayment;
 - a prepayment indemnity equal to nine (9) months interest on the outstanding balance if prepaid in the first five (5) years of the Loan, and three (3) months interest if prepaid thereafter; and
 - the interest rate differential (as more particularly described in Schedule A to the Offer) if applicable;
- each year on the anniversary of the Loan Authorisation Date (January 24, 2008), the Company may prepay 15% of the outstanding principal without the obligation to pay the prepayment indemnity;
- BDC can terminate its obligation to advance any monies to the Company, may demand immediate payment of the Loan and enforce any security should the Company default under the Loan or any of the security arrangements it has entered into in respect of the Loan (and the Ontario loan as more particularly described in Section 10.6);
- the Company will have on-going performance and financial reporting obligations to BDC and BDC will have access to the Company's information;
- On April 22, 2010, the terms and conditions were amended to establish a revised payment schedule to commence May 1, 2011 with one payment of \$20,000, twelve payments of \$25,000, thirteen payments of \$40,000 and fifty-six payments of \$62,000. The interest rate was increased to BDC floating base rate plus 2.5% [June 30, 2011 – 7.5%, June 30, 2010 – 7.0%]. The rate may be fixed at the Company's option at the then current BDC rate. On May 19, 2011, the terms and conditions of the loan were further amended to change the commencement date for repayment to October 1, 2011. The payment schedule and interest rate remained unchanged.

Technology Partnerships Canada - Mycobacterial Cell Wall Technologies

On March 31, 2001, Bioniche entered into an agreement (Agreement) with the Minister of Industry of Canada (Minister), in respect of the Minister providing financial support in connection with the development of the Company's mycobacterial cell wall technologies (MCC) as more particularly set out in Part C - Stated Objectives of Schedule 2 of the Agreement (Project).

The material terms of the Agreement were:

- the Minister will advance to Bioniche funds up to C\$9,600,000 (Contribution), by means of reimbursement on a quarterly basis of up to 35% of actual and eligible Project expenditures stated in an approved budget and incurred by the Company, as evidenced by duly documented claims for progress payments made by the Company;
- the monies reimbursed do not accrue interest and are not repayable by Bioniche unless the Minister seeks to terminate this Agreement or is of the view that Bioniche has defaulted in its obligations under the provisions of the Agreement, in which case all monies advanced as well as interest at a statutory rate will be repayable;
- the Company will not be permitted to pay any dividends or other shareholder distributions that would prevent achieving any of the Project or being able to make payments to the Minister as required under the Agreement (e.g., in the event of an overpayment of a contribution or default);
- the Company will have on-going performance and financial reporting obligations to the Minister and the Minister will have access to the Company's records in relation to the Project, each as more particularly set out in Schedule 5 of the Agreement;
- the Project should be completed on or before September 31, 2011, unless otherwise agreed in writing by the Minister; and
- all intellectual property developed in the course of the Project will remain that of the Company.

Technology Partnerships Canada - Development and Commercialization of *E. coli* Vaccine

On March 30, 2001, Bioniche entered into an agreement (Agreement) with the Minister of Industry of Canada (Minister), in respect of the Minister providing financial support in connection with the development and receipt of regulatory approval of a certified vaccine that would immunize cattle against *E. coli* O157 and to increase the scale of its Animal Health and Food Safety Vaccine Manufacturing Centre at Belleville, Ontario (Project).

The material terms of the Agreement were:

- the Minister will advance to Bioniche funds up to C\$7,600,000, by means of reimbursement on a quarterly basis of up to 28% of actual and eligible Project expenditures stated in an approved budget and incurred by the Company, as evidenced by duly documented claims for progress payments made by the Company;
- the monies reimbursed do not accrue interest and are not repayable by Bioniche unless the Minister seeks to terminate this Agreement or is of the view that Bioniche has defaulted in its obligations under the provisions of the Agreement, in which case all monies advanced as well as interest at a statutory rate will be repayable;
- the Company will not be permitted to pay any dividends or other shareholder distributions that would prevent achieving any of the Project or being able to make payments to the Minister as required under the Agreement (e.g., in the event of an overpayment of a Contribution or default);

- the Company will have on-going performance and financial reporting obligations to the Minister and the Minister will have access to the Company's records in relation to the Project, each as more particularly set out in Schedule 5 of the Agreement;
- the Project should be completed on or before March 31, 2013, unless otherwise agreed in writing by the Minister; and
- all intellectual property developed in the course of the Project will remain that of the Company.

Minister of Agriculture and Agri-Food (Canada) – Repayable Contribution Agreement

On December 19, 2007, Bioniche entered into a Repayable Contribution Agreement (Agreement) for the Agri-Opportunities Program between the Minister of Agriculture and Agri-Food (Canada) (Minister).

The material terms of the Agreement were:

- the Minister will advance to Bioniche funds up to C\$5 million (Contribution) by means of reimbursement of actual and eligible Project expenditures incurred by the Company as evidenced by duly documented claims for progress payments made by the Company in connection with the construction, equipping and commissioning of the Animal Health and Food Safety Vaccine Manufacturing Centre at Belleville, Ontario to produce proprietary and unique animal health and food safety vaccines, for the general well-being of livestock, for protection of the environment and the human food and water supply (Project) to manufacture the *E. coli* O157 vaccine;
- in respect of the Project, achieve the following Project Milestones by the assigned dates:
 - finalize plant design - April, 2008;
 - achieve a full licence in Canada of the *E. coli* O157 vaccine - December, 2008;
 - achieve a full licence in USA of the *E. coli* O157 vaccine - 2009; and
 - build fermentation technology to manufacture 40 million doses of the *E. coli* O157 vaccine – March, 2011;
 - completion of the construction of the Project - March 31, 2011; and
 - commence full-scale production - 2010/2011;
- the Contribution, assuming it is fully drawn to C\$5 million will be repayable by the Company in 60 equal installments of C\$83,333.33 per month, commencing on July 1, 2013;
- the monies advanced by the Minister are interest free provided there is no late repayment of any Contribution installments;
- the Company will not be permitted to pay any dividends or other shareholder distributions that would prevent achieving any of the Project Milestones or abovementioned repayments;
- the Company will have on-going performance and financial reporting obligations to the Minister and the Minister will have access to the Company's records in relation to the Project.

Ontario Minister of Agriculture, Food and Rural Affairs – Rural Economic Development Program

On January 14, 2008, Bioniche entered into an agreement (Agreement) with the Minister of Agriculture, Food and Rural Affairs of Ontario (Minister), in respect of the Minister providing financial support in connection with the market development of the *E. coli* O157 vaccine (Project).

The material terms of the Agreement were:

- the Minister will advance to Bioniche funds up to C\$2 million by means of reimbursement of 50% actual and eligible Project expenditures stated in an approved budget and incurred by the Company, as evidenced by duly documented claims for progress payments made by the Company; and
- the monies reimbursed do not accrue interest and are not repayable by Bioniche unless the Minister seeks to terminate this Agreement or is of the view that Bioniche has defaulted in its obligations under the provisions of the Agreement, in which case all monies advanced as well as interest at a statutory rate will be repayable.

Federal Economic Development Agency for Southern Ontario

On April 19, 2010, the Company entered into an agreement (Agreement) with the Federal Economic Development Agency for Southern Ontario (“FedDev”), in respect of the Minister providing financial support in connection with the development of a pilot-scale fermentation facility as part of the Company’s Vaccine Manufacturing Centre, currently under construction at the Belleville facility.

The material terms of the Agreement were:

- FedDev will advance to Bioniche funds up to C\$750,000 by means of reimbursement of 50% of actual and eligible Project expenditures stated in an approved budget and incurred by the Company, as evidenced by duly documented claims for progress payments made by the Company; and
- the advances will be repayable in equal monthly instalments starting November 1, 2011;
- the monies advanced by FedDev are interest free provided there is no late repayment of any instalments.

Employee Savings and Share Plan (ESSP)

The Company has established an employee share plan under which employees can make contributions of up to a maximum of 6% of their Earnings based on the Employee's period of service by way of payroll deductions and/or lump sum contributions.

The Company will make contributions to the ESSP on behalf of each employee, with contributions varying depending upon the employee's years of service with the Company and the total amount of his or her contributions made, as set out below:

- basic contribution of between 0.5% and 2% of an employee's Earnings for an employee of at least two (2) years' service, regardless of whether the employee contributes to the ESSP;
- maximum matching contribution of 6% of an employee's own contributions to the ESSP, depending on the employee's years of service; and

- bonus contribution of between 0.5% and 2.5%, depending on the employee's years of service, for an employee of at least six (6) years of service who has contributed 6% of his or her Earnings to the ESSP by means of payroll deductions.

The Company's contributions to the ESSP will be made solely in the form of Common Shares that will be issued at the prevailing market price.

A copy of all the terms and conditions of the ESSP will be available, free of charge, by contacting the Company.

Stock Option Plan (SOP)

The SOP was established to provide long term incentives to attract, retain and motivate employees, Directors, Officers and consultants through awards of SOP Options to purchase Common Shares in the Company. The SOP is administered by the Company's Compensation Committee, which recommends to the Board the terms and conditions on which individual SOP Options are granted to an eligible person (Eligible Person), subject to the terms of the SOP and the rules and policies of the TSX and ASX.

SOP Option grants are dependent upon individual performance, responsibilities, corporate performance and competitive conditions.

On November 5, 2009, the Company's Shareholders approved a resolution to amend the Company's SOP. As a result, the total number of Common Shares available to be issued under the SOP is a maximum of 10% of the Company's issued and outstanding Common Shares. As at June 30, 2011, the maximum number of Common Shares available to be issued under the SOP cannot exceed 10,210,869. In addition:

- (a) the Company has issued an aggregate amount of 4,984,642 Options as at June 30, 2011; and
- (b) outside of the SOP, 6,000 Options were issued to a consultant and 780,000 Options were granted in Fiscal 2006 as an employment inducement (each an Additional Option), bringing total outstanding Options to 5,770,642 at June 30, 2011.

The exercise price of each Option issued under the SOP equals no less than the market rate at the date immediately preceding the date of the grant. In general, Options issued under the SOP vest and are exercisable in equal amounts over the five sequential anniversaries of the date of the grant of those Options. The Additional Options have the same terms as the Options issued under the SOP except that they will not be issued until target per share prices are attained, at which time the SOP issued Options will vest in equal amounts over five years. The Additional Options have a ten-year contractual life.

During the year ended June 30, 2011, the Company issued 2,000 three-year fully vested Options, with an exercise price of C\$0.92 to a consultant as previously approved at the November 8, 2007 Annual Shareholders' Meeting.

On January 27, 2011, the Company granted 1,692,526 five-year Options with an exercise price of C\$1.46 to employees and Directors.

The key features of the SOP are:

- (a) the maximum number of Common Shares available for issuance under the SOP is a rolling maximum of 10% of the issued and outstanding Common Shares;

- (b) unless otherwise specified, SOP Options are exercisable for a period of five (5) years from the date of grant under the SOP;
- (c) the Common Shares subject to each SOP Option vest on the anniversary of the date of grant of the SOP Options in increments of one-fifth of the number of SOP Options granted, for a period of five (5) years. Vesting will be accelerated upon the occurrence of a change of control event;
- (d) the exercise price for SOP Options shall be the price established by the Board of Directors, and will not be less than the "market price" of a Common Share on the TSX;
- (e) the SOP permits a holder of SOP Options who ceases to be an Eligible Participant to exercise his or her SOP Options for a prescribed period after ceasing to be an Eligible Person, the length of which is determined by the circumstances in which that person ceased to be an Eligible Person (ie resignation, retirement, death, etc.);
- (f) the aggregate number of Common Shares issued to insiders of the Company within any 12-month period, or issuable to insiders of the Company at any time, under the SOP and any other security-based compensation arrangement of the Company, may not exceed 10% of the total number of issued and outstanding Common Shares of the Company at such time.

The SOP provides that the Board of Directors may, from time to time, amend the SOP, subject to regulatory approval where required, provided such amendment will not affect the terms of SOP Options previously granted which have not been exercised or expired. However, if the Board of Directors proposes to reduce the exercise price of SOP Options granted to insiders or to extend the expiry date of SOP Options granted to insiders, such amendments would require Shareholder approval. Shareholder approval would also be required in order to increase the number or percentage of Common Shares reserved for issuance under the Plan.

A copy of all the terms and conditions of the SOP will be available, free of charge, by contacting the Company.

Deferred Compensation Plan

The Company has established a deferred compensation plan (Deferred Compensation Plan) under which employees are eligible to receive a bonus, payable equally in cash and Common Shares, up to an aggregate maximum amount of one-twelfth (1/12) of the total base salary. The Company's Compensation Committee considers and approves the payment of employee bonuses pursuant to the Deferred Compensation Plan, having regard to the performance of the Company, the employee's division and the employee's personal performance. An eligible employee may elect to defer receipt of all or a portion of his or her bonus for a period not to exceed three (3) calendar years following the end of the Company's fiscal year in respect of which the bonus is awarded. In certain circumstances, additional bonuses may be awarded at the discretion of the Board of Directors.

Shareholders Rights Plan

On November 7, 2006, the Shareholders of the Company approved the implementation of the Shareholders Rights Plan (Rights Plan). The fundamental objectives of the Rights Plan are to provide adequate time for the Directors and Shareholders to assess an unsolicited Take-Over Bid for the Company, to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing Shareholder value if a Take-Over Bid is made, and to provide Shareholders with an equal opportunity to participate in a Take-Over Bid. A "Take-Over Bid" is defined under the Rights Plan as an offer to acquire Common Shares (or any other voting shares) or securities convertible into Common Shares or voting shares where the shares subject to the offer, together with the securities beneficially

owned by the person making the Take-Over Bid, constitute 20 percent or more of the then outstanding voting shares of the Company.

Under provincial securities legislation, a take-over bid generally means an offer by a person to acquire voting or equity shares of a company where the shares subject to the offer, together with securities of the Company beneficially owned, or over which control or direction is exercised, by that person and anyone acting jointly or in concert with that person, constitutes 20 percent or more of the then outstanding voting or equity shares of the Company.

The following is a summary of the principal terms of the Rights Plan, which is qualified in its entirety by reference to the text of the Shareholder Rights Plan Agreement.

Issuance of Rights

One right has been issued by the Company in respect of each Common Share issued to date and one right will be issued in respect of each Common Share issued before the earlier of the "Separation Time" (as defined below) and the "Expiration Time" (as defined below). Each right permits the registered holder of the right to purchase from the Company one Common Share at an exercise price equal to three times the market price of a Common Share determined as at the Separation Time, subject to adjustment and certain "anti-dilution" provisions. If a "Flip-in Event" occurs (as described below), each right will be adjusted and entitle the registered holder to receive, upon payment of the exercise price, Common Shares having an aggregate market price equal to twice the exercise price.

Trading of Rights

Until the Separation Time, the rights are represented by the Common Share certificates of the Company and are transferable only together with the Common Shares. From and after the Separation Time, separate certificates evidencing the rights, together with a disclosure statement prepared by the Company describing the rights, will be mailed to registered holders of Common Shares (other than an "Acquiring Person", as defined below) as of the Separation Time. The rights may be transferred separately from the Common Shares after the Separation Time.

Separation Time

The Separation Time is the close of business on the eighth trading day after the earlier to occur of:

- (i) the Stock Acquisition Date, which is the first date of public announcement or disclosure of facts indicating that a person has become an Acquiring Person; and
- (ii) the date of the commencement of, or first public announcement or disclosure of the intent of any person (other than the Company or any corporation controlled by the Company) to commence, a Take-Over Bid (other than a "Permitted Bid", a "Competing Permitted Bid", as each such term is defined below, or an offer to acquire voting shares (as defined below) by a person which, if consummated, would by virtue of certain of the exceptions contained in the Rights Plan, exclude that person from the definition of Acquiring Person). The Separation Time can be a later date as may from time to time be determined by the Directors.

Flip-in Event

A Flip-in Event occurs when any person becomes an Acquiring Person. If, prior to the Expiration Time, a Flip-in Event that has not been waived by the Directors occurs (see "Redemption, Waiver and Termination" below), each right (except for rights beneficially owned or which may become beneficially owned by an Acquiring Person, or an affiliate or associate of an Acquiring Person or any other person acting jointly or in concert with an Acquiring Person or an affiliate or associate of such other person or

a transferee of any such person, which rights will become null and void) shall represent the right to subscribe for and be issued with that number of Common Shares having an aggregate market price on the date of the Flip-in Event equal to twice the exercise price, for the exercise price. For example, if the market price at the Separation Time (and at the time of the Flip-in Event) is C\$2.00, the holder of each right would be entitled upon the occurrence of a Flip-in Event to purchase six Common Shares for a total price of C\$6.00, or C\$1.00 per share (a discount of 50 percent from the market price).

Acquiring Person

In general, an Acquiring Person is a person who is the beneficial owner of 20 percent or more of the outstanding Common Shares of the Company and any securities in the share capital of the Company entitled to vote generally on the election of Directors (which are together referred to as "voting shares").

Excluded from the definition of Acquiring Person are:

- (a) the Company and any corporation controlled by the Company;
- (b) a person who is the beneficial owner of 20 percent or more of the outstanding voting shares on the Effective Date provided that such person does not increase its beneficial ownership of voting shares by more than 1% of the number of outstanding voting shares as of the Effective Date other than as a result of one or more, or any combination of a Voting Share Reduction (as defined below), a Permitted Bid Acquisition (as defined below), an Exempt Acquisition (as defined below) or a Pro Rata Acquisition (as defined below); and
- (c) any person who becomes the beneficial owner of 20 percent or more of the outstanding voting shares as a result of one or more, or any combination of, a Voting Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition or a Pro Rata Acquisition.

For the purposes of the Rights Plan, the following terms are defined as follows:

- (a) a Voting Share Reduction means an acquisition, redemption or cancellation by the Company or a corporation controlled by the Company, of voting shares;
- (b) a Permitted Bid Acquisition means an acquisition of voting shares through a Permitted Bid or a Competing Permitted Bid;
- (c) an Exempt Acquisition means a share acquisition in respect of which the Board of Directors of the Company has waived the application of the Rights Plan;
- (d) a Pro Rata Acquisition means an acquisition of voting shares through a dividend reinvestment plan, share purchase plan, stock dividend, stock split or other similar event. It also means the acquisition or exercise of share purchase rights distributed through a rights offering or a public or private distribution of voting shares by the Company, but only if the acquisition or exercise allows the person acquiring the voting shares to maintain its percentage holding of voting shares;
- (e) a Permitted Bid means a Take-Over Bid made by way of a take-over bid circular and which complies with the following additional provisions:
 - (i) the Take-Over Bid is made to all registered holders of voting shares;
 - (ii) voting shares may be deposited under the Take-Over Bid at any time between the date of the Take-Over Bid and the date voting shares are first taken up or paid for, and any voting shares deposited under the Take-Over Bid may be withdrawn until taken up and paid for; and

(iii) the Take-Over Bid must be open for at least 60 days and more than 50 percent of the outstanding voting shares held by "Independent Shareholders" (as described below) must be deposited under the Take-Over Bid and not withdrawn before any voting shares may be taken up and paid for and, if more than 50 percent of the voting shares are deposited and not withdrawn, an announcement of this fact must be made and the Take-Over Bid must remain open for a further 10 business day period;

(f) a Competing Permitted Bid is a Take-Over Bid that is made after a Permitted Bid has been made but prior to its expiry, satisfies all the requirements of a Permitted Bid as described above, except that a Competing Permitted Bid is not required to remain open for 60 days, so long as it is open until the later of:

(i) 35 days (or such longer minimum period of days that a Take-Over Bid must remain open for acceptance (under the Securities Act (Ontario)) after the date of the Competing Permitted Bid; and

(ii) 60 days after the earliest date on which any other Permitted Bid or Competing Permitted Bid then in existence was made.

Beneficial Ownership

In general, a person is deemed for purposes of the Rights Plan to "beneficially own" voting shares actually held by it and, in certain circumstances, voting shares held by others. Included as voting shares beneficially owned by a person are holdings by that person's affiliates (generally, a person that controls, is controlled by, or is under common control with a body corporate) and associates (generally, spouses, people in conjugal relationships, children and other relatives that share the same residence). Also included are securities which the person or any of the person's affiliates or associates has the right to acquire within 60 days (other than through customary agreements with and between underwriters and banking group or selling group members with respect to a distribution of securities, and other than pledges of securities in the ordinary course of business).

A person is also deemed to beneficially own any securities that are beneficially owned (as described above) by any other person with which the first person is acting jointly or in concert. A person is acting jointly or in concert with every person who is party to a formal or informal agreement, commitment or understanding with the first person to acquire or offer to acquire voting shares or securities convertible into voting shares.

Exclusions to beneficial ownership

The definition of beneficial ownership contains several exclusions which provide that a person is not considered to beneficially own a security in certain circumstances. For example, there are exemptions from the deemed beneficial ownership provisions for institutional Shareholders in certain circumstances. These exemptions (which are referred to together as the "institutional investor exemption") apply to (i) a fund manager (Fund Manager) that holds the relevant security in the ordinary course of its investment fund management business in the performance of its duties for the account of another person (Client), including nondiscretionary accounts held on behalf of a Client by a registered securities broker, dealer or broker-dealer; (ii) a licensed trust corporation (Trust Company) acting as trustee or administrator or in similar capacity in relation to the estates of deceased or incompetent persons (each an Estate Account) or in relation to other accounts (each an Other Account) and holds the relevant security in the ordinary course of its duties for such accounts; (iii) the administrator or the trustee (Plan Administrator) of one or more pension funds or plans (Plan) registered under Canadian or United States law; (iv) a Plan; or (v) an agency (Crown Agent) established by statute for purposes that include the management of investment

funds for employee benefit plans, pension plans, insurance plans, or various public bodies. These exemptions only apply so long as the Fund Manager, Trust Company, Plan Administrator, Plan, or Crown Agent is not then making or has not then announced a current intention to make a Take-Over Bid, other than through a distribution by the Company or by means of a Permitted Bid or a Competing Permitted Bid or through certain ordinary market transactions. If a person can no longer rely on the institutional investor exemption solely because that person makes or announces a current intention to make a Take-Over Bid, that person will be considered to be an Acquiring Person 10 days after the first public announcement of the making of the Take-Over Bid or the intention to make a Take-Over Bid unless it has reduced its beneficial ownership of voting shares.

In addition, a person will not be deemed to beneficially own a security because:

- (i) the person is a Client of the same Fund Manager, an Estate Account or an Other Account of the same Trust Company, or Plan with the same Plan Administrator as another person or Plan on whose account the Fund Manager, Trust Company or Plan Administrator, as the case may be, holds such security; or
- (ii) the person is a Client of a Fund Manager, Estate Account, Other Account or Plan, and the security is owned by the Fund Manager, Trust Company or Plan Administrator, as the case may be.

A person will not be deemed to beneficially own any security because the security has been agreed to be deposited to a "Lock-up Agreement" (as described below) until the earlier of the deposited security being taken up or paid for. In order to qualify as a "Lock-up Agreement", the terms of the agreement must be publicly disclosed and the Lock-up Agreement must meet certain other requirements.

The Lock-up Agreement:

(a) must permit the person ("Locked-up Person") who has agreed to deposit its voting shares to the Take-Over Bid contemplated by the Lock-up Agreement (Lock-up Bid) to withdraw its voting shares from the Lock-up Agreement and the Lock-up Bid in order to deposit them to another Take-Over Bid or to support another transaction (prior to the voting shares being taken up and paid for under the Lock-up Bid):

- (i) at a price per voting share that exceeds the price per voting share offered under the Lock-up Bid;
- (ii) for a number of voting shares that exceeds, by as much as or more than a number specified in the Lock-up Agreement, the number of voting shares offered to be purchased under the Lock-up Bid at a price per voting share that is not less than the price under the Lock-up Bid, provided that the amount specified in the Lock-up Agreement is not more than 7 percent of the number of shares to be purchased under the Lock-up Bid; or
- (iii) at a price that exceeds, by as much as or more than an amount specified in the Lock-up Agreement, the price for each voting share offered in the Lock-up Bid, provided that the amount specified in the Lock-up Agreement is not more than 7 percent of the price under the Lock-up Bid.

The Lock-up Agreement may contain a right of first refusal or require a period of delay to give the person who made the Lock-up Bid an opportunity to match a higher price in another Take-Over Bid or transaction or other similar limitation on a Locked-up Person's right to withdraw voting shares from the agreement, so long as the limitation does not preclude the exercise by the Locked-up Person of the right to withdraw voting shares during the period of the other Take-Over Bid or transaction; and

(b) must not provide for "break-up" fees, "topping" fees, penalties, expenses or other amounts payable by the Locked-up Person that exceed in aggregate the greater of

(i) 2.5 per cent. of the price or value of the total consideration payable under the Lock-up Bid to a Locked-up Person; and

(ii) 50 per cent. of the amount by which the price or value of the consideration received by a Locked-up Person under another Take-Over Bid or transaction exceeds the price or value of the consideration that the Locked-up Person would have received under the Lock-up Bid.

Redemption, Waiver and Termination

(a) Redemption of Rights. The Directors acting in good faith may, with prior shareholder approval, at any time prior to a Flip-in Event, elect to redeem all of the rights at a redemption price of C\$0.0001 per right, appropriately adjusted for anti-dilution.

(b) Waiver of Inadvertent Acquisition. The Directors acting in good faith will waive the application of the Rights Plan in respect of the occurrence of any Flip-in Event if:

(i) the Directors determine, following the Stock Acquisition Date and prior to the Separation Time, that a person became an Acquiring Person by inadvertence and without any intent or knowledge that it would become an Acquiring Person; and

(ii) the Acquiring Person, within 10 days after the determination by the Directors (or such later date as the Directors may determine), has reduced its Beneficial Ownership of voting shares so that the person is no longer an Acquiring Person.

If the person remains an Acquiring Person at the close of business on the 10th day following the Directors' determination (or the later date selected by the Directors), a further Stock Acquisition Date shall be deemed to have occurred on that date.

(c) Permitted Bid and Certain Other Acquisitions. If a person acquires voting shares through a Permitted Bid, Competing Permitted Bid or an Exempt Acquisition referred to in paragraph (d) below, the Directors will be deemed to have elected to redeem all of the rights at the redemption price.

(d) Discretionary Waiver with Mandatory Waiver of Concurrent Bids. The Directors acting in good faith may, prior to the occurrence of the Flip-in Event, waive the application of the Rights Plan to a Flip-in Event that may occur by reason of a Take-Over Bid made by means of a take-over bid circular to all registered holders of voting shares. However, if the Directors waives the application of the Rights Plan for such a Take-Over Bid, the Directors will be deemed to have waived the application of the Rights Plan in respect of any other Flip-in Event occurring by reason of any other Take-Over Bid made by means of a take-over bid circular to all registered holders of voting shares prior to the expiry of a Take-Over Bid for which a waiver is, or is deemed to have been, granted.

(e) Waiver with Shareholder Approval. The Directors acting in good faith may, with prior shareholder approval, waive the application of the Rights Plan to a Flip-in Event that occurs by an acquisition of voting shares other than pursuant to a Take-Over Bid made by means of a take-over bid circular to all registered holders of voting shares. If the Board of Directors proposes such a waiver, it must extend the Separation Time to a date after and not more than 10 business days following the meeting of Shareholders held to approve the waiver.

(f) Redemption of Rights on Withdrawal or Termination of Bid. Where a Take-Over Bid that is not a Permitted Bid or Competing Permitted Bid is withdrawn or otherwise terminated after the Separation

Time and prior to the occurrence of a Flip-in Event, the Board of Directors may elect to redeem all the outstanding rights at the redemption price and re-issue rights to registered holders of voting shares immediately following the redemption. Upon the rights being redeemed and re-issued, all the provisions of the Rights Plan will continue to apply as if the Separation Time had not occurred and rights certificates had not been mailed, and the Separation Time will be deemed not to have occurred.

If the Directors are deemed to have elected or elects to redeem the rights as described in paragraphs (a) or (c) above, the ability to exercise the rights will, immediately upon the time and date of that election occurring, terminate and the only right of the holders of rights will be to receive the redemption price. Within 10 days of any election or deemed election to redeem the rights, the Company will notify the holders of Common Shares or, after the Separation Time, the holders of the rights of the redemption.

Anti-Dilution Adjustments

The exercise price of a right, the number and kind of securities subject to purchase upon exercise of a right, and/or the number of rights outstanding, will be adjusted in certain events (subject to the terms of the Rights Plan), including:

(a) if there is a stock dividend (other than through any dividend reinvestment plan) on the Common Shares, or a subdivision or consolidation of the Common Shares, or an issuance of voting shares in respect of or in exchange for the Common Shares; or

(b) if the Company fixes a record date for the distribution to all holders of Common Shares of certain rights or Warrants to acquire Common Shares, or for the making of a distribution to all holders of Common Shares of evidences of indebtedness or assets (other than regular periodic cash dividends or stock dividends payable in Common Shares) or other securities.

Supplements and Amendments

The following changes to the Rights Plan may be made, subject to subsequent ratification by the holders of the Common Shares (by a resolution passed by a majority of votes cast in respect of the resolution by Independent Shareholders (as defined below)) or, after the Separation Time, the holders of the rights (by a resolution passed by a majority of votes cast in respect of the resolution by holders of rights that have not become void as described under "Flip in Event" above):

(a) changes that the Directors, acting in good faith, determine are necessary to maintain the validity of the Rights Plan and the rights as a result of any change in any applicable legislation, regulation or rules; and

(b) changes to the Rights Plan in order to cure any clerical or typographical error.

Subject to the above exceptions, any amendment, variation or deletion of, or from, the Rights Plan and the rights, made after the meeting approving the Rights Plan, will be subject to the prior approval of the holders of Common Shares (by a resolution passed by a majority of votes cast in respect of the resolution by Independent Shareholders), or, after the Separation Time, the holders of the rights (by a resolution passed by a majority of votes cast in respect of the resolution by holders of rights that have not become void as described under "Flip in Event" above). An Independent Shareholder is generally any holder of outstanding voting shares other than an Acquiring Person, certain related parties and employee benefit and similar plans of the Company, unless the beneficiaries of the Rights Plan direct the manner in which the shares are to be voted or direct whether the shares are to be tendered to a Take-Over Bid.

Expiration

The Rights Plan will expire at the earlier of the Termination Time and the date of the 2012 Annual Meeting of Shareholders of the Company.

The above summary does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of the Shareholders. These can involve complex questions of law and fact arising from an interaction of the Constitution with statutory and common law rights and duties. For a Shareholder, or potential acquirer of Shares, to obtain a definitive assessment of the rights and liabilities which attach to shares in any specific circumstances, the Shareholder should seek legal advice.

ADDITIONAL INFORMATION

A copy of the Company's additional information including financial statements and Management's Discussion and Analysis for the fiscal years ended June 30, 2011 and June 30, 2010 may be obtained upon request from the Secretary of the Company and on SEDAR at www.SEDAR.com and www.ASX.com.au.

Additional information, including Directors' and Officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company's information circular for its annual meeting of shareholders to be held on November 9, 2011. Additional financial information is included in the Company's Fiscal 2011 Annual Report which will be available October 11, 2011.

When the Company's securities are in the course of a distribution pursuant to a prospectus or when a preliminary prospectus has been filed in respect of a distribution of the Company's securities, upon request to the Secretary, the Company will provide to any person:

1. One copy of this annual information form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this annual information form;
2. One copy of the Company's audited consolidated financial statements contained in the Annual Report for the year ended June 30, 2011, together with the report of the auditors thereon, and one copy of the most recent of the Company's interim consolidated financial statements that have been filed subsequent to such audited financial statements;
3. One copy of the Company's information circular in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared instead of that information circular, as appropriate.

At any other time, one copy of each of the documents referred to in 1, 2 and 3 above may be obtained upon request to the Company, provided that the Company may require payment of a reasonable charge if the request is made by a person who is not a shareholder of the Company.

Any request for any documents referred to above should be made to the Legal Department, P.O. Box 1570, Belleville, Ontario, K8N 5J2, or by fax to (613) 966-4049.

SCHEDULE "A"

AUDIT COMMITTEE CHARTER

Name

There shall be a committee of the Board of Directors (the "Board") of Bioniche Life Sciences Inc. (the "Corporation") known as the Audit Committee.

General Purpose

The Audit Committee has been established to assist the Board in fulfilling its oversight responsibilities with respect to the following areas: The Corporation's external audit function; internal control and management information systems; the Corporation's accounting and financial reporting requirements; the Corporation's compliance with law and regulatory requirements; the Corporation's risks and risk management policies; and such other functions as are delegated to it by the Board. Specifically, with respect to the Corporation's external audit function, the Audit Committee assists the Board in fulfilling its oversight responsibilities relating to: The quality and integrity of the Corporation's financial statements; the independent auditors' qualifications; and the performance of the Corporation's independent auditors.

The Audit Committee is intended to facilitate and provide a means of open communication between management, the external auditors and the Board.

Composition and Qualifications

The Audit Committee shall consist of as many members as the Board shall determine, but in any event, not fewer than three members who are appointed by the Board. The composition of the Audit Committee shall meet all applicable independence, financial literacy and other legal and regulatory requirements. More specifically, all members of the Audit Committee shall be "unrelated" and "financially literate" and at least one member shall have "accounting or related financial experience", as such terms are defined by the TSX Corporate Governance Guidelines¹ or such other applicable law, rule or guideline.

The Board shall designate the Chairman of the Audit Committee and, in so doing, shall consider the recommendation of the Corporate Governance and Nominating Committee. The Chairman shall have responsibility for overseeing that the Committee fulfills its mandate and duties effectively.

Each member of the Audit Committee shall continue to be a member until a successor is appointed, unless the member resigns, is removed or ceases to be a director. The Board, following consideration of the recommendation of the Corporate Governance and Nominating Committee, may fill a vacancy which occurs in the Audit Committee at any time.

Meetings

The Chairman of the Audit Committee, in consultation with the Audit Committee members, shall determine the schedule and frequency of the Audit Committee meetings, provided that the Audit Committee will meet at least four times in each fiscal year and at least once in every fiscal quarter. The Audit Committee shall have the authority to convene additional meetings as circumstances require. A

¹ Section 475(13) of the TSX Guidelines defines "financial literacy" as the ability to read and understand a balance sheet, an income statement, a cash flow statement and the notes attached thereto and "accounting or related financial experience" as the ability to analyse and interpret a full set of financial statements including the notes attached thereto, in accordance with generally accepted accounting principles.

schedule for each of the meetings will be disseminated to Audit Committee members prior to the start of each fiscal year. A detailed agenda for each meeting will be disseminated to Audit Committee members as far in advance of each meeting as is practicable.

The Audit Committee shall meet separately, periodically, with management, counsel and the external auditors. The Audit Committee shall meet separately with the external auditors at every meeting of the Audit Committee at which external auditors are present.

Responsibilities

The Audit Committee is mandated to carry out the following responsibilities:

External Auditors

Subject to applicable law, the Audit Committee shall be responsible for the appointment, compensation, oversight and termination of the external auditor. The external auditor shall report directly to the Audit Committee and shall be accountable to the Board and Audit Committee as representatives of the shareholders.

The Audit Committee shall pre-approve all non-audit mandates for services the external auditor shall undertake.

The Audit Committee shall satisfy itself, on behalf of the Board, that the external auditor is independent of management. In assessing such independence, the Audit Committee shall discuss with the external auditors, and may require a letter from the external auditor outlining, any relationships between the external auditors and the Corporation or its affiliates.

The Audit Committee shall review the audit plan of the external auditors, the integration of the external audit with the internal control program, and the results of the audit, which shall include reviewing the external auditor's letter to management and management's response thereto and other material written communications between management and the external auditors.

The Audit Committee shall satisfy itself, annually or more frequently as the Audit Committee considers appropriate, as to the external auditors' internal quality control procedures and any material issues raised by the most recent internal quality control review, or peer review, of the external auditor, or by any public enquiry, review, or investigation by governmental, professional or other regulatory authorities.

The Audit Committee shall periodically review and discuss with management and the external auditors the quality and acceptability of the Corporation's accounting policies and practices, the materiality levels which the external auditors propose to employ, any significant changes in the accounting policies and any proposed changes in accounting or financial reporting that may have a significant impact on the Corporation.

The Audit Committee shall discuss with management and the external auditors all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management by the external auditors, the ramifications of these alternative treatments and the treatment preferred by the external auditors.

Financial Information

The Audit Committee shall discuss with management and the external auditors whether the audited annual financial statements present fairly (in accordance with Canadian generally accepted accounting principles) in all material respects the financial condition, results of operations and cash flows of the

Corporation as of and for the periods presented and, where appropriate, recommend for approval to the Board, the annual audited financial statements of the Corporation.

The Audit Committee shall discuss with management and the external auditors whether the unaudited quarterly financial statements present fairly (in accordance with generally accepted accounting principles) in all material respects the financial condition, results of operations and cash flows of the Corporation as of and for the periods presented and, where appropriate, recommend for approval to the Board, the unaudited quarterly financial statements of the Corporation.

The Audit Committee shall review the Annual Report to Shareholders and other financial information (including the annual and quarterly Management's Discussion and Analysis of Financial Condition and Results of Operations, the Annual Information Form and any prospectus or offering circular) prepared by the Corporation with management and, where appropriate, recommend for approval to the Board and recommend for filing with regulatory bodies.

The Audit Committee shall review any news releases and reports to be issued by the Corporation containing earnings guidance or financial information for research, analysts and rating agencies. The Audit Committee shall also review the Corporation's policies relating to financial disclosure and the release of earnings guidance and the Corporation's compliance with financial disclosure rules and regulations.

The Audit Committee shall discuss with management and the external auditors important trends and developments in financial reporting practices and requirements and their effect on the Corporation's financial statements.

Internal Control

The Audit Committee shall oversee the adequacy and effectiveness of the Corporation's internal control systems, through discussions with the Corporation's external auditors and management and shall report to the Board on an annual basis.

The Audit Committee shall review annually the Corporation's Code of Business Conduct and its effectiveness and enforcement.

Risk Management

The Audit Committee shall review with management the principal risks facing the Corporation, and the policies, processes and procedures for management's monitoring and managing of such risks or exposures. If necessary, the Audit Committee will mandate, monitor and evaluate the steps management has taken to monitor and manage such exposures, including insuring against such risks, where appropriate.

Compliance with Legal and Regulatory Requirements

The Audit Committee shall review, with management and any internal or external counsel as the Committee considers appropriate, any legal matters (including the status of pending litigation) that may have a material impact on the Corporation and any material reports or inquiries from regulatory or governmental agencies.

The Audit Committee shall review with counsel the adequacy and effectiveness of the Corporation's procedures to ensure compliance with the legal and regulatory responsibilities.

Other

The Audit Committee shall also perform such other activities related to this Charter as requested by the Board.

The Audit Committee shall review and assess the adequacy of this Charter annually and shall submit any proposed changes to the Board for approval.

The Audit Committee may delegate its authority and duties to subcommittees or individual members of the Committee as it deems appropriate.

Reporting

The Audit Committee shall report its deliberations and discussions regularly to the Board and shall submit to the Board the minutes of its meetings.

Resources

The Audit Committee shall have the authority, in its sole discretion, to retain independent legal, accounting and other consultants to advise the Audit Committee at the expense of the Corporation. The Audit Committee shall be provided with the necessary funding to compensate the external auditors and any other advisors they engage.

The Audit Committee may request any officer or employee of the Corporation or the Corporation's external counsel or external auditors to attend a meeting of the Audit Committee or to meet with any member of, or consultants to, the Audit Committee. The Audit Committee shall have full access to all of the Corporation's books, records, facilities and personnel.

Complaints Procedure

Any director, officer or employee who has any concern or complaints regarding accounting, internal control or auditing matters, any potential violations of law or regulatory provisions, unethical or illegal conduct may, in accordance with the Code of Ethical Conduct and Business Practices, make a confidential submission through the Bioniche portal pursuant to the Company's policy on Reporting of Unlawful Activity. The concern/complaint will be confidentially directed to the Lead Director of the Corporate Governance and Nominating Committee as well as an appointed representative of the Company's Legal Department. Such submissions are not traceable to the sender by either the Company or its IT department.

For shareholders and those without access to the Bioniche portal, submissions may be made in writing, marked confidential, and deposited in the Legal Department's internal mail slot or mailed to the Company, marked confidential, to the attention of the Lead Director of the Corporate Governance and Nominating Committee. The unopened envelope will be forwarded to the Lead Director for review. The Lead Director of the Corporate Governance and Nominating Committee and Legal Department representative will conduct an investigation with the assistance of the Audit Committee and internal departments within the Company, as deemed appropriate. The complaint will be investigated according to established procedures for review. Where action is deemed warranted, action will be taken to resolve the situation which has been the source of the complaint.

Limitation on the Oversight Role of the Audit Committee

Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all members of the Board are subject.

Each member of the Committee shall be entitled, to the fullest extent permitted by law, to rely on the integrity of those persons and organizations within and outside the Corporation from whom he or she receives financial and other information, and the accuracy of the information provided to the Corporation by such persons or organizations.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles in Canada and applicable rules and regulations. These are the responsibility of management and the external auditors.