



Acting on innovation

Quarterly Report

THIRD QUARTER



Management's Discussion and Analysis

For the three- and nine-month period
ended March 31, 2011

The following discussion and analysis is the responsibility of management and should be read in conjunction with the Company's Interim Consolidated Financial Statements for the three- and nine-month period ended March 31, 2011, and the 2010 Annual Consolidated Financial Statements and notes included herewith, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ["GAAP"] for interim financial statements, together with the Company's annual audited consolidated financial statements and management's discussion and analysis of financial condition and results of operations for the fiscal year ended June 30, 2010, which can be found on SEDAR (www.SEDAR.com). This review was prepared by management from information available as at May 11, 2011, and consequently, is current as of May 11, 2011.

To the extent any statements made in this document contain information that is not historical, these statements are considered forward-looking and are subject to risks and uncertainties. Actual results, levels of activity, performance, or achievements could differ materially from those projected herein and depend on a number of factors, including the successful and timely completion of research and clinical trials, the uncertainties related to the regulatory process, and the commercialization of the Company's therapeutic products thereafter.

The cautionary statements made in this report should be read as applying to all related forward-looking statements wherever they appear in this report. The Company's future results could differ materially from those discussed here. Factors that could cause or contribute to these differences include those discussed under "Risks and Uncertainties". All amounts are in Canadian dollars unless otherwise indicated.

Where "we", "us", "our", "Bioniche" or the "Company" are utilized, these mean Bioniche Life Sciences Inc. unless otherwise indicated. All percentages reflected herein are calculated on whole amounts as contained in the Company's financial records and financial statements, and not on the rounded amounts as disclosed herein.

GLOBAL OVERVIEW OF THE BUSINESS

Bioniche Life Sciences Inc. is a research-based, technology-driven Canadian biopharmaceutical company that develops, manufactures, and markets proprietary products for human and animal health markets worldwide. The Company employs 226 people and has three operating business units: Human Health, Animal Health, and Food Safety. Corporate headquarters are located in Belleville, Ontario, Canada.

Human Health

The Human Health business unit of the Company has research and production facilities and a clinical trial group in Montréal, Québec, Canada. This unit develops innovative and proprietary human cancer therapies, with a focus on the research and development of the Company's Mycobacterial Cell Wall-DNA Complex ["MCC"] technology platform for the treatment of bladder and other cancers, and its oligonucleotides, which show pre-clinical promise in the treatment of leukemia and other cancers. The Company's strategy is to develop its therapies through Phase II clinical trials and then to establish alliances to complete final clinical trials and achieve regulatory approvals for marketing.

The MCC technology, trademarked *Urocidin*[™] for bladder cancer, is currently in Phase III clinical testing in patients with non-muscle-invasive bladder cancer that is refractory (unresponsive) to the standard therapy. The Phase III clinical program is being carried out in partnership with Endo Pharmaceuticals Inc. [“Endo”] as part of a license, development, and supply agreement dated July 10, 2009.

Animal Health

The Company’s Animal Health business unit develops, manufactures and markets animal health biopharmaceutical products worldwide. The animal health business unit has product development, manufacturing and marketing facilities in Belleville, Ontario, Canada; as well as marketing and production facilities in Athens, Georgia, U.S.A., Pullman, Washington, U.S.A., Sydney, New South Wales, Australia and Armidale, New South Wales, Australia. The Company has progressively grown by using biotechnology to provide the animal health market with innovative solutions to meet the changing needs of the animal health industry.

The revenues from the Animal Health business unit, which has a history of generating positive earnings before interest, taxes, depreciation and amortization [“EBITDA”]¹ before research and development expenditures, have traditionally supported the Company’s key research and development projects.

The Company has a product portfolio of more than sixty products, which can be categorized primarily in the following groups: Reproduction and embryo transfer products; products based on hyaluronans; immunostimulant products; polyclonal antibodies; vaccine products; and nutraceuticals. These products are marketed directly to veterinarians in Canada, the United States, Australia and Europe, and through selected distributors in the rest of the world.

Food Safety

The Food Safety business unit of the Company – Bioniche Food Safety - was established in July, 2001. The unit is responsible for researching, developing, manufacturing and marketing veterinary biopharmaceutical products to help improve the safety of food and water supplies. The lead initiative for this unit is the development and commercialization of a cattle vaccine, *Econiche*[™], used to reduce the spread of the deadly *Escherichia coli* (*E. coli*) O157 organism. This vaccine was developed to reduce the burden of the pathogenic bacterium *E. coli* O157 in cattle and their manure, thereby reducing contamination of the environment, ground water, and cattle processing plants. The vaccine has been shown to reduce the amount of bacteria shed by cattle, and to reduce the number of animals in which the bacteria colonize. The fewer bacteria reproducing in the cow, the fewer bacteria will be shed in its manure, affecting the environment and the carcass during food processing.

On October 27, 2008, the Company announced that *Econiche*[™], which is the world’s first vaccine developed to reduce the shedding by cattle of *E. coli* O157, had received full licensing approval from the CFIA for sale in Canada. The Company is in the process of pursuing similar licensing approval from the United States Department of Agriculture [“USDA”]. 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.

BUSINESS STRATEGY

Background and Business Model

The Company was founded by Graeme McRae as Vetrepharm, an Animal Health company, in 1979. At that time, the Company was located in London, Ontario. Mr. McRae believed that the major veterinary pharmaceutical companies were putting insufficient research efforts into alternatives to antibiotics as treatments for livestock disease. He believed that there had to be more suitable ways of treating veterinary diseases that did not have the problems associated with antibiotics, such as, leaving residues in the food chain and promoting the development of resistant bacteria species. Thus, Vetrepharm was established to research and develop such alternatives, and this commitment has remained throughout the Company’s

¹ Please refer to “Non-GAAP and Other Measures” section

32 years of existence. In the course of developing these technologies, the Company supported itself by developing a number of new product technologies, manufacturing these products and selling them to veterinarians.

This has proven to be a sustainable approach in managing the business, growth, and scope of development, and in building shareholder value. Manufacturing and product sales have been key components in providing stability to the business and its development activities. Consequently, the Company believes the best way to create long-term shareholder value is to generate increasing cash flows from operations as a result of registration and commercialization of internally developed products. While it is the Company's preference to participate as much as possible in the full life cycle of products developed internally, some projects benefit from alignment with marketing and commercialization partners, such as Endo for *Urocidin*TM. Whenever possible, the Company will manufacture the products it develops, generating a far superior margin than would be available through conventional licensing agreements with external manufacturers and distributors. Currently, two major products developed internally (*Urocidin*TM and *Econiche*TM) are in their final stages of development and are advancing through the appropriate regulatory pathways, and the Company will retain the manufacturing of these products.

Over the years, the Company has primarily raised equity to finance its development activities. Going forward, the Company's plan is to fund ongoing development from growing and sustainable operating results, and to fund the construction and development of manufacturing facilities using conventional long-term financial instruments, including government assistance where possible.

GOALS AND OBJECTIVES

The Company's goals and objectives are to execute its business strategy by:

1. Taking existing proprietary technologies and continuing, through the product development program, to enhance their proven therapeutic value for human and animal use.
2. Working to develop these technologies to the point of commercialization, either alone or with strategic marketing partners.
3. Manufacturing as many products emerging from the product development program as possible to increase profit margins, protect the integrity of the Company's products, and enhance long-term shareholder value.

Fiscal 2011 Objectives	Status
<ul style="list-style-type: none"> • Commence additional MCC development activities to identify and evaluate new human health indications, animal health applications and market opportunities for MCC. 	<ul style="list-style-type: none"> • Over the course of the period ended March 31, 2011, the Company has continued to evaluate new indications. Much of the pre-clinical development work related to <i>Urocidin</i>TM can be utilized to support further development in other types of cancers and diseases responsive to immunotherapeutic treatments.
<ul style="list-style-type: none"> • Progress <i>Urocidin</i>TM development activities to achieve milestone revenue incentives as outlined in the agreement with Endo. 	<ul style="list-style-type: none"> • Milestone incentives under the agreement total up to US\$110M. These are linked to the achievement of clinical, regulatory, and commercial milestones. The Company achieved the first three milestones amounting to US\$14.0M during Fiscal 2010, and met the criteria for the fourth milestone in Q2, 2011 amounting to US\$4.0M. The fourth milestone was received in December, 2010.

Fiscal 2011 Objectives	Status
<ul style="list-style-type: none"> Develop a comprehensive plan for the construction of a new manufacturing facility in support of future <i>Urocidin</i>TM and MCC production. 	<ul style="list-style-type: none"> Construction of a new production facility will require approximately 30 months to complete. The Company plans to time completion of the manufacturing facility with emerging product demand. This project is intended to be funded from internal capital and repayable government assistance to the extent possible, as well as from other third party investment if necessary. Part of the financing plan for the new facility included raising capital through concurrent Common Share Offers in Canada and Australia. These Offers were successfully concluded, raising gross proceeds of \$28.9 million. Up to \$14 million of these proceeds could be applied to the new MCC manufacturing facility and other capital projects.
<ul style="list-style-type: none"> Progress to a U.S. conditional license for the <i>Econiche</i>TM cattle vaccine. 	<ul style="list-style-type: none"> The Company continues to work toward this objective.
<ul style="list-style-type: none"> Develop a capital plan to support ongoing development and commercialization related activities. 	<ul style="list-style-type: none"> The Company successfully completed concurrent Common Share Offers in Canada and Australia, raising gross proceeds of \$28.9 million.
<ul style="list-style-type: none"> Develop new banking relationships and establish credit facilities responsive to future credit requirements. 	<ul style="list-style-type: none"> In Fiscal 2010, the Company settled all short-term indebtedness and credit facilities. Going forward, the Company intends to re-establish lines of credit and similar facilities in order to capitalize on emerging opportunities and manage cash resources more effectively.
<ul style="list-style-type: none"> Develop, build and enhance the product line for the Animal Health business unit. 	<ul style="list-style-type: none"> This unit has provided the core sources of revenue and cash flow for the Company for many years. New technologies and markets are continuously emerging and, consequently, the Company is making investments to realize new market opportunities for both existing and new products. Among the uses of proceeds from the aforementioned Common Share Offers is \$8 million for Animal Health product development and acquisitions.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage of revenue represented by items in the Company's Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(expressed in millions of Canadian dollars)

For the three and nine months ended March 31	Q3	2011		Q3	2010	
		YTD			YTD	
		\$	% of revenue		\$	% of revenue
Revenues	8.5	27.7	100%	15.6	36.5	100%
Expenses						
Cost of sales	3.6	9.7	35%	3.1	9.2	25%
Administration	2.1	7.6	27%	1.7	5.1	14%
Marketing and selling	1.6	5.0	18%	1.6	4.5	12%
EBITDA* before Research and Development	1.2	5.4	20%	9.2	17.7	49%
Net Research and Development	4.6	12.8	46%	4.0	14.9	41%
Interest, taxes, depreciation, amortization	1.1	2.7	10%	0.8	2.6	7%
Net income (loss) and comprehensive income (loss)	(4.5)	(10.1)	-36%	4.4	0.2	1%

*EBITDA means "Earnings before interest, taxes, depreciation and amortization". For more information please refer to the section "Non-GAAP & other measures" below

QUARTER-ENDED MARCH 31, 2011 AS COMPARED TO THE QUARTER-ENDED ENDED MARCH 31, 2010

Consolidated Revenue

The Company's consolidated revenues for the quarter ended March 31, 2011 reached \$8.5M as compared to \$15.6M for the same quarter in Fiscal 2010, a 46% decrease. The decrease is primarily due to a decrease in milestone-related license revenues in the current period as compared to the same period last year. Milestone revenues are tied to non-linear triggers, and are not expected to be comparative on a quarterly basis. Sales of Animal Health products increased by \$1.0M in the quarter ended March 31, 2011 as compared to the same period last year, and on a year-to-date (nine-month) basis, product sales are in line with the same period last year due to some small variations in product mix and timing of sales.

GEOGRAPHIC DISTRIBUTION OF CONSOLIDATED REVENUES BY BUSINESS UNITS

(expressed in millions of Canadian dollars)

For the three and nine months ended March 31	2011	2010	Growth*	2011	2010	Growth*
	Q3	Q3	%	YTD	YTD	%
	\$	\$	%	\$	\$	%
Animal Health – Canada	1.7	1.9	-11%	5.5	5.3	4%
Animal Health – USA	4.2	3.1	33%	10.5	9.5	10%
Animal Health – Australia	1.0	0.7	42%	3.1	2.7	15%
Animal Health – Eu	0.3	0.4	-23%	0.9	1.5	-40%
<i>Sub total – Animal Health</i>	7.2	6.1	17%	20.0	19.0	4%
Gain on sale of intangible assets	–	–	0%	–	0.9	-100%
Food Safety	–	–	0%	–	–	–
Licensing and research collaboration	1.3	9.5	-86%	7.7	16.6	-53%
Total reported revenues	8.5	15.6	-46%	27.7	36.5	-24%

*Based on actual – not adjusted for rounding

Cost of Sales

Cost of sales relates primarily to product sales in the Animal Health business unit, and has increased 17% over the same quarter in 2010. This increase is reflective of the increase in product sales and the introduction of a new, lower margin product (*SucroMate™ Equine* – announced November 30, 2010). Gross margins for the quarter remaining relatively stable at 49.4%, compared to 49.3% in the same quarter last year.

RESULTS OF OPERATIONS

(expressed in millions of Canadian dollars)

For the three and nine months ended March 31	2011		2010	
	Q3 \$	YTD \$	Q3 \$	YTD \$
Revenues				
Product revenues	7.2	20.0	6.1	19.0
Gain on disposal of intangible assets	–	–	–	0.9
Licensing & research collaborations	1.3	7.7	9.5	16.6
	8.5	27.7	15.6	36.5
Cost of Sales	3.6	9.7	3.1	9.2
Gross profit	4.9	18.0	12.5	27.3
Gross margin on product sales	3.6	10.3	3.0	9.8
Gross margin % on product sales	49.4%	51.6%	49.3%	51.9%

Administration, Marketing and Selling Expenses

Administration expenses have increased by \$0.4M over the same quarter in 2010 as a result of new hires and annual salary increases based on job performance. Year-to-date expenses have increased \$2.4M primarily due to the recognition of a retirement benefit for the Company's President and CEO, which was agreed to and established during the quarter ended December 31, 2010. Accordingly, the Company has recognized all past service costs under the agreement in the current year. Marketing and selling expenses have remained steady over the same quarter last year. On a year-to-date basis, marketing and selling expenses are \$0.5M higher than the same period in Fiscal 2010 as a result of increased salary expenses and the conclusion of a government grant for Food Safety that previously offset marketing expenses in that business unit.

Research and Development

Research and development expenditures have been consistent in the quarter ended March 31, 2011 as compared to the same quarter in Fiscal 2010. Restructuring costs of \$0.9M have been included in the research and development expenses in the quarter ended March 31, 2011. The restructuring reflects the completion of certain development activities in relation to Human Health, and is further explained in the Financial Statements under note 9.

The majority of research and development costs can be attributed to the ongoing Phase III clinical program for the Company's *Urocidin™* bladder cancer treatment and to an increased focus on the development of Animal Health reproduction products and vaccines. Endo has assumed financial responsibility for the external costs of clinical development activities as they relate to *Urocidin™*, which is reflected in revenues as collaborative research. The Company has refocused its development activities toward exploring MCC for other indications and supporting the ongoing Phase III clinical trial with *Urocidin™* in the treatment of patients with non-muscle-invasive bladder cancer that is refractory to Bacillus Calmette-Guérin (BCG).

GROSS RESEARCH & DEVELOPMENT

(expressed in millions of Canadian dollars)

	2011			2010		
	Q3	YTD		Q3	YTD	
For the three and nine months ended March 31	\$	\$	%	\$	\$	%
Key Areas						
Animal Health	1.1	3.0	21%	0.8	2.2	16%
Food Safety	0.2	1.1	8%	0.5	1.1	9%
Human Health	4.0	10.4	72%	3.8	9.9	75%
Research and Development, Gross	5.3	14.5	100%	5.1	13.2	100%

Consolidated Net Loss and Comprehensive Loss

For the quarter ended March 31, 2011, the basic and fully-diluted loss per share totalled (\$0.05), compared to a net income per share of \$0.06 last year. The weighted-average number of Common Shares outstanding at March 31, 2011 was 99,199,406, as compared to 72,349,969 for the corresponding period in Fiscal 2010.

EBITDA (before net Research and Development expenses)*

EBITDA before research and development is \$1.1M in the quarter ended March 31, 2011, compared to \$9.2M for the same quarter last year. This decrease reflects lower milestone revenues and increased administrative expenses as discussed previously.

CALCULATION OF EBITDA

(expressed in millions of Canadian dollars)

	2011		2010	
	Q3	YTD	Q3	YTD
For the three and nine months ended March 31	\$	\$	\$	\$
Income before research and development	0.1	2.9	8.4	15.3
Add (deduct):				
Amortization	0.5	1.4	0.4	1.4
Financial expenses	0.3	0.7	0.2	0.5
Foreign exchange loss	0.2	0.5	0.2	0.5
EBITDA before research and development	1.1	5.5	9.2	17.7

Last Eight (8) Quarters Consolidated Results

LAST EIGHT (8) QUARTERS CONSOLIDATED RESULTS AT A GLANCE

(expressed in millions of Canadian dollars)

	2011			2010				2009
	\$	\$	\$	\$	\$	\$	\$	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	8.5	11.4	7.9	9.4	15.6	13.8	7.1	9.2
Income before research & development	0.1	2.2	0.6	1.7	8.4	6.6	0.2	0.7
Net Income (loss)	(4.5)	(2.1)	(3.5)	(1.8)	4.4	2.7	(6.8)	(1.8)
Basic and fully diluted net income (loss) per share	(0.05)	(0.03)	(0.04)	(0.03)	0.06	0.04	(0.09)	(0.03)

Fluctuations in Consolidated Operating Results

The Company's consolidated results of operations are likely to fluctuate significantly from period to period in the future. It is anticipated that the quarterly and annual results of operations will be impacted for the foreseeable future by several factors including the timing of clinical trials, the timing of regulatory

approvals to market products, the progress and timing of expenditures related to commercialization efforts, the timing of revenues from product sales and, most significantly, the achievement of performance milestones. Due to these fluctuations, the Company presently believes that the period-to-period comparisons of its consolidated operating results are not a good indication of future performance, particularly with the closing of the July, 2009 Agreement with Endo described previously.

CONSOLIDATED BALANCE SHEET HIGHLIGHTS

Assets

The Company's current assets at March 31, 2011 totalled \$43.1M, as compared to \$27.4M reported at June 30, 2010. The increased level of assets results primarily from the closing of both the Canadian and Australian Share Offers, which resulted in raising \$26M net of issuance costs. Cash and cash equivalents totalled \$26.2M at March 31, 2011, as compared to \$11.1M at June 30, 2010.

Long-term assets at March 31, 2011 were \$34.8M, as compared to \$24.7M reported at June 30, 2010. This increase of \$10.1M is primarily due the investments made in constructing the Animal Health and Food Safety Vaccine Manufacturing Centre.

Liabilities and Shareholders' Equity

At March 31, 2011, the Company's net working capital¹ totalled \$29.2M, 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 March 31, 2011 totalled \$26.6M, as compared to \$8.5M at June 30, 2010. The increase relates to the Canadian and Australian Share Offers, offset by losses.

Long-term liabilities at March 31, 2011 totalled \$17.7M, excluding non-refundable deferred licensing revenue of \$18.2M, compared to \$11.9M reported at June 30, 2010. The increase reflects advances received from repayable government assistance and from the Business Development Bank of Canada to fund construction costs of the Vaccine Manufacturing Centre, less repayments of capital leases and long-term debt and the recognition of an employee future benefit liability in the quarter ended December 31, 2010.

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 \$18.2M. 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.

Cash Flow Statement Highlights

The Company's cash flow used in operations for the nine months ended March 31, 2011 was \$8.3M, as compared to cash provided by operations of \$18.6M in the same period 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 Fiscal 2010, offset by other changes in non-cash working capital balances in Fiscal 2010.

The Company's investing activities used cash of \$12.8M during the nine months ending March 31, 2011, primarily on construction costs of \$13.8M for the Vaccine Manufacturing Centre in Belleville, Ontario, offset by government assistance of \$1.5M.

The Company's financing activities provided \$36.3M during the nine months ending March 31, 2011, primarily based on the closing of the Canadian (\$15.2M) and Australian (\$10.8M) Share Offers, which netted \$26.0M and loan advances to fund the Vaccine Manufacturing Centre of \$9.7M. In the same period in Fiscal 2010, financing activities used \$6.3M, primarily in relation to settlement of a revolving credit facility and related financing fees of \$6.5M.

¹ Please refer to the section "Non-GAAP and other measures" below

SEGMENTED PERFORMANCE

Segmented financial information analyzes the operations of the Company according to its business segments:

Human Health Segment

During the quarter ended March, 2011, the Company continued to identify and evaluate potential new indications for the MCC technology, while the Company continued to support further clinical trials and development of *Urocidin*TM – the MCC intravesical formulation for the treatment of non-muscle-invasive bladder cancer – in partnership with Endo. Endo assumed responsibility for all external clinical development costs for *Urocidin*TM going forward when it exercised its option for global rights to the product in February, 2010.

For the three and nine months ended March 31, 2011, licensing revenue of \$0.4M and \$5.2M respectively was recognized, reflecting the amortization of the up-front payment by Endo upon signing of the *Urocidin*TM License, Development and Supply Agreement. The total received, \$22.3M, will be recognized over 15 years. No milestones were achieved during the quarter under the Agreement, whereas \$8.4M of milestone revenue was recognized in the same quarter of Fiscal 2010.

Net research and development expenses for the three and nine months ended March 31, 2011 totalled \$3.4M and \$8.9M respectively, compared to \$2.9M and \$8.1M reported in the same period last year, excluding repayable government assistance. The year-to-date increase of \$0.9M, or 10%, is primarily attributed to the ongoing Phase III bladder cancer development program and restructuring costs of \$0.9M.

Animal Health Segment

Animal Health product sales were \$7.2M and \$20.0M for the three and nine months ended March 31, 2011, as compared to \$6.1M and \$19.0M for the same periods last year. On a year-to-date basis, sales increased due to the newly introduced *SucroMate*TM *Equine* product and some intra-quarter differences related to timing of sales and changes in product mix.

Expenses incurred in the three and nine months ended March 31, 2011 totalled \$5.2M and \$14.5M respectively, compared to \$4.6M and \$13.7M reported in the same periods last year. This is a reflection of increased marketing and distribution activities in relation to broadening market access internationally as well as introducing *SucroMate*TM *Equine* this year.

Gross research and development expenses in the three and nine months ended March 31, 2011 totalled \$1.1M and \$3.0M respectively, as compared to \$0.8M and \$2.2M in the same periods last year. This increase is the result of enhanced focus on reproduction products and vaccines.

Food Safety Segment

The Company continues its marketing efforts and is receiving strong indications of interest, particularly in the Canadian provinces of Ontario and Québec. The Company has completed its construction of a vaccine manufacturing facility to accommodate large-scale manufacturing production of *Econiche*TM and other food safety and animal health vaccines. On April 29, 2011, the Company held an Official Opening of this new Animal Health and Food Safety Vaccine Manufacturing Centre in Belleville, Ontario. Commissioning and validation activities have commenced, and will continue over the coming months. The facility is expected to be production-ready before the end of 2011.

Funding for the vaccine plant expansion comes in part from the Ontario Ministry of Economic Development and Trade's Advanced Manufacturing Investment Strategy program, which is contributing \$10.0M in the form of a loan based on a percentage of eligible expenditures incurred. At March 31, 2011, the full \$10.0M has been advanced under this program. The Department of Agriculture and Agri-Food (Canada)'s Agri-Opportunities Program is also contributing \$5M in the form of a loan based on a percentage of eligible expenditures incurred. At March 31, 2011, \$4.1M has been advanced under this program. The Industrial Technologies Office (ITO) of Industry Canada is providing funding of \$5.0M in return for royalties on future *Econiche*TM sales at 2.5% of net sales to a cumulative maximum of \$13.6M. A further \$5M has been secured in the form of a loan from the Business Development Bank of Canada, however, the remaining loan disbursement of \$2.8M will be made only as the Company makes certain qualifying expenditures.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position and Cash Flow

The Company has incurred significant losses and has an accumulated deficit of \$107.0M as at March 31, 2011.

The Company had a cash position at March 31, 2011 of \$26.2M, up from \$11.1M at June 30, 2010. This significant increase largely reflects the net proceeds of the Canadian portion of the completed Australian and Canadian Share Offers of \$15.2M completed in the quarter ended December 31, 2010. The Company received a further \$10.8M net of issuance costs in the third quarter, reflecting the early January, 2011 closing of the Australian portion of the Share Offers. As a result of these Share Offers, the Company has sufficient funds on hand to support its operations such that management removed its going concern disclosures from its interim consolidated financial statements in the quarter ended December 31, 2010. The Company has a positive track record of managing its working capital to meet its business requirements.

During the three-month period ended March 31, 2011, the Company invested \$3.8M in the previously mentioned Vaccine Manufacturing Centre. The Company does expect to recover the cash from claims for repayable government assistance under the programs described in note 11 to the Consolidated Financial Statements for the year ended June 30, 2010. Going forward, the Company expects to maintain a monthly average cash burn rate of approximately \$1M for at least the next 12 months.

In the past, the Company has financed its cash requirements primarily through the issuances of Common Shares, product sales revenues, investment tax credits, the sale of businesses or business units, royalties, government incentives, long-term debt issuances, and a revolving credit facility.

In addition to traditional sources of cash, the Company expects to finance many of its future expenditures by receiving certain payments from its licensing partner on accomplishing milestones related to the conduct of the *Urocidin*TM clinical development program. Although the Company is confident that it will achieve these milestones, that it will successfully replace its revolving credit facility, and that it will maintain a strong EBITDA before research and development expenditures in the Animal Health business unit, these events are dependent upon certain factors outside of the Company's control. If not achieved, the Company may be required to obtain additional financing or curtail its development activities and operations.

Treasury Operations

The Company's treasury policy is to invest cash that is not required immediately into short-term instruments with an investment strategy based on capital preservation. Such investments are primarily made in guaranteed investment certificates (GICs) and high-interest savings accounts, both of which are issued by Canadian chartered banks. At March 31, 2011, approximately \$6.3M was held in high-interest savings accounts.

Related Party Transactions

On June 3, 2005, the Company entered into a ten-year lease for a facility located at 271 Labrosse Avenue in Pointe-Claire, Québec. The facility is leased to the Company from a company owned and controlled by Graeme McRae, the Company's Chairman, President, and Chief Executive Officer. Under the terms of the amended lease, the Company has the option to purchase the facility by May 28, 2011 by assuming the balance of the loan outstanding. The Company is in discussion to assume the mortgage, and expects to complete the purchase of the building by May 28, 2011.

This transaction was recorded as a capital lease obligation as disclosed in note 10 of the Company's 2010 Annual Consolidated Financial Statements. The facility consists of 14,000 square feet and is expected to be used for 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 market demand for *Urocidin*TM.

During the nine-month period ended March 31, 2011, the Company paid a Director \$37 [2010 – \$56] in consulting fees, engaged the professional services of a Director’s firm for \$29 [2010 – nil] and purchased inventory from a company owned by a Director in the amount of \$33 [2009 – \$8]. The Company received payment for services provided to a company owned by a Director of \$71 [2010 – \$66]. Also during this period, the Company granted loans to Directors of the Company in the amount of \$180 and to Officers of the Company in the amount of \$167, all repayable over a five-year term with interest at 2%.

Off-Balance Sheet Arrangements

To date, the Company has not had any relationships with unconsolidated entities or financial partnerships, such as, those referred to as “structured finance” or “special purpose” entities, which are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Other than the Company’s operating leases and the commitments disclosed therein, the Company has no other off-balance sheet transactions.

Outstanding Common Shares

The Company has total Common Shares outstanding at May 11, 2011 of 101.7M. This includes the conversion of 9.0M Preferred Shares Series II into 6.5M Common Shares on October 4, 2010 and 20.1M shares issued in connection with the Canadian and Australian Share Offers (Canadian Offer closed December 16, 2010 with 11.5M shares issued; Australian Offer closed January 20, 2011 with 8.6M Shares issued). In addition, the Company has 0.6M outstanding Warrants and 6.5M outstanding Options (including 1,692,526 Options granted January 27, 2011), exchangeable for one Common Share upon exercise. On a fully diluted basis, the equivalent number of Common Shares outstanding would be 108M.

CRITICAL ACCOUNTING ESTIMATES

The Company’s discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The Company has identified and described the accounting policies that it believes require application of management’s most subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The actual results could differ from these estimates and such differences could be material.

The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including cash requirements, by assessing planned research and development activities and general and administrative requirements, the retention of key personnel, required clinical trial activity, market need for its drug candidates, and other major business assumptions.

For additional information about critical accounting estimates, please refer to the Management Discussion and Analysis contained in the Annual Report for the year ended June 30, 2010.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The CICA will converge Canadian GAAP with International Financial Reporting Standards [“IFRS”] over a transition period to end in 2011. Beginning in Fiscal 2012, the Company will fully adopt IFRS including restated comparatives for 2011.

The Company’s IFRS convergence project is led by its Chief Financial Officer, and an external resource has been engaged to assist with certain aspects of the project and advise management. The Company’s Audit Committee receives quarterly updates from management. The Company’s IFRS conversion project consists of three phases: Diagnostic, solution development, and implementation/execution.

Although many of the differences between IFRS and Canadian GAAP are not expected to have a material impact on the Company's financial results or financial position, the Company has not yet determined the full impact of its convergence to IFRS.

In the second quarter of Fiscal 2010, with the assistance of external experts in IFRS, the Company completed a diagnostic study of the conversion of its consolidated financial statements to the new standards. This study and resulting report identified the principal differences in the Company's records between existing Canadian GAAP and IFRS standards, and evaluated their impact on business processes and information systems. They also assessed the complexity of preparations and implementation, and identified resource requirements in support of the conversion.

While the Company expects a certain degree of impact in many areas related to reporting, the Company's view of the key areas where changes in accounting policies are expected that will likely impact the Company's consolidated financial statements are listed below with comments. The list and comments should not be regarded as a complete list of changes that will result from the transition to IFRS:

1. *Financial statement presentation and disclosures* – After the diagnostic, the Company prepared evaluations of significant accounting components and is in the process of preparing a comparative set of financial statements that contrasts IFRS against current Canadian GAAP, such that the additional disclosure requirements and options available on first-time adoption of IFRS can be fully examined and evaluated. The Company is also beginning the process of identifying additional data that management will require from the Company's systems. It is in the process of completing the implementation of an upgraded financial management system and an updated chart of accounts (particularly for capital assets) that will better allow the Company to supply the data required to prepare IFRS-compliant financial statements, including the preparation of comparative figures. The preparation of IFRS-compliant financial statements is not anticipated to require running a parallel general ledger.
2. *Matters relating to first-time adoption of IFRS* - International Accounting Standard (“IAS”) 1 provides guidance on the general principles underlying the preparation of financial statements. IFRS requires greater transparency and more information in the notes to the financial statements, combined with many additional disclosures which are required by other IFRS standards. Examples of specific disclosures are:
 - Upon transition to IFRS, a note describing the accounting options under IAS 1 and choices made will be required in the financial statements.
 - Note 1 – Accounting policies will require more details, especially in the areas of “determination of fair value”, “impairment of assets”, “related party transactions” and “leasing”.

Adoption of IFRS will provide the Company with an opportunity to redesign its financial statements, benchmark with other industry leaders and provide better information for the users of the financial statements. Additional disclosure will impact the manner in which the Company's financial statements and results are interpreted by the users. To take one example affecting the notes, in the case of asset impairments, it will be necessary to educate investors and other readers of financial statements so that they can interpret the results correctly as significant disclosure is required.

- Perform benchmarking activities comparing the Company's financial statements to others in its industry.
- Complete the IFRS financial statement disclosure checklist to establish what additional data requirements the Company will be required to maintain and disclose.
- Re-draft the Company's consolidated financial statement template to comply with the requirements of IAS 1.

3. *Asset impairment considerations and measurement methods* - Impairments under IAS 36, “Impairment of Assets”, are based on discounted cash flows. Under GAAP, if an asset’s estimated undiscounted future cash flows are below its carrying amount, a write-down is required, determined by the amount that the carrying amount exceeds fair value. IFRS does not contain an undiscounted impairment test. In the event of an impairment trigger, this may result in write-downs where carrying values of assets were previously supported under GAAP on an undiscounted cash flow basis, but are not supported on a discounted cash flow basis.

Under GAAP, impairments are not reversed. Under IAS 36, a change in circumstances that results in an impairment of property, plant and equipment would require a re-determination of the amount of the impairment, with any reversal being recognized into income to the extent that the asset had been previously impaired.

4. *Property, plant and equipment* - IAS 16, “Property Plant and Equipment”, and GAAP contain the same basic principles, however, there are some differences. IFRS requires that significant parts of an asset be depreciated separately. IFRS also permits property, plant and equipment to be measured using the fair value model or the historical cost model. IFRS 1 contains an elective exemption where an entity may elect to reset as the new cost basis for property, plant and equipment, its fair value at the date of transition. The Company is evaluating which option upon which to base the opening valuation, and will report its final approach in the coming quarters.
5. *Share-based payments* - IFRS 2, “Share-based Payments”, is substantially converged with Canadian GAAP. Canadian GAAP allows the use of either the straight-line or the accelerated methods to amortize graded-vesting features; the Company uses the straight-line method for equity-classified awards issued to employees. Under IFRS, only the accelerated or graded-vesting methods are allowed. The Company is still evaluating which approach to adopt. Canadian GAAP permits companies to either estimate forfeitures at the time of grant, or record the entire expense as if all Options vested at the time of grant and record forfeitures as they occur. IFRS 2 requires companies to estimate the forfeiture at the time of grant. These differences are expected to impact the accounting of the Company’s incentive plans.
6. *Revenue and the Agreement with Endo* - Under Canadian GAAP, the Company uses EIC-142, “Revenue Arrangements with Multiple Deliverables”, to account for the up-front payment received from the Agreement with Endo. As a result, the Company defers the amount of the up-front payment from its partner on the balance sheet and amortizes it over 15 years, which is the term over which the Company maintains substantive contractual obligations. Under IFRS, revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognized on the bases set out in paragraph 30 when:

- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The amount of the revenue can be measured reliably.

Royalties accrue in accordance with the terms of the relevant agreement and are usually recognized on that basis unless, having regard to the substance of the agreement, it is more appropriate to recognize revenue on some other systematic and rational basis.

Under IAS 18, the Company may account for the entire up-front payment as revenues if certain criteria are met, i.e., no future performance obligation, remaining obligations, or contingent future events.

Activity plan for IFRS conversion

Key Activities	Key Milestones	Current Status
Accounting policies and financial statement preparation		
<ul style="list-style-type: none"> Identify differences between Canadian GAAP and IFRS. Evaluate and select one-time and ongoing IFRS policies. Benchmark findings with peer companies. Develop financial statement format including notes to the financial statements. Quantify the effects of conversion to IFRS. 	<ul style="list-style-type: none"> Assessment and quantification of the effects of conversion to be completed in the fourth quarter of Fiscal 2011. Skeleton financial statements and format for notes to the financial statements to be completed in the fourth quarter of Fiscal 2011. Final selection of IFRS accounting policies to be completed in the fourth quarter of Fiscal 2011. 	<ul style="list-style-type: none"> Completed a diagnostic study that identified the key areas of difference between current practice and IFRS. In-depth analysis of issues and accounting policy choices is currently underway. Acquired research tools to assist in benchmarking industry and peer practices with respect to IFRS. Third-party experts are providing input and assistance related to implementation.
Accounting systems		
<ul style="list-style-type: none"> Identify and address changes to accounting systems required to comply with IFRS, including development of comparative information. Implement required changes. 	<ul style="list-style-type: none"> Tools and solutions in support of IFRS to be selected and implemented in the fourth quarter of Fiscal 2011. Testing and remediation of changes to system to be completed in the fourth quarter of Fiscal 2011. 	<ul style="list-style-type: none"> The Company is currently upgrading its accounting system to a version that can be supported for IFRS considerations. Additional modules related to Property, Plant and Equipment and Enterprise Asset Management have been licensed, and progress on implementation will be presented in future MD&As.
Control environment		
<ul style="list-style-type: none"> Confirm that business processes and controls are IFRS-compliant. Identify and implement changes required to support Disclosure Controls and Procedures (“DCP”). Identify and implement changes required to support Internal Controls over Financial Reporting (“ICFR”). 	<ul style="list-style-type: none"> Any changes required will be implemented in the fourth quarter of Fiscal 2011. Update internal senior management certification processes for the fourth quarter of Fiscal 2011. Update the CFO and CEO certification processes for the fourth quarter of Fiscal 2011. 	<ul style="list-style-type: none"> Evaluation of current practices with respect to IFRS is underway, and is being integrated to current processes over the evaluation and testing of DCP and ICFR. The Company does not expect any significant changes in its DCP or ICFR as a result of IFRS implementation.
Training		
<ul style="list-style-type: none"> Define and introduce an appropriate level of expertise for each of the following: <ul style="list-style-type: none"> Financial reporting and accounting staff Senior management Audit Committee 	<ul style="list-style-type: none"> Training to be completed in the first quarter of Fiscal 2012. 	<ul style="list-style-type: none"> Training has been provided to the Audit Committee and senior management of the accounting group. Progress of additional training efforts will be reported in future MD&As.

Key Activities	Key Milestones	Current Status
Other business activities		
<ul style="list-style-type: none"> Identify IFRS impact on external contractual arrangements, financial covenants, and employee compensation plans. Integrate IFRS-related communication in support of investor relations, MD&A, and other external communications. 	<ul style="list-style-type: none"> Report progress of IFRS conversion in MD&A on a quarterly basis. Review of material contracts and evaluation of IFRS impact on accounting to be completed in the fourth quarter of Fiscal 2011. Support for investor relations with respect IFRS-related queries and communications to be in place by the end of the third quarter of Fiscal 2011. 	<ul style="list-style-type: none"> IFRS conversion progress reporting has now been integrated with the process for building and completing the MD&A. Contract review is underway – currently, some contracts of interest in terms of revenue recognition differences have been identified, Further progress and the impact of such differences will be reported in future MD&As. All investor inquiries in relation to IFRS will be directed to the CFO.

Going forward, in future quarterly and annual reports, the Company will provide updates on its IFRS activities, including its progress on the activity plan, outlines of key differences between current practice and IFRS, and, when possible, illustrative disclosures and financial statement account reconciliations. The Company also intends to perform an evaluation of the impact of the adoption of IFRS on material contracts, compensation arrangements and business activities that rely on financial information during the remainder of Fiscal 2011, as well as evaluating the impact of IFRS on its control environment, and system and business processes.

NON-GAAP AND OTHER MEASURES

The following measures included in the MD&A do not have a standardized meaning under Canadian Generally Accepted Accounting Principles (GAAP) and, therefore, are unlikely to be comparable to similar measures presented by other companies:

EBITDA: Means “Earnings before Interest, Taxes, Depreciation, Amortization and foreign exchange”. The Company considers EBITDA to be an effective measure of each segment’s contribution to the Company on an operational basis. It is management’s view that this measure is used by analysts and shareholders to evaluate the financial performance of the Company’s operations.

Burn Rate: Means consolidated cash flow used in operations. This information can be found in the Consolidated Statements of Cash Flows, under Operating Activities. It shows the cash flow used in operations (before change in non-cash working capital balances related to operations).

Net working capital: Means current assets minus current liabilities, excluding the current portion of non-refundable deferred licensing revenues.

EFFECTIVENESS OF DISCLOSURE CONTROLS

In accordance with National Instrument 52-109 – “Certification of Disclosure in Issuers’ Annual and Interim Filings” [“National Instrument 52-109”], the Company is responsible for establishing and maintaining internal control over its financial reporting, which is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s consolidated financial statements in accordance with Canadian GAAP. Due to the inherent limitations in any control system, internal control over financial reporting may not prevent or detect all material misstatements. Also, any conclusions on the effectiveness of a system of internal control in the future are subject to risk, as the system may be, or may become, inadequate for many reasons, including due to changes in business conditions, personnel changes and/or the impact of other risks and uncertainties on internal controls.

Management has used the framework of the Committee of Sponsoring Organizations of the Treadway Commission [“COSO”] to evaluate the effectiveness of the Company’s internal control over financial reporting.

The Chairman, President and Chief Executive Officer and the Chief Financial Officer, together with senior management, completed the documentation and preliminary evaluation of the effectiveness of the Company’s disclosure controls and procedures [“DCP”] and internal controls over financial reporting [“ICFR”] at June 30, 2010. Over the course of the fourth quarter of Fiscal 2010, the key controls identified in the documentation were tested and evaluated. As a result of this testing, the Company has discovered a number of areas where significant improvements and updates should be introduced and implemented, including the documentation of controls. None of the observations or results indicated a material weakness in either DCP or ICFR for the quarter ended March 31, 2011.

The Company plans to continue to review and make the necessary changes to its ICFR policies and procedures, including policy development and implementation. In November, 2010, the Company hired an expert in control processes to lead this effort and management expects to implement and test improvements by the end of the fourth quarter of Fiscal 2011. In addition, the Company has completed implementation of upgrades to its accounting systems, and is in the process of acquiring and implementing other tools and modules in support of improved management and reporting processes. These new resources, combined with changes in the Company’s financial condition, should result in improvements in its review and approval process, particularly the financial statement close process. The Company expects to continue its approach to control improvements indefinitely.

The Company expects to implement a number of improvements over the course of Fiscal 2011 to address those necessary to maintain DCP and ICFR through the Company’s convergence with IFRS.

RISKS AND UNCERTAINTIES

Approach to Risk Management

The Company’s business activities expose it to a wide variety of risks. The Company’s goal is to manage these risks so that it is reasonably protected from an unacceptable level of earnings or financial exposure while still enabling business development through its commercialization activities. The Company has developed a risk management oversight structure and an internal reporting structure to monitor and manage the risks arising from its business activities, the markets in which it operates, and the regulatory and political environments and structures with which the Company interfaces internationally.

The Company’s risk management processes include the following pathways to oversight of its principal risks:

The Board of Directors provides for the stewardship of the Company, reviews and establishes policies and procedures, and receives quarterly comprehensive management reports outlining progress and status of all critical activities and associated risks. The Board of Directors also undertakes to understand the key risks of the Company and directs management to address any risks with which it believes are not in the best interests of the Company and shareholder value creation.

The Audit Committee, established by the Board of Directors, provides assistance to the Board of Directors in fulfilling its oversight responsibility relating to the integrity of the Company’s financial statements and the financial reporting process, the systems of internal accounting and financial controls, the external auditors’ qualifications, terms and conditions of appointment, including remuneration, independence, performance and reports, and the legal and risk compliance programs as established by management and the Board of Directors.

Controls Aimed at Mitigating, Monitoring and Managing Risks

The Company's risk controls have several key components:

Organizational Commitment to Values

Every corporate culture is unique. The Company strives to foster beliefs and actions that are true to, and respectful of, its stakeholders and the community at large. The Company does this by investing in communities where its employees live and work, concentrating on operating and growing sustainably, putting safety first, and being responsible to the many groups and individuals with whom it comes into contact. The Company's activities and approach to business are consistent with its "Code of Conduct" and ethics policies.

Policies

The Company maintains a set of enterprise-wide policies that have been established to address key risks. These policies establish delegated authorities and limits for business transactions, as well as allowing for an informed approval process. The Company performs periodic reviews and audits to ensure compliance with these policies.

Reporting

The Company provides quarterly progress reports, together with risk exposures, to key decision-makers including the Board of Directors and senior management. This reporting includes analysis of emerging risks, existing risk exposures, activities carried out in relation to those risks, and the adopted or recommended course of action to mitigate the existing level of risk. This quarterly reporting provides for effective and timely risk management and oversight.

Whistleblower System

Any director, officer or employee who has any concern or complaint regarding accounting, internal control or auditing matters, any potential violations of law or regulatory provisions, or 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 to 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 the 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 deemed warranted, action will be taken to resolve the situation which has been the source of the complaint.

Summary of Risks and Uncertainties

Before making an investment decision with respect to the Company's Common Shares, investors should carefully consider the following risk factors, in addition to the other information included or incorporated by reference into this report and the annual report for the fiscal year ended June 30, 2010. The risks as set out in the annual report remain unchanged. The primary risks that may affect the Company during this fiscal year are summarized below. If any of the risks and uncertainties occurs, the business, financial condition, prospects, or results of operations for the Company could be materially adversely affected.

- The Company expects to continue to experience losses as a result of its ongoing research. It is difficult to estimate the timing and future costs of its research and development programs and the timing of the achievement of milestone revenues.

- The Company may be unable to achieve certain milestones associated with external partnerships, which could curtail future development and negatively impact the Company's share price.
- If the Company cannot raise additional capital on acceptable terms, it may delay or be unable to pursue further development of its product portfolio, obtain regulatory approvals or commercialize its product candidates.
- The Company is indirectly subject to price regulation in certain countries and this could affect its gross margin.
- The Company does not currently have backup manufacturing capacity for some of its key products.
- The loss of a key supplier of certain raw materials could have a material adverse effect on the Company's business and financial condition.
- The Company may not achieve its projected development goals in the timeframes it announces and expects.
- Rapid technological change could make the Company's products obsolete.
- The Company faces uncertainties related to regulatory approval which could result in delays in product commercialization in certain territories.
- Even if the Company obtains marketing approval, its products will be subject to ongoing regulatory review.
- The Company's products, if approved, may fail to achieve market acceptance.
- Development of therapeutics can be costly and requires years of research and development activities.
- If the Company is unable to protect its intellectual property rights, its competitors may develop and market products with similar features that may reduce demand for its products, and the effective commercialization of its products may be inhibited.
- The Company may become involved in lawsuits with respect to collaborations or protection nor enforcement of its patents that would be expensive and time-consuming.
- If third-party manufacturers of the Company's products fail to devote sufficient time and resources to its concerns, or if their performance is substandard, clinical trials and product introductions may be delayed and costs may rise.
- The Company may not be able to manufacture its products in commercial quantities, which would prevent it from marketing its products.
- The Company may not be able to successfully achieve its stated objectives.
- The Company has international operations that expose it to additional business risks.
- The Company may incur losses associated with foreign currency fluctuations.
- The Company is subject to the risk of product liability claims, for which it may not have, nor be able to obtain, adequate insurance coverage.
- Some of the Company's products may use hazardous materials and, as a result, the Company is exposed to potential liability claims and to costs associated with complying with laws regulating hazardous waste.
- Future sales of Common Shares by the Company or its existing lenders or shareholders may cause its share price to fall.
- The Company has never paid dividends on its Common Shares, and it does not anticipate paying any cash dividends in the foreseeable future.

OTHER INFORMATION ABOUT THE COMPANY

Additional information relating to the Company, including the Annual Information Form (AIF), is available on SEDAR at www.sedar.com.



Brian D. Ford, CA,
Chief Financial Officer
 May 11, 2011

Bioniche Life Sciences Inc.
Amalgamated under the laws of Ontario

INTERIM CONSOLIDATED BALANCE SHEETS
[Unaudited]

	As at March 31, 2011	As at June 30, 2010
<i>(thousands of Canadian dollars)</i>	\$	\$
ASSETS		
Current		
Cash and cash equivalents	26,211	11,070
Accounts receivable	6,160	8,601
Income taxes receivable	47	63
Future income tax assets	66	197
Inventories [note 3]	9,543	6,668
Prepaid expenses and deposits	1,114	793
	43,141	27,392
Long-term		
Property, plant and equipment	25,837	16,584
Intangible assets	6,425	6,500
Goodwill	456	456
Long-term accounts receivable [note 10]	2,058	1,156
Future income tax assets	31	51
	77,948	52,139
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities [note 9]	12,275	9,716
Current portion of long-term debt and obligations under capital leases	617	256
Current portion of repayable government assistance [note 4]	1,045	960
Current portion of non-refundable deferred licensing revenue	1,486	1,486
	15,423	12,418
Long-term		
Accrued pension liability [note 7]	1,972	—
Long-term debt	1,631	1,341
Obligations under capital leases	1,084	1,184
Repayable government assistance [note 4]	13,023	6,965
Deferred government incentives [note 4]	—	2,382
Non-refundable deferred licensing revenue	18,238	19,353
	51,371	43,643
Shareholders' equity		
Share capital [note 5]	125,052	96,677
Other paid-in capital [note 5]	8,504	8,700
Deficit	(106,979)	(96,881)
	26,577	8,496
	77,948	52,139

See accompanying notes

Bioniche Life Sciences Inc.

**INTERIM CONSOLIDATED STATEMENTS OF (LOSS) INCOME,
COMPREHENSIVE (LOSS) INCOME, AND DEFICIT**
[Unaudited]

For the three and nine months ended March 31

	Current Quarter 2011	Last Year Quarter 2010	Current Year-to-Date 2011	Last Year-to-Date 2010
<i>(thousands of Canadian dollars, except share and per share amounts)</i>	\$	\$	\$	\$
REVENUES				
Sales	7,177	6,129	19,978	19,064
Research collaborations	919	758	2,563	758
Gain on disposal of intangible assets	—	—	—	883
Licensing	372	8,742	5,161	15,832
	8,468	15,629	27,702	36,537
EXPENSES				
Cost of sales (excluding amortization) <i>[note 3]</i>	3,628	3,109	9,668	9,174
Administration	2,069	1,718	7,585	5,149
Marketing and selling	1,611	1,557	5,004	4,507
Financial expenses <i>[note 8]</i>	301	163	687	515
Amortization of property, plant and equipment	263	242	755	809
Amortization and write-down of intangible assets	232	189	639	620
Foreign exchange loss	224	242	481	506
	8,328	7,220	24,819	21,280
Income before research and development expenses and other items	140	8,409	2,883	15,257
Research and development expenses, gross <i>[note 9]</i>	5,273	5,092	14,522	13,246
Repayable government assistance	—	—	—	3,884
Less: government incentives, net	(653)	(1,067)	(1,687)	(2,260)
(Loss) income before income taxes	(4,480)	4,384	(9,952)	387
Provision for income tax expense	—	—	129	130
Net (loss) income and comprehensive (loss) income for the period	(4,480)	4,384	(10,081)	257
Deficit, beginning of period	(102,499)	(99,419)	(96,881)	(95,292)
Premium on share redemption <i>[note 5]</i>	—	—	(17)	—
Deficit, end of period	(106,979)	(95,035)	(106,979)	(95,035)
Basic and diluted net (loss) income per share	(0.05)	0.06	(0.12)	0.00
Weighted-average number of common shares outstanding	99,199,406	72,349,969	84,605,217	72,075,862

See accompanying notes

Bioniche Life Sciences Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited]

For the three and nine months ended March 31

	Current Quarter 2011 \$	Last Year Quarter 2010 \$	Current Year-to-Date 2011 \$	Last Year-to-Date 2010 \$
<i>(thousands of Canadian dollars)</i>				
OPERATING ACTIVITIES				
Net income (loss) for the period	(4,480)	4,384	(10,081)	257
Add (deduct) non-cash items:				
Amortization	495	431	1,394	1,377
Unrealized foreign exchange loss (gain)	(8)	(7)	52	(32)
Accrued interest on discounted receivables and interest-free loans and amortization of financial expenses	232	104	493	315
Stock-based compensation expense	198	63	335	173
Employee share ownership plan	216	200	624	337
Accrued pension expense	37	—	1,972	—
Repayable government assistance	—	—	—	3,884
Amortization of deferred government incentives	(490)	(464)	(1,962)	(1,308)
Licensing revenue	(371)	(372)	(1,115)	(1,076)
Write-down of intangible assets	—	—	—	52
Future income taxes	—	—	129	—
Gain on sale of intangible assets	—	—	—	(883)
Deemed government assistance	(26)	—	(57)	(73)
	(4,197)	4,339	(8,216)	3,023
Decrease in restricted cash	—	138	—	1,174
Net change in non-cash working capital balances	(2,207)	(1,849)	(112)	(7,877)
Net change in non-refundable deferred licensing revenue	—	—	—	22,286
Cash provided by (used in) operating activities	(6,404)	2,628	(8,328)	18,606
INVESTING ACTIVITIES				
Proceeds on settlement of long-term accounts receivable	—	—	100	—
Government incentives received on account of property, plant and equipment	—	135	1,496	186
Proceeds on sale of intangible assets	—	—	—	606
Purchase of intangible assets	(178)	—	(564)	—
Proceeds on disposal of property, plant and equipment	18	—	24	6
Purchases of property, plant and equipment	(3,777)	(2,283)	(13,874)	(3,659)
Cash used in investing activities	(3,937)	(2,148)	(12,818)	(2,861)
FINANCING ACTIVITIES				
Proceeds from deferred government incentives	—	—	690	—
Proceeds from government assistance <i>[note 4]</i>	1,632	691	9,206	744
Repayment of government assistance	(960)	—	(960)	—
Proceeds from long-term debt	—	—	500	—
Proceeds from shares issued	13,189	72	30,351	72
Redemption of common shares	—	—	(173)	—
Payment of share issuance costs	(771)	—	(2,969)	—
Payment of financing fees – debt	—	—	—	(2,117)
Repayment of revolving credit facility	—	—	—	(4,416)
Repayment of capital lease obligations	(115)	(24)	(343)	(259)
Repayment of long-term debt	(9)	(141)	(15)	(291)
Cash provided by (used in) financing activities	12,966	598	36,287	(6,267)
Net increase in cash and cash equivalents during the period	2,625	1,078	15,141	9,478
Cash and cash equivalents, beginning of period	23,586	14,350	11,070	5,950
Cash and cash equivalents, end of period	26,211	15,428	26,211	15,428

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

*[thousands of Canadian dollars or other currencies, except
where noted and for share and per share amounts]*

Unaudited

1. NATURE OF THE BUSINESS AND BASIS OF PRESENTATION

Nature of the business

Bioniche Life Sciences Inc. [“the Company”] is a Canadian biopharmaceutical company engaged in the research, development, manufacturing and commercializing of human and animal health products and technologies worldwide. The Company’s common stock is traded on the Toronto Stock Exchange [TSX: “BNC”] and the Australian Stock Exchange [ASX: “BNC”].

Basis of presentation

These interim consolidated financial statements do not contain all disclosures required by Canadian generally accepted accounting principals [“GAAP”] for annual financial statements and, accordingly, these financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended June 30, 2010. These unaudited interim consolidated financial statements follow the same accounting policies and methods of their application as outlined in the most recent annual consolidated financial statements, except as described in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

During the three-month period ended December 31, 2010, the Company agreed to sponsor an unfunded defined benefit plan based on years of service and final pay for its President and Chief Executive Officer as defined under CICA Handbook Section 3461, *Employee Future Benefits* which is neither registered nor pre-funded. The cost of this defined benefit plan has been determined by an independent actuary using the projected benefit method incorporating management’s best estimate of future salary escalation, retirement age, inflation and other actuarial factors. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation and are recognized in income immediately. Past service costs from the initiation of a plan or an amendment are amortized on a straight-line basis over the average remaining service period.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

*[thousands of Canadian dollars or other currencies, except
where noted and for share and per share amounts]*

Unaudited

3. INVENTORIES

	March 31, 2011	June 30, 2010
	\$	\$
Raw materials	2,284	1,714
Work in process	2,566	1,860
Finished goods	4,693	3,094
Total	9,543	6,668

During the three- and nine-month periods ended March 31, 2011, inventories in the amount of \$3,458 and \$8,869, respectively [2010 – \$2,971 and \$8,601, respectively] were recognized as cost of sales, including provisions for write-downs to net realizable value of \$27 and \$67 [2010 – \$9 and \$88, respectively] and the reversal of previously recorded write-downs of \$13 and \$47 as a result of a reassessment of the potential market [2010 – \$17 and \$75, respectively]. As at March 31, 2011, inventories in the amount of \$49 [2010 – \$26] are carried at their net realizable value.

4. GOVERNMENT INCENTIVES AND ASSISTANCE

The following table summarizes transactions for the nine months ended March 31, 2011 related to each of the government programs under which the Company has received assistance:

	ITO	FedDev	MEDT	Agri-Ops	Total
	\$	\$	\$	\$	\$
Opening balance	4,175	—	3,159	591	7,925
Government assistance					
loans received	—	177	6,106	2,923	9,206
Less: payment	(960)	—	—	—	(960)
Less: interest-free discount	—	(55)	(1,212)	(1,429)	(2,696)
Accretion of interest	182	—	286	125	593
Total long-term repayable	3,397	122	8,339	2,210	14,068
Less: current portion	944	101	—	—	1,045
Total long-term repayable government assistance	2,453	21	8,339	2,210	13,023

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

*[thousands of Canadian dollars or other currencies, except
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Unaudited

4. GOVERNMENT INCENTIVES AND ASSISTANCE [CONT'D]

Industrial Technology Office [ITO]

During the three-month period ended September 30, 2010, the maximum eligible reimbursement under the *E. coli* O157:H7 cattle vaccine program was reached. Claims for additional eligible expenditures have been applied against the deferred government incentive balance. During the three-month period ended March 31, 2011, the Company reached the total eligible expenditure levels under both the *E. coli* O157:H7 cattle vaccine and the *Urocidin*TM programs and recognized all outstanding deferred government incentive amounts.

Ministry of Economic Trade and Development [MEDT]

During the three-month period ended March 31, 2011, the Company received the final advance available under this government financing program.

Federal Economic Development Agency for Southern Ontario [FedDev]

On April 19, 2010, the Company announced that it was eligible to receive up to \$750 in federal government financing in the form of an interest-free loan from the Federal Economic Development Agency for Southern Ontario [FedDev] to fund the development of a pilot-scale fermentation facility adjacent to the Company's Vaccine Manufacturing Centre, constructed at the Belleville facility. During the three-month period ended March 31, 2011, the Company received its first advance under this government financing program. To reflect the benefits of the interest-free status of the loan, the advance has been discounted to its estimated fair value using a discount rate of 16% 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, 2011, with payments of \$13 per month.

5. SHAREHOLDERS' EQUITY

Share capital consists of the following:	March 31, 2011	June 30, 2010
	\$	\$
Preferred Shares – Series I	161	161
Preferred Shares – Series II	—	8,799
Common Shares	124,891	87,717
	125,052	96,677

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

*[thousands of Canadian dollars or other currencies, except
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Unaudited

5. SHAREHOLDERS' EQUITY [CONT'D]

The change in the issued and fully paid Common Shares of the Company during the nine-month period ended March 31, 2011 is as follows:

	March 31, 2011	
	Shares #	Amount \$
Balance June 30, 2010	72,890,247	87,717
Employee share ownership plan	470,558	618
Options exercised	1,121,849	1,250
Warrants exercised	610,992	703
Shares issued – Canada	11,500,000	16,675
Shares issued – Australia	8,621,380	12,254
Share issuance costs	—	(2,969)
Shares cancelled	(130,000)	(156)
Preferred Shares converted	6,521,677	8,799
Balance March 31, 2011	101,606,703	124,891

Preferred shares – Series II

On October 4, 2010, the Fonds de solidarité FTQ converted the remainder of its Series II Preferred Shares amounting to 9,000,000 Preferred Shares into 6,521,677 Common Shares.

Common shares

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 C\$1.45, for gross proceeds of \$16,675. This amount, net of issuance expenses of \$1,521 is reflected in Share Capital.

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 CHESS Depository Instruments (CDIs) at A\$1.45 for gross proceeds of A\$12,501 [C\$12,254]. This amount, net of issuance expenses of \$1,448 is reflected in Share Capital.

During the three-month period ended September 30, 2010, the Company purchased 130,000 of its own shares from an executive for cash consideration of \$173 with a corresponding reduction of share capital and an increase in the deficit in the amount of \$156 and \$17, respectively. These shares were cancelled in October, 2010.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

*[thousands of Canadian dollars or other currencies, except
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Unaudited

5. SHAREHOLDERS' EQUITY [CONT'D]

Share compensation

During the three- and nine-month period ended March 31, 2010, the Company issued nil and 278,495 Common Shares respectively as Directors' remuneration totalling nil and \$103. No Directors' remuneration was paid in Common Shares during the three- and nine-month period ended March 31, 2011.

Employee share ownership plan

During the three-month period ended March 31, 2011, the Company issued 153,708 Common Shares [2010 – 298,945] under the employee share ownership plan totalling \$225 [2010 – \$209].

During the nine-month period ended March 31, 2011, the Company issued 470,558 Common Shares [2010 – 460,117] under the employee share ownership plan totalling \$618 [2010 – \$275].

Stock Options

The changes in the number of Options granted by the Company and their weighted-average exercise prices, for the nine-month period ended March 31, 2011 and 2010 are as follows:

	2011		2010	
	#	\$	#	\$
Balance, beginning of period	5,470,146	1.00	4,118,501	2.04
Granted	1,694,526	1.46	2,673,867	0.44
Exercised	(1,121,849)	0.87	(80,000)	0.90
Expired/cancelled	(41,388)	0.72	(1,169,500)	3.47
Balance, end of period	6,001,435	1.15	5,542,868	0.99
Exercisable	1,159,823	1.03	1,414,001	1.13

During the three months ended March 31, 2011, the Company issued 1,034,726 [2010 – 80,000] Common Shares on the exercise of employee stock Options for cash consideration of \$792 [2010 – \$72]. This amount, plus the previously expensed fair value of these Options of \$213 [2010 – \$18] which was removed from Other Paid-in Capital, was added to Share Capital.

During the nine months ended March 31, 2011, the Company issued 1,121,849 [2010 – 80,000] Common Shares on the exercise of employee stock Options for cash consideration of \$976 [2010 – \$72]. This amount, plus the previously expensed fair value of these Options of \$274 [2010 – \$18] which was removed from Other Paid-in Capital, was added to Share Capital.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

*[thousands of Canadian dollars or other currencies, except
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Unaudited

5. SHAREHOLDERS' EQUITY [CONT'D]

On July 1, 2010, the Company issued 2,000 three-year stock Options [2009 – 2,000 three-year stock Options], vesting immediately and with an exercise price of \$0.92 [2009 – \$0.37], to a consultant.

On January 28, 2011, the Company granted 1,692,526 [2009 – 2,671,867] five-year stock Options with an exercise price of \$1.46 to employees and Directors.

The grant date fair value of Options is recognized as an expense over the vesting period. The amount recognized as a compensation expense during the three and nine months ended March 31, 2011 was \$198 and \$335, respectively [2010 - \$63 and \$173, respectively].

The fair value of Options granted during the nine months ended March 31, 2011 and 2010 was estimated using the Black Scholes option pricing model, resulting in the following weighted-average assumptions:

	2011	2010
Risk-free interest rate	4.0%	4.0%
Expected volatility	83.4%	65.1%
Expected option life	4.5 years	5.0 years
Dividend yield	0%	0%
Weighted-average fair value of Options granted	\$0.95	\$0.24

Warrants

During the three-month period ended March 31, 2011, the Company issued 150,000 Common Shares on the exercise of Warrants for cash consideration of \$144. This amount plus the previously expensed fair value of these Warrants of \$72 which was removed from Other Paid-in Capital, was added to Share Capital.

During the nine months ended March 31, 2011, the Company issued 425,000 Common Shares on the exercise of Warrants for cash consideration of \$446. This amount plus the previously expensed fair value of these Warrants of \$136 which was removed from Other Paid-in Capital, was added to Share Capital. In addition, 185,992 Common Shares were issued on the exercise of 185,992 Warrants in exchange for the surrender and cancellation of 339,008 Warrants. The balance of the previously expensed fair value of these Warrants of \$121 was removed from Other Paid-in Capital and added to Share Capital.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

*[thousands of Canadian dollars or other currencies, except
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Unaudited

5. SHAREHOLDERS' EQUITY [CONT'D]

The changes in the number of Warrants granted by the Company and their weighted-average exercise prices, for the nine-month period ended March 31, 2011 and 2010 are as follows:

	2011		2010	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Outstanding, beginning of year	1,420,000	1.02	1,711,429	0.96
Exercised	(425,000)	1.05	—	—
Exercise on cashless basis	(185,992)	—	—	—
Cancelled	(339,008)	1.10	—	—
Outstanding, March 31	470,000	0.91	1,711,429	0.96

Of the remaining outstanding Warrants at March 31, 2011, 400,000 have the right to be exercised in exchange for the surrender and cancellation of the outstanding Warrants representing the equivalent value in shares of the amount that would be realized on the exercise of the Warrants using the average closing price of the Company's Common Shares for the twenty preceding trading days to the date of exercise.

6. SEGMENTED FINANCIAL INFORMATION

The Company's three reportable segments: Animal Health, Human Health and Food Safety are strategic business units that offer different products and require different technology and marketing strategies.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

*[thousands of Canadian dollars or other currencies, except
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Unaudited

6. SEGMENTED FINANCIAL INFORMATION [CONT'D]

The Company accounts for inter-segment sales on a cost plus basis.

	Current Quarter March 2011				Total \$
	Human Health \$	Animal Health \$	Food Safety \$	Corporate \$	
Sales	—	7,177	—	—	7,177
Research collaborations	919	—	—	—	919
Licensing	372	—	—	—	372
	1,291	7,177	—	—	8,468
Expenses	—	5,235	616	1,457	7,308
EBITDA before research and development	1,291	1,942	(616)	(1,457)	1,160
Research & development expenses, gross	4,001	1,038	234	—	5,273
Repayable government assistance	—	—	—	—	—
Less: government incentives, net	(617)	—	(36)	—	(653)
Net research and development expenses	3,384	1,038	198	—	4,620
Financial expenses	—	9	—	292	301
Amortization and write-down of property, plant and equipment and intangible assets	245	157	18	75	495
Foreign exchange loss	—	—	—	224	224
Segment income (loss) before income taxes	(2,338)	738	(832)	(2,048)	(4,480)

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

March 31, 2011 and 2010

*[thousands of Canadian dollars or other currencies, except
where noted and for share and per share amounts]*

Unaudited

6. SEGMENTED FINANCIAL INFORMATION [CONT'D]

	Current Quarter March 2010				Total \$
	Human Health \$	Animal Health \$	Food Safety \$	Corporate \$	
Sales	—	6,129	—	—	6,129
Research collaboration	758	—	—	—	758
Licensing	8,742	—	—	—	8,742
	9,500	6,129	—	—	15,629
Expenses	—	4,632	523	1,229	6,384
EBITDA before research and development	9,500	1,497	(523)	(1,229)	9,245
Research & development expenses, gross	3,843	796	453	—	5,092
Repayable government assistance	—	—	—	—	—
Less: government incentives, net	(957)	(72)	(38)	—	(1,067)
Net research and development expenses	2,886	724	415	—	4,025
Financial expenses	—	12	—	151	163
Amortization and write-down of property, plant and equipment and intangible assets	230	134	16	51	431
Foreign exchange loss	—	—	—	242	242
Segment income (loss) before income taxes	6,384	627	(954)	(1,673)	4,384

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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Unaudited

6. SEGMENTED FINANCIAL INFORMATION [CONT'D]

	Current Year-to-Date March 2011				Total \$
	Human Health \$	Animal Health \$	Food Safety \$	Corporate \$	
Sales	—	19,978	—	—	19,978
Research collaborations	2,563	—	—	—	2,563
Licensing	5,161	—	—	—	5,161
	7,724	19,978	—	—	27,702
Expenses	—	14,527	1,860	5,870	22,257
EBITDA before research and development	7,724	5,451	(1,860)	(5,870)	5,445
Research & development expenses, gross	10,443	2,979	1,100	—	14,522
Repayable government assistance	—	—	—	—	—
Less: government incentives, net	(1,549)	—	(138)	—	(1,687)
Net research and development expenses	8,894	2,979	962	—	12,835
Financial expenses	—	31	—	656	687
Amortization and write-down of property, plant and equipment and intangible assets	681	462	53	198	1,394
Foreign exchange loss	—	—	—	481	481
Segment income (loss) before income taxes	(1,851)	1,979	(2,875)	(7,205)	(9,952)

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

March 31, 2011 and 2010

*[thousands of Canadian dollars or other currencies, except
where noted and for share and per share amounts]*

Unaudited

6. SEGMENTED FINANCIAL INFORMATION [CONT'D]

	Current Year-to-Date March 2010				Total \$
	Human Health \$	Animal Health \$	Food Safety \$	Corporate \$	
Sales	—	19,064	—	—	19,064
Gain on disposal of intangible assets	—	883	—	—	883
Research collaboration	758	—	—	—	758
Licensing	15,832	—	—	—	15,832
	16,590	19,947	—	—	36,537
Expenses	—	13,713	1,481	3,636	18,830
EBITDA before research and development	16,590	6,234	(1,481)	(3,636)	17,707
Research & development expenses, gross	9,892	2,182	1,172	—	13,246
Repayable government assistance	3,884	—	—	—	3,884
Less: government incentives, net	(1,842)	(72)	(346)	—	(2,260)
Net research and development expenses	11,934	2,110	826	—	14,870
Financial expenses	—	34	—	481	515
Amortization and write-down of property, plant and equipment and intangible assets	754	484	48	143	1,429
Foreign exchange loss	—	—	—	506	506
Segment income (loss) before income taxes	3,902	3,606	(2,355)	(4,766)	387

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

*[thousands of Canadian dollars or other currencies, except
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Unaudited

7. ACCRUED PENSION LIABILITY

During the three-month period ended December 31, 2010, the Company agreed to sponsor an unfunded defined benefit plan for its President and Chief Executive Officer based on years of service and final pay. The Company used an actuarial estimate to measure the accrued benefit obligation as at December 31, 2010. The initial accrued benefit obligation was determined by the actuary to be \$1,934 which was recognized as past service costs and included within administration expenses during the three-month period ended December 31, 2010 as there is no remaining service period to become eligible for these benefits. During the three-month period ended March 31, 2011, an additional expense of \$17 was recognized as current service cost and \$21 as interest. The significant actuarial assumptions used by the Company to determine its accrued benefit obligations as at December 31, 2010 and March 31, 2011 was an average discount rate of 4.4% and an estimated rate of compensation increase of 3%.

8. FINANCIAL EXPENSES

	Current Quarter 2011 \$	Last Year Quarter 2010 \$	Current Year-to- Date 2011 \$	Last Year Year-to- Date 2010 \$
Interest on long-term debt	80	69	230	217
Other interest expense	5	4	9	24
Other interest income	(16)	(14)	(45)	(41)
Accreted interest income on discounted receivables	(34)	(21)	(100)	(60)
Accreted interest expense on interest-free loans	266	119	593	358
Amortization of financial expenses	—	6	—	17
	301	163	687	515

9. RESTRUCTURING COSTS

During the three-month period ended March 31, 2011 the Company decided to restructure its human research activities. As a result, certain research employees have been terminated and severance costs in the amount of \$881 have been accrued and recorded as research and development expenses. Management does not anticipate further costs related to this restructuring.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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Unaudited

10. RELATED PARTY TRANSACTIONS

During the nine-month period ended March 31, 2011, the Company granted loans to Officers of the Company in the amount of \$347, all repayable over a five-year term with interest at 2%. These loans have been recorded at the exchange amount with the current portion of \$69 included in Accounts Receivable and the long-term portion of \$274 included in Long-Term Accounts Receivable.

During the nine-month period ended March 31, 2011, the Company made lease payments of \$17 per month to a company controlled by the CEO who is also a Director of the Company [2010 – \$17]. As well, the Company paid a Director \$37 [2010 - \$56] in consulting fees, engaged the professional services of a Director's firm for \$29 [2010 – nil] and purchased inventory from a company owned by a Director in the amount of \$33 [2010 – \$8]. The Company received payment for services provided to a company owned by a Director of \$71 [2010 – \$66].

FISCAL 2011 THIRD QUARTER CORPORATE DATA

BOARD OF DIRECTORS

GRAEME McRAE ^{(2) (3) (4) (5) (6)}

Chairman, President and CEO
Bioniche Life Sciences Inc.

STANLEY ALKEMADE, D.V.M. ^{(4) (5) (6)}

President, BioMedEx Inc.

ARMEN APRIKIAN, M.D., F.R.C.S. (C) (OBSERVER) ⁽⁴⁾

Head, Division of Urology, Department of Surgery, McGill University & Interim Chief,
Department of Oncology, McGill University Health Centre

ALBERT BERALDO ^{(1) (2) (6)}

President, Alveda Pharmaceuticals Inc.

MARGARET CUNNINGHAM, PH.D. ^{(1) (2) (3) (6)}

Director of the School of Business, Associate Dean, and R. A. Jodrey Chair,
Faculty of Management, Dalhousie University, Halifax, Nova Scotia

JAMES JOHNSON, PH.D. ^{(2) (4) (6)}

Principal and Founder, Johnson & Associates

NICK PHOTIADES ^{(1) (3) (5) (6)}

Management and Strategic
Planning Consultant

LYLE VANCLIEF ^{(1) (3) (5) (6)}

Agricultural and Agri-Food Consultant

¹ Member of the Audit Committee

² Member of the Compensation Committee

³ Member of the Corporate Governance and 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

EXECUTIVE MANAGEMENT

Graeme McRae
Chairman, President and CEO

Cindy Benning
Vice-President, Operations, Corporate Quality and Regulatory Affairs

Monique Champagne
Vice-President, Clinical Research

Rick Culbert
President, Bioniche Food Safety

Mohamed Elrafih
Vice-President, Manufacturing Operations

Brian Ford, BA, CA
Vice-President, Finance and Chief Financial Officer

Andrew Grant
President, Bioniche Animal Health (Global)

Cameron Groome
Executive Vice-President, Corporate & Strategic Development

Bruce McLeod
Vice-President, Human Resources

Jim Phillips
Senior Vice-President, Industry Relations (Bioniche Animal Health)

Mairi Phillips
Director, Legal Services & Corporate Secretary

Nigel C. Phillips, Ph.D.
Senior Vice-President, Scientific Affairs and Chief Scientific Officer

Dragan Rogan, Ph.D.
Vice-President, Research & Development Animal Health

Jennifer Shea
Vice-President, Communications, Investor & Government Relations

Gary Weber, Ph.D.
President, Bioniche Food Safety (U.S.)

STOCK LISTING:

Toronto Stock Exchange
Symbol: BNC

LEGAL COUNSEL:

Ogilvy, Renault
Toronto, Ontario, Canada

AUDITORS:

Ernst & Young, LLP
Montréal, Québec, Canada

TRANSFER AGENT:

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
Tel: (416) 643-5500
Toll-free: (800) 387-0825
Fax: (416) 643-5501

SHAREHOLDER INQUIRIES:

Inquiries related to stock transfer or lost certificates and notices of address change should be directed to the Transfer Agent noted above. General information regarding the Company, recent news releases, and SEDAR filings are available via the Company's internet website at www.Bioniche.com, through the Corporate Communications, Investor and Government Relations office at (613) 966-8058, or by e-mail at info@Bioniche.com.

GENERAL & INVESTOR INQUIRIES:

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