



*Acting on innovation*

# Quarterly Report

FIRST QUARTER



# Management's Discussion and Analysis

For the quarter ended  
September 30, 2010

The following discussion and analysis is the responsibility of management and should be read in conjunction with the Company's 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](http://www.SEDAR.com)). This review was prepared by management from information available as at November 9, 2010.

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.

This management's discussion and analysis is current as of November 9, 2010. 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 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 214 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 novel 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*<sup>™</sup> 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., Melbourne, Victoria, 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”]<sup>1</sup> 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*<sup>™</sup>, 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.

The vaccine is now available in very limited quantities and its first sales were recorded during Fiscal 2008 under a *Permit to Release Veterinary Biologics* granted by the Canadian Food Inspection Agency [“CFIA”] in December, 2006.

On October 27, 2008, the Company announced that *Econiche*<sup>™</sup>, 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.

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<sup>1</sup>. Please refer to “Non-GAAP and Other Measures” section

## 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, Canada. 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 31 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, scope of development and building shareholder value. Manufacturing and product sales have been a key component 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*<sup>TM</sup>. Whenever possible, the Company will manufacture the products it develops for a far superior margin than would be available through conventional licensing agreements with external manufacturers and distributors. Currently, two major products developed internally (*Urocidin*<sup>TM</sup> and *Econiche*<sup>TM</sup>) are in their final stages of development and are advancing through the appropriate regulatory pathways, and the Company has plans to 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.

## CORPORATE GOALS AND OBJECTIVES

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

1. Taking existing proprietary technologies and continue, 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.

<b>Fiscal 2011 Objectives</b>	<b>Status</b>
<ul style="list-style-type: none"><li>• Commence additional MCC development activities to identify and evaluate new human health indications, animal health applications and market opportunities for MCC.</li></ul>	<ul style="list-style-type: none"><li>• Over the course of the period ended September 30, 2010, the Company has embarked on a program to evaluate new indications. Much of the pre-clinical development work related to <i>Urocidin</i><sup>TM</sup> can be recycled to support further development in other types of cancers and diseases responsive to immunotherapeutic treatments.</li></ul>

Fiscal 2011 Objectives	Status
<ul style="list-style-type: none"> <li>• Progress <i>Urocidin</i><sup>TM</sup> development activities to achieve milestone revenue incentives as outlined in the agreement with Endo.</li> </ul>	<ul style="list-style-type: none"> <li>• Milestone incentives under the agreement total up to US\$110M. These are linked to the achievement of future clinical, regulatory, and commercial milestones. The Company achieved the first three milestones amounting to US\$14.0M during Fiscal 2010, and expects to meet the criteria for the fourth milestone during Fiscal 2011.</li> </ul>
<ul style="list-style-type: none"> <li>• Develop a comprehensive plan for the construction of a new manufacturing facility in support of future <i>Urocidin</i><sup>TM</sup> and MCC production.</li> </ul>	<ul style="list-style-type: none"> <li>• 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, and other third party investment if necessary. Accordingly, the Company has started to prepare a construction and financing plan that will enable this facility to be complete in time to meet market demand.</li> </ul>
<ul style="list-style-type: none"> <li>• Progress to a U.S. conditional license for the <i>Econiche</i><sup>TM</sup> cattle vaccine.</li> </ul>	<ul style="list-style-type: none"> <li>• In February, 2008, the vaccine was granted eligibility for a conditional license in the U.S. In order to be granted this license, several steps had to be undertaken, including the production of three consecutive commercial batches of vaccine that are filled in an approved U.S. manufacturing facility and are proven to meet required specifications.</li> <li>• In addition, in order to obtain the conditional license in the U.S., the Company was required to file a clinical trial plan to be completed over the next few years.</li> <li>• The Company expects that a conditional license may be granted in early 2011.</li> </ul>
<ul style="list-style-type: none"> <li>• Develop a capital plan to support ongoing development and commercialization related activities.</li> </ul>	<ul style="list-style-type: none"> <li>• The Company's cash flow may need additional infusion at some time in the future in order to support its development and commercialization plans. The Company is always considering ways to improve its capital structure and cash funding.</li> </ul>
<ul style="list-style-type: none"> <li>• Develop new banking relationships and establish credit facilities responsive to future credit requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<ul style="list-style-type: none"> <li>• Develop, build and enhance the product line for the Animal Health business unit.</li> </ul>	<ul style="list-style-type: none"> <li>• 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, some of the Company's products require updates to remain competitive. In addition, the Company is making investments to realize new market opportunities for both existing and new products.</li> </ul>

## LIQUIDITY AND GOING CONCERN

The Company has incurred significant losses and has an accumulated deficit of \$100.4M as at September 30, 2010.

The Company had a cash position at September 30, 2010 of \$6.3M, down from \$11.1M at June 30 2010. During the quarter, the Company invested \$5.0M (net of government assistance received in the quarter) in the Vaccine Manufacturing Facility which is now near completion. 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 through the remainder of Fiscal 2011.

In the past, the Company has financed its cash requirements primarily through the issuances of shares, product sales, investment tax credits, the sale of businesses or business units, royalties, government incentives, long-term debt issuances, and a revolving credit facility. The Company does have a positive track record of managing its working capital to meet its business requirements.

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*<sup>TM</sup> clinical 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. Due to the uncertainty of future events, the Company has prepared its interim consolidated financial statements as at September 30, 2010 under the assumption that it will continue as a going concern as disclosed in note 1 to those financial statements.

## RESULTS OF OPERATIONS

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

<b>CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS</b>				
<i>(expressed in millions of Canadian dollars)</i>				
For the three-months ended September 30	<b>2010</b>		<b>2009</b>	
	\$	%	\$	%
<b>Revenues</b>	7.9	100%	7.1	100%
<b>Expenses</b>				
Cost of sales	3.2	40%	2.8	39%
Administration	1.9	24%	1.8	25%
Marketing and selling	1.5	19%	1.5	21%
EBITDA* before Research and Development	1.3	16%	1.1	15%
Net Research and Development	3.9	50%	6.9	97%
Interest, taxes, amortization and foreign exchange	0.7	9%	1.0	14%
<b>Net loss and comprehensive loss</b>	<b>(3.4)</b>	<b>-43%</b>	<b>(6.8)</b>	<b>-95%</b>

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

## **Consolidated Revenue**

The Company's consolidated revenues for the quarter ended September 30, 2010 reached \$7.9M as compared to \$7.1M for the same quarter in 2009, an 11% increase. The increase of \$0.8M is the result of revenues from research collaborations with Endo which did not exist in the first two quarters of fiscal 2010. Sales of Animal Health products increased by \$0.8M or 14% which offset a one time gain in the sale of an intangible in the first quarter of last year.

### **GEOGRAPHIC DISTRIBUTION OF CONSOLIDATED REVENUES BY BUSINESS UNITS**

*(expressed in millions of Canadian dollars)*

For the three months ended September 30	2010	2009	Growth
	\$	\$	%
Animal Health - Canada	1.7	1.5	15%
Animal Health - USA	3.5	2.9	21%
Animal Health - Australia	1.3	0.8	53%
Animal Health - EU	0.2	0.7	-66%
<i>Sub-total - Animal Health</i>	6.7	5.9	14%
Gain on sale of intangible assets	-	0.9	
Licensing and research collaboration	1.2	0.3	249%
Total reported revenues	7.9	7.1	11%

## **Cost of Sales**

Cost of sales relates primarily to product sales in the Animal Health business unit, and has increased 14% over the same quarter in 2009. This increase is due to increased production overheads related to increased testing of Econiche™ in order to scale to forecast demand. Gross margins remain steady at 52.7% compared to 53.1% in the first quarter of last year.

### **Results of Operations**

*(expressed in millions of Canadian dollars)*

For the three months ended September 30	2010	2009
	\$	\$
Revenues		
Product revenues	6.7	5.9
Ketamine license sale	-	0.9
Licensing & research collaborations	1.2	0.3
	7.9	7.1
Cost of Sales	3.2	2.8
Gross profit	4.7	4.4
GM on product sales	3.5	3.1
GM % on product sales	52.7%	53.1%

## **Administrative, Marketing and Selling Expenses**

Overall, administrative and selling and marketing expenditures are similar for the quarters ended September 30, 2010 and 2009 where they reached, on a combined basis, \$3.4M, as compared to \$3.3M in the first quarter of 2009. The Company plans to invest additional selling marketing expense during Fiscal 2011 in order to evaluate, broaden and develop new and existing markets for its Animal Health business.

## **Research and Development**

Research and development expenditures increased in the quarter ended September 30, 2010 by \$1.1M over the same quarter in 2009, to reach \$4.4M for this period.

The majority of research and development costs can be attributed to the ongoing Phase III clinical program for the Company's *Urocidin*<sup>TM</sup> bladder cancer treatment and to an increased focus on the development of Animal Health reproduction products and vaccines. Endo assumes financial responsibility for the external costs of clinical activities as they relate to *Urocidin*<sup>TM</sup>, which is reflected in revenues as collaborative research. The Company intends to refocus its development activities for MCC on other indications.

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### **GROSS RESEARCH & DEVELOPMENT**

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*(expressed in millions of Canadian dollars)*

For the three months ended September 30	2010		2009	
	\$	%	\$	%
<b>Key Areas</b>				
Animal Health	0.8	18%	0.7	20%
Food Safety	0.4	9%	0.3	9%
Human Health	3.2	73%	2.4	71%
<b>Research and Development, Gross</b>	<b>4.4</b>	<b>100%</b>	<b>3.4</b>	<b>100%</b>

## **Consolidated Net Loss and Comprehensive Loss**

For the quarter ended September 30, 2010, the basic and fully-diluted loss per share totalled (\$0.05), compared to a loss per share of (\$0.09) for the corresponding period in 2009 as a result of improved performance. The weighted-average number of common shares outstanding at September 30, 2010 were 73,036,406, as compared to 71,874,883 for the corresponding period in Fiscal 2010.

## **EBITDA (before net Research and Development expenses)\***

EBITDA before research and development has remained fairly comparable for the quarters ended September 30, 2010 and 2009.

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### **Calculation of EBITDA before net research and development expenses**

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*(expressed in millions of Canadian dollars)*

For the three months ended September 30	2010	2009
	\$	\$
Income before research and development	0.6	0.2
Add:		
Amortization	0.4	0.6
Financial expenses	0.2	0.2
Foreign exchange	0.1	0.1
<b>EBITDA before net research and development expenses</b>	<b>1.3</b>	<b>1.1</b>

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

## **Last Eight (8) Quarters Consolidated Results**

### **LAST EIGHT (8) QUARTERS CONSOLIDATED RESULTS AT A GLANCE**

*(expressed in millions of Canadian dollars)*

	2011	2010				2009		
	\$	\$	\$	\$	\$	\$	\$	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	7.9	9.4	15.6	13.8	7.1	9.2	7.4	8.6
Income before net research & development expenses	0.6	1.7	8.4	6.6	0.2	0.7	0.0	0.5
Net Income (loss)	(3.5)	(1.8)	4.4	2.7	(6.8)	(1.8)	(3.0)	(2.4)
Basic and fully diluted net income (loss) per share	(0.05)	(0.03)	0.06	0.04	(0.09)	(0.03)	(0.04)	(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, and 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 described above.

## **CONSOLIDATED BALANCE SHEET HIGHLIGHTS**

### **Assets**

The Company's current assets at September 30, 2010 totalled \$22.4M, as compared to \$27.4M reported at June 30, 2010. The decreased level of assets results primarily from continued investments of working capital into the completion of the vaccine manufacturing centre.

Long-term assets at September 30, 2010 were \$28.2M, as compared to \$24.7M reported at June 30, 2010. This increase of \$3.5M is primarily due the investments made in constructing the Animal Health & Food Safety Vaccine Manufacturing Centre in Belleville, Ontario, Canada.

### **Liabilities and Shareholders' Equity**

At September 30, 2010, the Company's net working capital<sup>1</sup> totalled \$11.2M, 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 September 30, 2010 totalled \$5.2M, as compared to \$8.5M at June 30, 2010.

Long-term liabilities at September 30, 2010 totalled \$13.7M, excluding non-refundable deferred licensing revenue of \$19.0M, which compares to \$11.9M reported at June 30, 2010. The increase reflects the long-term portion of the required repayment of government assistance related to the financing of the Animal Health & Food Safety Vaccine Manufacturing Centre in Belleville, Ontario, Canada.

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 \$19.0M. 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.

<sup>1</sup> Please refer to "Non-GAAP and Other Measures" section

## **Cash Flow Statement Highlights**

The Company's cash flows used in operations for the quarter ended September 30, 2010 was \$3.6M, as compared to cash flows provided from operations of \$13.8M in the same period in 2009. This decrease is primarily related to the up-front payment of \$22.3M under the License, Development and Supply Agreement with Endo in 2009, offset by other changes in non-cash working capital balances in 2009.

The Company's investing activities used cash of \$5.1M during the quarter ended September 30, 2010, primarily on construction costs of \$6.2M for the Vaccine Manufacturing Centre in Belleville, Ontario, Canada offset by government assistance received during the quarter.

## **SEGMENTED PERFORMANCE**

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

### **Human Health Segment**

During the quarter ended September, 2010, important efforts were made by the Company to identify and evaluate new indications for the MCC technology, and the Company continues to support further clinical trials and development of *Urocidin*<sup>TM</sup> in partnership with Endo over the next several years. Endo has effectively assumed responsibility for all external clinical development costs for *Urocidin*<sup>TM</sup> going forward.

For the quarter ended September 30, 2010, licensing revenue of \$0.4M [\$0.4M in the same period of 2009] was recognized, reflecting the amortization of the up-front payment by Endo upon signing of the *Urocidin*<sup>TM</sup> Agreement. The total received, \$22.3M, will be recognized over 15 years.

Net research and development expenses for the quarter ended September 30, 2010 totalled \$2.8M, compared to \$2.1M reported in the same quarter last year excluding repayable government assistance. The overall increase of \$0.7M is primarily attributed to the identification and evaluation of new indications for further development of MCC in addition to the ongoing Phase III *Urocidin*<sup>TM</sup> clinical development programs.

### **Animal Health Segment**

Animal Health product sales were \$6.7M for the quarter ended September 30, 2010, as compared to \$5.9M for the same period last year. This 14% increase is the result of improvements and partial recovery of recessionary effects over last year.

Net research and development expenses for the quarter ended September 30, 2010 totalled \$0.8M, as compared to \$0.7M in the same period last year.

### **Food Safety Segment**

The Company continues its marketing efforts and is receiving strong indications of support, particularly in the Canadian provinces of Ontario and Québec. The Company is continuing with its plans to build a vaccine manufacturing facility to accommodate large-scale manufacturing production of *Econiche*<sup>TM</sup> and other food safety and animal health vaccines. The facility is expected to be completed by the end of March, 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 September 30, 2010, \$6.6M has been advanced under this program. The Department of Agriculture and Agri-Food (Canada)'s Agri-Opportunities Program is also contributing \$5.0M in the form of a loan based on a percentage of eligible expenditures incurred. At September 30, 2010, \$2.2M has been advanced under this program. The Industrial Technologies Office (ITO) of Industry Canada is providing funding of \$5.0M in the form of a repayable loan. A further \$5.0M has been secured in the form of a loan from the Business Development Bank of Canada, however, remaining loan disbursements of \$3.3M will be made only as the Company makes certain qualifying expenditures.

## LIQUIDITY AND CAPITAL RESOURCES

### **Financial Position and Cash Flow**

At September 30, 2010, the Company had approximately \$6.3M in cash and cash equivalents, balances primarily provided from operations for the year for the year ended June 30, 2010, including the up-front payment of US\$20M and milestone payments of US\$14M from Endo. In the past, the Company has financed its expenditures primarily through public and private placements of common shares, the issuance of debt instruments, and the receipt of government incentives earned on eligible scientific expenditures. The operations of the Company's commercial division (Animal Health) have been financed through this division's own internally generated cash flows, through the use of commercial banking facilities, and through capital leases with equipment vendors. The Company will continue to use these sources of financing as provided by operations or as new credit lines and long-term debt facilities become available. Funding from operations includes anticipated milestone revenues over the next several months, which will be used to finance ongoing internal development commitments related to the Phase III clinical program in bladder cancer and other human health indications. As the milestones and debt facilities are dependent on a number of factors outside of management's control, such as, the outcome of future events and changing market conditions, there is uncertainty concerning the Company's ability to continue as a going concern. Please refer to note 1 of the Company's Consolidated Financial Statements for the year ended June 30, 2010.

### **Treasury Operations and Restricted Cash**

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 September 30, 2010, approximately \$3.8M 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 had 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.

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*<sup>TM</sup>.

The Company paid a director \$12,000 [2009 – \$16,000] in consulting fees and purchased inventory items from a company owned by a director in the amount of \$14,000 [2009 – nil]. The Company received payment for services provided to a company owned by a director of \$24,000 [2009 – nil].

### **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 November 9, 2010 of 80.2M. This includes the conversion of 9.0M Preferred Shares Series II into 6.5M common shares on October 4, 2010. In addition, the Company has 0.6M outstanding Warrants and 5.3M outstanding Options, exchangeable for one Common Share upon exercise. On a fully diluted basis, the equivalent number of Common Shares outstanding would be 86.1M.

## **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 the following 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.

### **Allowance for Doubtful Accounts**

The Company maintains an allowance for doubtful accounts related to its accounts receivable. Accounts receivable are reviewed on a regular basis to determine if any receivables have a high risk of being uncollectible, and these are included in the allowance. Based on the information available, the Company believes the allowance for doubtful accounts is appropriate. However, actual write-offs might exceed the recorded allowance.

### **Provision for Inventory Obsolescence**

Provisions for inventory are charged against income when it is determined that specific inventory items do not meet the defined quality and regulatory requirements for sale. The Company does not take general provisions for inventory obsolescence. The Company regularly reviews its inventories for obsolescence and valuation issues. Should selling prices and demand for inventory decline, additional provisions for obsolescence and valuation may be necessary. Provisions for inventory obsolescence require the Company to make a number of estimates. Inventory is reviewed on a product-by-product basis, and any valuation allowances are written off to cost of sales.

Inventories are valued at the lower of cost and net realizable value, with cost being determined on a weighted average basis. Cost is comprised of direct materials, direct labour and an overhead allocation.

### **Revenue Recognition**

Product revenue is recognized when the product is shipped to the Company's customers, provided the Company has not retained any significant risks of ownership or future obligations with respect to the product shipped, prices are fixed or determinable, and collection is reasonably assured.

Interest income is accrued as it is earned.

Revenue arrangements from research and development collaborations, and licensing arrangements with multiple elements are reviewed in order to determine whether the multiple elements can be divided into separate units of accounting, if certain criteria are met. If separable, the consideration received is allocated among the separate units of accounting based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. Otherwise, the applicable revenue recognition criteria are applied to combined elements as a single unit of accounting.

**Licensing revenue** – For up-front non-refundable licensing payments received by the Company, revenue is deferred and recognized on a straight-line basis during the term over which the Company maintains substantive contractual obligations. For any portion of an up-front licensing payment that is subject to a refund, the revenue is deferred. Once the refund condition lapses, revenue is recognized on a straight-line basis during the term over which the Company maintains substantive contractual obligations. Milestone payments are immediately recognized as licensing revenue when the underlying condition is met; the milestone is not a condition to future deliverables; and collectability is reasonably assured. Amounts received in advance of recognition are included in deferred revenue.

**Research collaborations** – The Company recognizes revenue from research agreements as the contracted services are performed in accordance with the terms of the specific agreements.

The up-front payment under the Agreement is accounted for under deferred revenue over 15 years, which is the term over which the Company maintains substantive contractual obligations.

### **Refundable Investment Tax Credits**

The Company incurs research and development expenditures which are eligible for refundable provincial investment tax credits. The investment tax credits recorded are based on estimates of amounts expected to be recovered and are subject to audit by the taxation authorities. Accordingly, these amounts may vary. The amount of refundable investment tax credits receivable as at September 30, 2010 was \$0.1M (2009 – \$0.1M).

### **Valuation Allowance on Future Tax Assets**

The Company recorded a valuation allowance on future tax assets related primarily to operating losses, as well as research and research expense carry-forwards. The related tax benefits are not likely to be realized based upon the Company's historic results and estimated future taxable income and tax planning strategies in the related jurisdictions. However, the implementation of future tax planning strategies or the generation of future taxable income in these jurisdictions could result in the recognition of a portion or all of these carry-forwards, which could result in a material increase in the Company's results of operations through the recovery of future income taxes.

### **Stock-Based Compensation**

The Company has a stock-based compensation plan for executives, employees and consultants and has applied the fair value method of accounting. The fair value of Stock Options granted is determined at the measurement date using the Black-Scholes Option pricing model, and expensed over the vesting period of the Options, with a corresponding increase to additional paid-in capital. Assumptions that affect the application of the fair value method include the determination of the volatility of the Company's share price and the expected life of the Options issued.

### **Assessment of Impairment of Goodwill and Long-lived Assets**

The assessment of the impairment of goodwill and long-lived assets requires the use of careful judgment and significant estimates including those related to unit sales, gross margins, cost of sales, market size and penetration, sales and marketing costs, etc., and their expected timing. Goodwill is tested annually, and long-lived assets are tested when indicators of impairment are present. During the quarters ended September 30, 2010 and 2009, the Company did not record any long-lived asset or goodwill impairment losses.

## CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

In May, 2009, the CICA amended Section 3862, *Financial Instruments – Disclosure*, to improve disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosure. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements for financial assets and financial liabilities that are carried at fair value. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets

for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The amendments to Section 3862 are effective for the Company's consolidated financial statements as at June 30, 2010. The new disclosures are included in note 15 of the Fiscal 2010 Annual Consolidated Financial Statements.

The CICA issued Handbook Sections 1582, *Business Combinations*, which replaces Section 1581, *Business Combinations*; 1601, *Consolidations*; 1602, *Non-controlling Interests*; and 1625, *Comprehensive Revaluation of Assets and Liabilities*. These standards are effective for the Company's interim and annual consolidated financial statements beginning on July 1, 2011, with earlier application permitted.

## 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 and 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 the Company's 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 IFRS. This study and resulting report identify the principal differences in the Company's records between existing Canadian GAAP and IFRS standards and evaluate their impact on business processes and information systems. They also assess the complexity of preparations and implementation, and identify resource requirements in support of the conversion.

While the Company expects a reasonable 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 IFRS 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 writedown is required which is 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 on 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.

7. *Leases* - The International Accounting Standards Board and Financial Accounting Standards Board in the United States have commenced a joint project on lease accounting that is expected to result in a fundamental change in accounting for leases by both lessors and lessees. The two Boards are considering the right-of-use model, in which: (a) The lessee recognizes as an asset its right to use the leased item and as a liability its obligation to pay for that item; and (b) The lessor recognizes as an asset its right to receive payments from the lessee and its residual interest in the leased item at the end of the lease term. The adoption of the right-of-use model would result in significant differences in the accounting for leases. The right-of-use model is based on the premise that, once the physical item has been delivered, the lessee has an unconditional right to use that item during the lease term. Consideration of the right-of-use model would effectively bring all leases, including leases currently accounted for as operating leases, on the balance sheet. A liability for obligation to make payments over the lease term would represent a financial liability. The proposed model remains under discussion, with timing of a final standard uncertain.

### **Activity plan for IFRS conversion**

<b>Key Activities</b>	<b>Key Milestones</b>	<b>Current Status</b>
<b>Accounting policies and financial statement preparation</b>		
<ul style="list-style-type: none"> <li>• Identify differences between Canadian GAAP and IFRS.</li> <li>• Evaluate and select one time and ongoing IFRS policies.</li> <li>• Benchmark findings with peer companies.</li> <li>• Develop financial statement format including notes to the financial statements.</li> <li>• Quantify the effects of conversion to IFRS.</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment and quantification of the effects of conversion to be completed in the second quarter of Fiscal 2011.</li> <li>• Draft financial statements and format for notes to the financial statements to be completed in the second quarter of Fiscal 2011.</li> <li>• Final selection of IFRS accounting policies to be complete in the third quarter of Fiscal 2011.</li> </ul>	<ul style="list-style-type: none"> <li>• Completed a diagnostic study that identified the key areas of difference between current practice and IFRS.</li> <li>• In-depth analysis of issues and accounting policy choices are currently underway.</li> <li>• Acquired research tools to assist in benchmarking industry and peer practices with respect to IFRS.</li> <li>• Third party experts are providing input and assistance related to implementation.</li> </ul>
<b>Accounting systems</b>		
<ul style="list-style-type: none"> <li>• Identify and address changes to accounting systems required to comply with IFRS, including development of comparative information.</li> <li>• Implement required changes.</li> </ul>	<ul style="list-style-type: none"> <li>• Select and implement tools and solutions in support of IFRS in the third quarter of Fiscal 2011.</li> <li>• Complete testing and remediation of changes to system in the fourth quarter of Fiscal 2011.</li> </ul>	<ul style="list-style-type: none"> <li>• The Company is currently upgrading its accounting system to a version that can be supported for IFRS considerations.</li> <li>• 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&amp;As.</li> </ul>

Key Activities	Key Milestones	Current Status
<b>Control environment</b>		
<ul style="list-style-type: none"> <li>• Confirm that business processes and controls are IFRS compliant.</li> <li>• Identify and implement changes required to support Disclosure Controls and Procedures (“DCP”).</li> <li>• Identify and implement changes required to support Internal Controls over Financial Reporting (“ICFR”).</li> </ul>	<ul style="list-style-type: none"> <li>• Any changes required to be implemented in the fourth quarter of Fiscal 2011.</li> <li>• Update internal senior management certification processes for the fourth quarter of Fiscal 2011.</li> <li>• Update the CFO and CEO certification processes for the fourth quarter of Fiscal 2011.</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluation of current practices with respect to IFRS is underway, and being integrated to our current processes over the evaluation and testing of DCP and ICFR.</li> </ul>
<b>Training</b>		
<ul style="list-style-type: none"> <li>• Define and introduce an appropriate level of expertise for each of the following: <ul style="list-style-type: none"> <li>○ Financial reporting and accounting staff</li> <li>○ Senior management</li> <li>○ Audit committee</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Complete training in the third quarter of Fiscal 2011.</li> </ul>	<ul style="list-style-type: none"> <li>• Training has been provided to the Audit Committee and Senior Management of the accounting group.</li> <li>• Progress of additional training efforts will be reported in future MD&amp;As.</li> </ul>
<b>Other business activities</b>		
<ul style="list-style-type: none"> <li>• Identify IFRS impact on external contractual arrangements, financial covenants, and employee compensation plans.</li> <li>• Integrate IFRS related communication in support of investor relations, MD&amp;A, and other external communications.</li> </ul>	<ul style="list-style-type: none"> <li>• Report progress of IFRS conversion in MD&amp;A on a quarterly basis.</li> <li>• Complete review of material contracts and evaluate IFRS impact on accounting in the second quarter of Fiscal 2011.</li> <li>• Support for investor relations with respect to IFRS-related queries and communications to be in place by the end the first quarter of Fiscal 2011.</li> </ul>	<ul style="list-style-type: none"> <li>• IFRS conversion progress reporting has now been integrated with the process for building and completing the MD&amp;A.</li> <li>• Contract review is underway – currently, we have identified some contracts of interest in terms of revenue recognition differences, and will report further progress and the impact of such differences in future MD&amp;As.</li> </ul>

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 2010, 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”, 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 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 September 30, 2010.

The Company plans to continue to review and make the necessary changes to its ICFR policies and procedures, including policy development and implementation, the hiring of additional resources in the accounting and finance department and implementation of upgrades to the accounting systems. 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 has developed an approach to address areas needing improvement, and will embark on a process improvement project over the course of the second quarter. To this end, the Company has recruited an expert in control processes to lead this effort, and expects to implement and test improvements by the end of the fourth quarter of Fiscal 2011. 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 our 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 sustainability, 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**

The Company has a system in place where employees, shareholders, or other stakeholders may report any potential ethical concerns that are reported or surfaced to an independent member of the Board. These concerns can be submitted confidentially, either directly to the Board member, via the Audit Committee or to the CEO, who engages Finance, Legal and/or Human Resources in determining the appropriate course of action under the circumstances. These concerns and any actions taken are discussed with the Board.

## ***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 would likely suffer.

If any of the following risks occur, the Company's business, results of operations or financial position 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 the external partnership, 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 require 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 or 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 goals.
- 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, or be able to obtain, adequate insurance coverage.
- Some of the Company's products may use hazardous materials and, as a result, it 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](http://www.sedar.com).

**Brian D. Ford, CA,**  
**Chief Financial Officer**  
November 9, 2010

**Bioniche Life Sciences Inc.**  
Amalgamated under the laws of Ontario

**INTERIM CONSOLIDATED BALANCE SHEETS**

*[Unaudited – see going concern uncertainty - note 1]*

	As at September 30, 2010	As at June 30, 2010
<i>(thousands of Canadian dollars)</i>	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	6,345	11,070
Accounts receivable	7,497	8,601
Income taxes receivable	57	63
Future income tax assets	77	197
Inventories <i>[note 2]</i>	7,671	6,668
Prepaid expenses and deposits	706	793
	<b>22,353</b>	<b>27,392</b>
<b>Long-term</b>		
Property, plant and equipment	20,135	16,584
Intangible assets	6,475	6,500
Goodwill	456	456
Long-term accounts receivable	1,092	1,156
Future income tax assets	34	51
	<b>50,545</b>	<b>52,139</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	8,808	9,716
Current portion of long-term debt and obligations under capital leases	440	256
Current portion of repayable government assistance <i>[note 3]</i>	1,870	960
Current portion of non-refundable deferred licensing revenue	1,486	1,486
	<b>12,604</b>	<b>12,418</b>
<b>Long-term</b>		
Long-term debt	1,297	1,341
Obligations under capital leases	1,190	1,184
Repayable government assistance <i>[note 3]</i>	8,827	6,965
Deferred government incentives	2,434	2,382
Non-refundable deferred licensing revenue	18,981	19,353
	<b>45,333</b>	<b>43,643</b>
<b>Shareholders' equity</b>		
Share capital <i>[note 4]</i>	96,880	96,677
Other paid-in capital <i>[note 4]</i>	8,723	8,700
Deficit	(100,391)	(96,881)
	<b>5,212</b>	<b>8,496</b>
	<b>50,545</b>	<b>52,139</b>

*See accompanying notes*

**Bioniche Life Sciences Inc.**

**INTERIM CONSOLIDATED STATEMENTS OF LOSS,  
COMPREHENSIVE LOSS, AND DEFICIT**

*[Unaudited – see going concern uncertainty - note 1]*

For the three months ended September 30

<i>(thousands of Canadian dollars, except share and per share amounts)</i>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUES</b>		
Sales	<b>6,692</b>	5,906
Research collaborations	<b>790</b>	—
Licensing	<b>372</b>	333
Gain on sale of intangible assets	—	883
	<b>7,854</b>	7,122
<b>EXPENSES</b>		
Cost of sales (excluding amortization) <i>[note 2]</i>	<b>3,167</b>	2,707
Administration	<b>1,900</b>	1,785
Marketing and selling	<b>1,517</b>	1,481
Financial expenses <i>[note 6]</i>	<b>153</b>	188
Amortization of property, plant and equipment	<b>238</b>	307
Amortization and write-down of intangible assets	<b>199</b>	241
Foreign exchange loss	<b>107</b>	121
	<b>7,281</b>	6,830
Income before research and development expenses and other items	<b>573</b>	292
Research and development expenses, gross	<b>4,441</b>	3,465
Repayable government assistance <i>[note 3]</i>	—	3,884
Less: government assistance, net	<b>(504)</b>	(403)
Loss before income taxes	<b>(3,364)</b>	(6,654)
Provision for income taxes	<b>129</b>	130
<b>Net loss and comprehensive loss for the period</b>	<b>(3,493)</b>	(6,784)
Deficit, beginning of period	<b>(96,881)</b>	(95,291)
Premium on share redemption <i>[note 4]</i>	<b>(17)</b>	—
<b>Deficit, end of period</b>	<b>(100,391)</b>	(102,075)
<b>Basic and diluted net loss per share</b>	<b>(0.05)</b>	(0.09)
<b>Weighted-average number of common shares outstanding</b>	<b>73,036,406</b>	71,874,883

*See accompanying notes*

**Bioniche Life Sciences Inc.**

**INTERIM CONSOLIDATED STATEMENTS  
OF CASH FLOWS**

*[Unaudited – see going concern uncertainty - note 1]*

For the three months ended September 30

<i>(thousands of Canadian dollars)</i>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(3,493)	(6,784)
Add (deduct) non cash items:		
Amortization	437	502
Unrealized foreign exchange loss (gain)	42	(24)
Accreted interest on discounted receivables and interest free loans	98	102
Stock-based compensation	62	60
Employee share ownership plan	194	—
Warrants issued to consultant	1	—
Government assistance obligation	—	3,884
Amortization of deferred government incentive	(289)	(177)
Licensing revenue	(372)	(333)
Future income taxes	129	—
Write-off of intangible assets	—	52
Gain on sale of intangible assets	—	(883)
Deemed government assistance	(15)	(59)
	<b>(3,206)</b>	<b>(3,660)</b>
Decrease in restricted cash	—	126
Net change in non-cash working capital balances	(353)	(4,995)
Net change in deferred licensing revenue	—	22,286
<b>Cash provided by (used in) operating activities</b>	<b>(3,559)</b>	<b>13,757</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds on settlement of long-term accounts receivable	100	—
Proceeds on sale of intangible assets	—	606
Purchase of intangible assets	(173)	—
Government incentives received on account of property, plant and equipment	1,144	—
Purchases of property, plant and equipment	(6,160)	(239)
<b>Cash provided by (used in) investing activities</b>	<b>(5,089)</b>	<b>367</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from government assistance <i>[note 3]</i>	3,726	54
Proceeds from deferred government incentives	350	—
Proceeds on exercise of stock options	127	—
Redemption of common shares <i>[note 4]</i>	(173)	—
Repayment of revolving credit facility	—	(4,416)
Payment of financing fees – debt	—	(2,117)
Repayment of capital lease obligations	(98)	(84)
Repayment of other long-term debt	(9)	(9)
<b>Cash provided by (used in) financing activities</b>	<b>3,923</b>	<b>(6,572)</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>(4,725)</b>	<b>7,552</b>
Cash and cash equivalents, beginning of period	11,070	5,950
<b>Cash and cash equivalents, end of period</b>	<b>6,345</b>	<b>13,502</b>

*See accompanying notes*

## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2010 and 2009

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

Unaudited

### **1. NATURE OF THE BUSINESS, GOING CONCERN UNCERTAINTY 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”].

#### **Going concern uncertainty**

The Company’s interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles [“GAAP”] on a going concern basis, which presumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business for the foreseeable future. The use of these principles may not be appropriate. As at September 30, 2010, there was uncertainty that the Company will be able to continue as a going concern without obtaining additional financial resources.

At September 30, 2010, the Company has incurred significant losses and had an accumulated deficit of \$100,391. The Company’s committed cash obligations and expected level of expenditures for the next twelve months exceed its committed sources of funds. To date, the Company has financed its cash requirements primarily through the issuance of shares, product sales, investment tax credits, the sale of businesses or business units, royalties, government assistance, 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 on accomplishing milestones along with receiving reimbursements for certain costs associated with the conduct of the *Urocidin*<sup>TM</sup> clinical programs, from its licensing partner. If the Company is unable to accomplish the milestones on a timely basis, obtain a revolving credit facility or obtain sufficient additional equity financing, all of which are outside of management’s control, the Company may be required to curtail its development activities and operations.

These interim consolidated financial statements do not give effect to any adjustments to the amounts and classifications of assets and liabilities which might be necessary should the Company not be successful in its efforts to obtain additional financing, or to receive significant funds on entering into research collaborations. Such adjustments could be material.

#### **Basis of presentation**

These interim consolidated financial statements do not contain all disclosures required by 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.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010 and 2009

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

Unaudited

### 2. INVENTORIES

	September 30, 2010	June 30, 2010
	\$	\$
Raw materials	1,382	1,714
Work in process	2,292	1,860
Finished goods	3,997	3,094
	<b>7,671</b>	<b>6,668</b>

During the three-month period ended September 30, 2010, inventories in the amount of \$3,079 [2009 - \$2,521] were recognized as cost of sales, including provisions for write-downs to net realizable value of \$30 [2009 - \$10] and reversed a previously recorded write-down of \$8 as a result of a reassessment of the potential market [2009 - \$44]. As at September 30, 2010, inventories in the amount of \$66 [2009 - \$36] are carried at their net realizable value.

### 3. GOVERNMENT INCENTIVES AND ASSISTANCE

The following table summarizes transactions for the quarter ended September 30, 2010 related to each of the government programs under which the Company has received assistance:

	ITO	MEDT	Agri-Ops	Total
		\$	\$	\$
Opening balance	4,175	3,159	591	7,925
Government assistance loans received	—	2,718	1,008	3,726
Less: interest-free discount	—	(578)	(509)	(1,087)
Accretion of interest	60	52	21	133
	4,235	5,351	1,111	10,697
Less: current portion	1,870	—	—	1,870
<b>Total long-term repayable government assistance</b>	<b>2,365</b>	<b>5,351</b>	<b>1,111</b>	<b>8,827</b>

#### Industrial Technology Office

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 are being applied against the deferred government incentive balance.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010 and 2009

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

Unaudited

### 4. SHAREHOLDERS' EQUITY

#### Common shares

On September 20, 2010, the Company issued 130,000 common shares on the exercise of employee stock options for cash consideration of \$127. This amount plus the previously expensed fair value of these options of \$41 which was removed from Other paid-in capital, was added to 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.

#### Employee share ownership plan

During the three-month period ended September 30, 2010, the Company issued 188,073 common shares [2009 – nil] under the employee share ownership plan totaling \$194 [2009 – nil].

#### Share compensation

During the three-month period ended September 30, 2009, the Company issued 278,495 common shares as directors' remuneration totalling \$103. No directors' remuneration was paid in shares during the three-month period ended September 30, 2010.

#### Stock Options

The changes in the number of options granted by the Company and their weighted-average exercise prices, for the three-month period ended September 30, 2010 and 2009 are as follows:

	2010		2009	
	#	\$	#	\$
<b>Balance, beginning of period</b>	<b>5,470,146</b>	<b>1.00</b>	4,118,501	2.04
Granted	2,000	0.92	2,000	0.37
Exercised	(130,000)	0.98	—	—
Expired/modified	—	—	(1,154,500)	3.50
<b>Balance, end of period</b>	<b>5,342,146</b>	<b>1.00</b>	2,966,001	1.49
<b>Exercisable</b>	<b>1,413,001</b>	<b>1.12</b>	1,250,001	1.15

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.

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 months ended September 30, 2010 was \$62 [2009 –\$60].

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010 and 2009

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

Unaudited

### 4. SHAREHOLDERS' EQUITY [CONT'D]

The fair value of options granted during the three months ended September 30, 2010 and 2009 was estimated using the Black Scholes option pricing model, resulting in the following weighted-average assumptions:

	2010	2009
Risk-free interest rate	5.50%	5.50%
Expected volatility	67.4%	77.8%
Expected option life	3.0 years	3.0 years
Dividend yield	0%	0%
<b>Weighted-average fair value of options granted</b>	<b>\$0.41</b>	<b>\$0.21</b>

### 5. 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.

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

	Human Health \$	Animal Health \$	2010 Food Safety \$	Corporate \$	Total \$
Sales	—	6,692	—	—	6,692
Research collaborations	790	—	—	—	790
Licensing	372	—	—	—	372
	<b>1,162</b>	<b>6,692</b>	<b>—</b>	<b>—</b>	<b>7,854</b>
Expenses	—	4,820	438	1,326	6,584
<b>EBITDA before research and development</b>	<b>1,162</b>	<b>1,872</b>	<b>(438)</b>	<b>(1,326)</b>	<b>1,270</b>
Research & development expenses, gross	3,219	782	440	—	4,441
Less: government incentives, net	(449)	—	(55)	—	(504)
<b>Net research and development expenses</b>	<b>2,770</b>	<b>782</b>	<b>385</b>	<b>—</b>	<b>3,937</b>
Financial expenses	—	12	—	141	153
Amortization and write-down of property, plant and equipment and intangible assets	212	146	18	61	437
Foreign exchange loss	—	—	—	107	107
<b>Segment income (loss) before income taxes</b>	<b>(1,820)</b>	<b>932</b>	<b>(841)</b>	<b>(1,635)</b>	<b>(3,364)</b>

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

September 30, 2010 and 2009

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

Unaudited

**5. SEGMENTED FINANCIAL INFORMATION [CONT'D]**

	2009				
	Human Health	Animal Health	Food Safety	Corporate	Total
	\$	\$	\$	\$	\$
Sales	—	5,906	—	—	5,906
Gain on sale of intangible assets	—	883	—	—	883
Licensing	333	—	—	—	333
	<b>333</b>	<b>6,789</b>	<b>—</b>	<b>—</b>	<b>7,122</b>
Expenses	—	4,189	468	1,316	5,973
<b>EBITDA before research and development</b>	<b>333</b>	<b>2,600</b>	<b>(468)</b>	<b>(1,316)</b>	<b>1,149</b>
Research & development expenses, gross	2,442	629	394	—	3,465
Repayable government assistance	3,884	—	—	—	3,884
Less: government incentives, net	(340)	—	(63)	—	(403)
<b>Net research and development expenses</b>	<b>5,986</b>	<b>629</b>	<b>331</b>	<b>—</b>	<b>6,946</b>
Financial expenses	—	11	—	177	188
Amortization and write-down of property, plant and equipment and intangible assets	280	163	10	95	548
Foreign exchange loss	—	—	—	121	121
<b>Segment income (loss) before income taxes</b>	<b>(5,933)</b>	<b>1,797</b>	<b>(809)</b>	<b>(1,709)</b>	<b>(6,654)</b>

**6. FINANCIAL EXPENSES**

	2010	2009
	\$	\$
Interest on long-term debt	73	74
Other interest expense	1	19
Interest income	(19)	(13)
Accreted interest income on discounted receivables	(35)	(20)
Accreted interest expense on interest-free loans	133	122
Amortization of financial expenses	—	6
	<b>153</b>	<b>188</b>

## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2010 and 2009

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

Unaudited

### **7. RELATED PARTY TRANSACTIONS**

During the quarter ended September 30, 2010, the Company made lease payments of \$17 per month to a company controlled by the CEO who is also a Director of the Company [2009 – three lease payment of \$17]. As well, the Company paid a director \$12 [2009 - \$16] in consulting fees and purchased inventory from a company owned by a director in the amount of \$14 [2009 – nil]. The Company received payment for services provided to a company owned by a director of \$24 [2009 – nil].

### **8. SUBSEQUENT EVENTS**

On October 4, 2010, the Fonds de solidarité FTQ converted the remainder of its Series 2 preferred shares amounting to 9,000,000 preferred shares into 6,521,677 common shares.

### **9. COMPARATIVE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The comparative interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 interim consolidated financial statements.

## **FISCAL 2011 FIRST QUARTER CORPORATE DATA**

### **BOARD OF DIRECTORS**

GRAEME McRAE <sup>(2) (3) (4) (5) (6)</sup>

Chairman, President and CEO  
Bioniche Life Sciences Inc.

STANLEY ALKEMADE, D.V.M. <sup>(4) (5) (6)</sup>

President, BioMedEx Inc.

ARMEN APRIKIAN, M.D., F.R.C.S. (C) (OBSERVER) <sup>(4)</sup>

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

ALBERT BERALDO <sup>(1) (2) (6)</sup>

President, Alveda Pharmaceuticals Inc.

MARGARET CUNNINGHAM, PH.D. <sup>(1) (2) (3) (6)</sup>

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. <sup>(2) (4) (6)</sup>

Principal and Founder, Johnson & Associates

NICK PHOTIADES <sup>(1) (3) (5) (6)</sup>

Management and Strategic  
Planning Consultant

LYLE VANCLIEF <sup>(1) (3) (5) (6)</sup>

Agricultural and Agri-Food Consultant

<sup>1</sup> Member of the Audit Committee

<sup>2</sup> Member of the Compensation Committee

<sup>3</sup> Member of the Corporate Governance and Nominating Committee

<sup>4</sup> Member of the Scientific Audit Committee

<sup>5</sup> Member of the Risk Management Committee

<sup>6</sup> 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

François Charette, M.D., MBA  
Senior Vice-President and Chief Medical Officer

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  
Divisional President, Bioniche Animal Health Export Sales, Europe & Australia

Cameron Groome  
Executive Vice-President, Corporate & Strategic Development

Bruce McLeod  
Vice-President, Human Resources

Jim Phillips  
President, Bioniche Animal Health (Global)

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](http://www.Bioniche.com), through the Corporate Communications, Investor and Government Relations office at (613) 966-8058, or by e-mail at [info@Bioniche.com](mailto:info@Bioniche.com).

GENERAL & INVESTOR INQUIRIES:

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K8N 5J2  
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