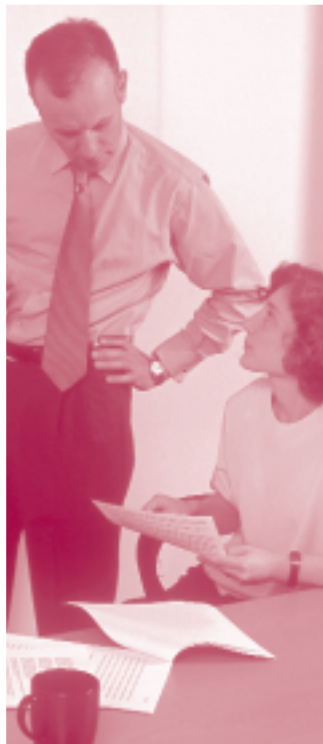


A N N U A L R E P O R T

2003



BIONICHE
LIFE SCIENCES INC.

2003 ANNUAL REPORT

Bioniche Life Sciences Inc. is a fully integrated biopharmaceutical company focused on the research, development, manufacturing and marketing of proprietary products for human and animal health markets worldwide. The Company employs 251 people and has three principal operating divisions: Human Health, which includes Bioniche Therapeutics and the Bioniche Pharma Group, Animal Health and Food Safety. Bioniche operations are located in Canada, the United States, Ireland and Australia.

2003 CORPORATE HIGHLIGHTS

➤ **American Urology Association Annual Meeting**

Phase II MCC trial to treat bladder cancer – 76% complete response rate (26 weeks)

➤ Bioniche ranked **# 72 among Canada's top 100 fastest-growing companies**

by Profit magazine

➤ **VTEC International Symposium on Verocytotoxin-Producing *E. coli* Infections**

Clinical trial using prototype vaccine to treat *E. coli* O157:H7 in feedlot cattle:

Pre-treatment *E. coli* prevalence: 31%; post-treatment *E. coli* prevalence 8.8%

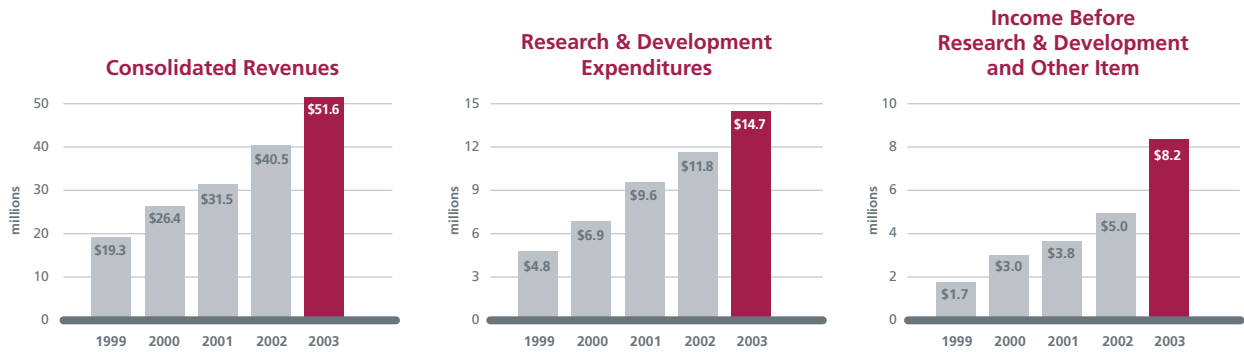
➤ Bioniche Pharma Group receives **six Abbreviated New Drug Application (ANDA) approvals**

from the U.S. Food & Drug Administration

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FINANCIAL HIGHLIGHTS



PRODUCT DEVELOPMENT PIPELINE

Human Health			RESEARCH	PRECLINICAL	PHASE I	PHASE II	PHASE III
PRODUCT	THERAPEUTIC AREA	CATEGORY					
MCC	Bladder cancer	Biologic	1	1	1	1	
MCC	Prostate cancer	Biologic	1	1	1		
MCC	Other cancers	Biologic	1	1			
Oligonucleotides							
BT 99-25	Leukemia	Drug	1	1			
Oligo	Other cancers	Drug	1	1			
Oligo	Immunomodulator	Drug	1	1			
ANDAs	Various (11)	Drug					
Food Safety							
<i>E. coli</i> O157:H7	Food safety	Vaccine	1	1	1	1	
Animal Health							
MCWE	Immunotherapeutic	Biologic	1	1	1	1	

DEAR FELLOW SHAREHOLDERS

I am very pleased to report to you on the Company's activities for fiscal 2003. This year has been a major turning point in the evolution of Bioniche Life Sciences. We exceeded our consolidated revenue forecast, reduced our cash burn rate, added new manufacturing and operational infrastructure, and increased our research and development efforts. Consolidated revenues were \$51.6 million, a 27 percent increase over the \$40.5 million reported in fiscal 2002, with a positive EBITDA of \$13.6 million before research and development.

Bioniche Life Sciences has evolved from a research-driven biotechnology company, into a fully integrated biopharmaceutical company that is committed to a significant investment in a research and development pipeline.

OUR BUSINESS STRATEGY

It is very difficult to control the development of a biological technology through the long and expensive pre-clinical and clinical development cycle. Through the building of our revenue-generating infrastructure, we have been able to assemble the skills and knowledge required to manage the development of our technologies, without exposing shareholders to the risks normally associated with this type of investment. We have been disappointed at times with delays in the advancement of our clinical program through the various phases required for regulatory approvals. However, when you analyze the remaining patent life of most medical technologies when they are introduced to the market, we realize how efficient our process has been. For example, the first patents on Urocidin™ (MCC) expire in 2018, 11 years beyond the anticipated product launch date.

Over the years, we have consistently pursued a business strategy that has allowed us to develop deep capabilities in many areas. Our policy has always been to maintain control of our product development pipeline to optimize commercial return to our stakeholders. We know we can generate premium value for our key technologies by controlling the development pipeline, and ensuring that we play a role in the final commercial process. Some of our technologies will be partnered at the final point of sale, rather than licensed to a partner early in the development cycle. The return to Bioniche Life Sciences is expected to be at least 50 percent of the selling price, rather than just milestone payments and a royalty, which is the more traditional biotechnology norm.

OUR INFRASTRUCTURE INVESTMENT

We have demonstrated our capabilities to take a drug discovery and guide its progress through the pre-clinical program, manufacturing method development, clinical trials, regulatory review, product registration, and finally to commercialization. This complicated process does present many challenges for a company of our size, and we have invested substantially in a team of excellent people and the infrastructure necessary to complete the task.

Bioniche now has sufficient revenues to support our investment in an impressive research program. We are able to complete the projects we have undertaken, and we are demonstrating that these projects will reach the marketplace faster, with a greater return to our shareholders, by maintaining control of the process.

CONVERGENCE OF HUMAN AND ANIMAL HEALTH

The strategy employed by Bioniche involves development of technologies in both human and animal health, and this has contributed greatly to our corporate growth and financial stability. Bioniche Animal Health has become the largest Canadian-owned animal health biopharmaceutical company, with subsidiaries in the United States, Australia and Europe, and a network of distributors worldwide. The Animal Health division was established to develop technologies to reduce reliance on the use of antibiotics in the livestock industry. The Bioniche Pharma Group, part of our Human Health division, has developed a portfolio of sophisticated sterile injectable products that are manufactured in our facility located in the Republic of Ireland, and sold directly or through distributors in the United States, Canada and Europe. Both the Animal Health division and the Bioniche Pharma Group generate profit streams that support the corporate growth strategy.

We frequently receive comments or questions regarding the Company's continued involvement in the animal health area. Bioniche has had a long-term commitment to development of animal health technologies, and our corporate strategy is such that these technologies also represent significant potential as future human health products, or play a role in the emerging field of food safety. The growing convergence of animal and human health is not always apparent, and we would encourage shareholders to contact either myself or any member of the management team for further background on this strategic direction.



GROWING IMPORTANCE OF FOOD SAFETY

The concept of vaccinating livestock to protect food and water resources from contamination is a new and very important market development area for Bioniche. The devastating consequences of pathogens such as *E. coli* O157:H7 entering the food chain or water supplies and causing sickness or death have shaken the cattle industry. No farmer wishes to be implicated as a source of contamination of runoff from infected farms, or supplying an unsafe food product.

Bioniche is a partner in a research alliance that also includes the University of British Columbia, the Alberta Research Council, the University of Saskatchewan's Vaccine and Infectious Disease Organization, and the Canadian Bacterial Diseases Network, with financial support from Technology Partnerships Canada. The development of an effective *E. coli* vaccine by this alliance reflects the corporate ability of Bioniche to respond quickly and effectively to market opportunities. Another example is our long term commitment to the food safety area. We are funding the establishment of a research chair in food safety with VIDO at the University of Saskatchewan. Following commercialization of the *E. coli* O157:H7 vaccine, the next challenge of the research chair is expected to be development of an ongoing pipeline of new vaccines that will hopefully aid in the prevention of a number of serious diseases caused by contaminated food and water. Bioniche is clearly a world leader in this area and the skills required to exploit a food safety technology are present in both our Human Health and Animal Health divisions.

TARGETING BLADDER CANCER

Within the Human Health segment of our research pipeline, the development program will enter its final clinical phase in the near future. The clinical research group has been recruiting the world's best urologists to participate in the pivotal bladder cancer study with Urocidin™ (MCC – Mycobacterial Cell Wall DNA Complex).

During the past year, we presented several papers confirming pre-clinically and clinically that the Urocidin™ (MCC) technology is a safe and effective treatment for aggressive forms of bladder cancer refractory to conventional first-line therapy. With complete response rates in excess of 60%, not normally seen with cancer therapies in difficult-to-treat patients, the interest of the urology community in Urocidin™ (MCC) has given our team great confidence in the potential of this technology. The knowledge we have gained from the research done by our pre-clinical team in other cancer cell lines gives us confidence that the MCC technology and Oligonucleotide platform will have a vital role to play in treating a wide range of serious cancers in humans.

CORPORATE GOVERNANCE

As you are aware, many changes have been proposed and implemented in recent years by the corporate regulators. These changes are having considerable impact on the way corporations report such things as disclosure and material events. There are significant costs associated with these positive winds of change, and I would like to acknowledge the leadership role our chairman, Hy Isenbaum, and our Board of Directors have taken in embracing the spirit of the way corporations must conduct their business for the benefit of shareholders and other stakeholders, such as our employees and the communities to which we belong.

IN CLOSING

I would like to acknowledge the support of our Board of Directors, our management team and our employees, who continue to demonstrate their enthusiasm and commitment to our corporate objectives. I would also like to recognize the important role played by our clinical investigators and the patients who readily participate in the clinical trial process, without whom the development of our technologies could not continue.

Sincerely,

A handwritten signature in black ink, appearing to read 'Graeme McRae', written in a cursive style.

Graeme McRae

President & Chief Executive Officer