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*“A Phase III Oncology Company”*

# QUARTERLY REPORT 2008



THIRD QUARTER



## Letter to Shareholders

Dear Fellow Shareholders,

It is with sadness that I acknowledge the passing of our Board Chair, Mr. Hy Isenbaum, in April. Mr. Isenbaum chaired our Board since 1999, contributing financial expertise and vigilance regarding the Company's financial statements, as well as a high level, conservative, ethical tone that permeates the whole Company in terms of regulatory affairs, product development, and overall conduct of the business. He was a mentor and friend to myself and the Company as a whole, and leaves a legacy of dedication and determination to meet and exceed our corporate objectives.

In honour of Mr. Isenbaum's extensive contributions to Bioniche, the "Hy Isenbaum Award" has been created. This will be presented annually to the Bioniche employee who best epitomizes the Bioniche spirit – whether at work or in the community.

## Fiscal 2008, Third Quarter

Bioniche continued to actively pursue its key objectives during the third quarter ending March 31, 2008. These objectives are: Obtaining a conditional license in the U.S. and a full Canadian license for our *E. coli* O157 cattle vaccine, while providing vaccine to Canadian veterinarians under the *Permit to Release Veterinary Biologics*; and successfully concluding a marketing partnership deal for our bladder cancer technology, while executing our Phase III clinical program with *Urocidin* and planning for early stage studies to support the use of our MCC technology in the treatment of other human cancers.

## Partnership Discussions re: *Urocidin*

More than 20 companies have entered into discussion with Bioniche about the opportunity of a marketing partnership related to our bladder cancer technology, and several have completed lengthy due diligence. Among these, some have presented the Company with potential deal terms, which are under active consideration.

What has become evident during this process is that bladder cancer is a misunderstood disease, in terms of its incidence and prevalence, and in terms of the absence of new, safer therapies for patients. Bacillus Calmette-Guérin (BCG) has been the primary therapy for the past 30+ years.

## About Bladder Cancer

Bladder cancer is the 4<sup>th</sup> most common cancer in men and the 9<sup>th</sup> most common in women, according to the American Cancer Society (2006). Between the U.S. and the EU 25, approximately 142,000 people are newly-diagnosed with non-muscle-invasive bladder cancer each year. The incidence is expected to increase by 11% in the seven major global pharmaceutical markets between 2004 and 2012.

The primary current standard of care for high grade non-muscle-invasive bladder cancer is BCG, a live, attenuated strain of *Mycobacterium bovis*. Treatment with BCG is known to cause serious adverse events, which can lead to discontinuation of treatment in a significant number of patients receiving the therapy. The mycobacterium in BCG is viable, and patients are at risk for systemic infection, including tuberculosis if localized in the lungs, during treatment. A small, but significant, number of patients receive local chemotherapy as first-line treatment, which can be associated with the risk of adverse reactions and in some cases myelosuppression. The demand for a safer product for the treatment of non-muscle-invasive bladder cancer with similar efficacy to the standard care but with a more acceptable adverse event profile is high.

In patients with bladder cancer that is refractory (unresponsive) to BCG, there are few treatment options. The only other approved product is *Valrubicin*, which has a response rate of between 9 and 16%. It is not currently available on the market due to manufacturing issues. Of course, surgical removal of the bladder is a commonly-used option, but is an option that results in significant quality of life implications for the patient, including stoma maintenance, catheter use, urinary incontinence, body image, and sexual side effects.

In first-line (newly-diagnosed) non-muscle-invasive bladder cancer, when patients are treated with BCG, tolerance of a full dose is limited and few patients complete a full scheduled induction and maintenance program (17% complete a 3-year maintenance program: Lamm, 2000). For those who can tolerate the treatment, approximately 65% respond after the first course of treatment. Between 20% and 30% of patients withdraw from treatment in induction phase (first 6 weeks). BCG-induced cystitis, which affects more than 45% of treated patients, is one of the main reasons that patients halt therapy. Systemic complications from BCG, although rare, can occur, are difficult to treat, and can be life threatening.

*Urocidin* is a sterile suspension of Mycobacterial Cell Wall-DNA Complex (MCC), derived from a soil-borne mycobacterium – *M. phlei* – that is non-pathogenic (non-disease causing). MCC contains DNA oligonucleotides which are associated with both immune stimulant and anticancer activity. The cell wall functions as a biological drug delivery system. Clinical studies to date with *Urocidin* show a well-tolerated product with fewer side effects than standard therapy.

The U.S. Food and Drug Administration (FDA) has granted both refractory and first-line indications with *Urocidin* as “fast-tracked”, meaning that when data from each of the Phase III clinical trials becomes available, the Company could expect an expedited review of its Biologics Licensing Application for *Urocidin*. Fast-tracked products receive a six-month review on average, as compared to up to 18 months for non-fast-tracked products. The FDA grants such designations on therapies that address unmet needs. Additionally, the FDA agreed to a Special Protocol Assessment (SPA) for the Phase III clinical trial with *Urocidin* as first-line therapy. The SPA indicates agreement by the FDA on the design of the study, including its endpoints, data analysis and conduct. It provides assurance that, if the trial endpoints are met, they will serve as the basis for product approval under a Biologics Licensing Application (BLA). A SPA gives a clear pathway to registration of *Urocidin* when the study endpoints are achieved.

## ***Urocidin* Phase III Clinical Trial Update**

### **Refractory Trial**

We continue to enroll patients in our first pivotal Phase III clinical trial with *Urocidin*. In this trial, 105 non-muscle-invasive bladder cancer patients who are refractory (unresponsive) to the current standard therapy - Bacillus Calmette-Guérin (BCG) - will receive *Urocidin* in an open label study. BCG is a live, attenuated strain of *Mycobacterium bovis* and is often associated with treatment-limiting side effects including active bacterial infections. Twenty-five urology centres in North America are participating in this trial.

Data from the 105 patients involved in the trial, coupled with additional safety information to be collected from a second trial that we plan to conduct, should allow full results for the efficacy and safety datasets to be reported one year after recruitment of refractory patients is completed. These results will also support regulatory submissions under U.S. Food and Drug Administration (FDA)’s Accelerated Approval (fast-track) program. Although this is an open label study, we are not able to assess or publicly share the data until such time as the study is completed, when the last patient has completed one year of therapy. This should occur by the end of 2009.

Under its fast-track status, these results could be reviewed by the FDA within as few as six months following submission of the data.

The Data Safety Monitoring Committee does have access to the data. This independent body has now held three meetings, confirming after each that the safety of enrolled patients is being appropriately addressed and that, from an efficacy point of view, there is an appropriate basis for continuing the trial without modification.

## **Comparative Trial**

The Company is actively planning its second pivotal Phase III trial using its proprietary *Urocidin* in direct comparison to BCG in patients who are newly-diagnosed with non-muscle-invasive bladder cancer at high risk of recurrence or progression.

We plan to begin recruitment of patients for the comparative study during calendar year 2008. The study will enrol approximately 800 patients in North America, Australia and Europe and is a double-blind, randomized study. It will compare MCC to BCG, the standard treatment for non-muscle-invasive bladder cancer.

The primary efficacy endpoint will be the duration of disease-free survival of patients at two years following initiation of treatment. In addition, safety will be evaluated based on two criteria: the percentage of patients who experience two consecutive delays of one week in treatment administration due to drug-related adverse events; and through a comparative tabulation of drug-related adverse events. The goal will be to demonstrate non-inferior efficacy and improved safety of *Urocidin* over BCG.

## **Update on *E. coli* O157 Vaccine**

The February, 2008, notice from the United States Department of Agriculture (USDA) that the latest data for our *E. coli* O157 cattle vaccine “meets the ‘expectation of efficacy’ standard” and is eligible for a conditional license has generated considerable positive feedback. The Company is working on meeting the USDA requirements to receive the conditional license, which include developing a plan to “collect sufficient data to move the product to full licensure” and making three vaccine batches with one manufacturing step completed in a U.S. facility. It should be noted that this requirement of a U.S. manufacturing step only applies under conditional license status.

Dialogue continues between the Company and the Canadian Food Inspection Agency (CFIA) regarding what is required for a full license of the vaccine in Canada. We have been permitted to sell vaccine to Canadian veterinarians under the CFIA’s *Permit to Release Veterinary Biologics* regulations since December, 2006.

The regulators on both sides of the North American border are wrestling with the large amount of research data that has been provided to them related to this vaccine. There is clearly a gap between what researchers view as scientific data and what the regulators expect to see in a regulatory format.

Our Food Safety team is actively making introductions to the veterinary community and food industry about the *E. coli* vaccine and its potential impact in helping to lessen human illness and death. Our team has been strengthened with the addition of Dr. Gary Weber in April as President of Food Safety (U.S.). Dr. Weber brings a wealth of experience to this position, having worked for the United States Department of Agriculture (USDA) as National Program Leader for Animal Science; the National Cattlemen’s Beef Association as Director of Animal Health, Inspection and Science Policy and Executive Director of Regulatory Affairs; and most recently, as a self-employed consultant assisting select clientele to deal effectively with the forces of change affecting the food and agriculture sector in the U.S.. Dr. Weber holds B.Sc. and M.Sc. degrees in Animal Science from Purdue University and a Ph.D. from Michigan State University.

## **Manufacturing Scale-up**

With regard to our scale-up of vaccine production at our Belleville facility, engineering drawings are being finalized and equipment is being identified, priced and sourced.

The scale-up, which will take us to more than 40 million dose capacity of the vaccine by the end of 2010, is expected to cost approximately \$25 million, and is part of a long-term, \$100 million+ project to create an Animal Health and Food Safety Vaccine Manufacturing Centre. Financing of \$10 million from the Ministry

of Economic Development and Trade (MEDT)'s Advanced Manufacturing Investment Strategy (AMIS), combined with \$5 million from the new Agri-Opportunities Program of the Department of Agriculture and Agri-Food (Canada) (AAFC), go a long way toward the \$25 million first phase of scale-up. We announced on February 7, 2008 that a further \$5 million has been secured in the form of a commercial loan from the Business Development Bank of Canada (BDC).

### **Analyst Coverage**

Within the past two months, three firms have launched analyst coverage of Bioniche: Crystal Research Associates, LLC; Fraser Mackenzie Limited; and Haywood Securities Inc. The reports are available from these firms directly.

### **Priorities for Q4, 2008**

Our strategic priorities continue to be centered on our two key, late-stage projects: *Urocidin* for human bladder cancer and our *E. coli* O157 cattle vaccine. We are always mindful of the need to ensure adequate financing to maintain momentum around both of these projects. We are considering the potential need to raise additional capital should a marketing partnership deal for our bladder cancer technology not materialize in the near-term. In making a decision in this regard, we will balance the cost of financing using debt instruments against equity financing that results in dilution for existing shareholders.

Bioniche has a rare and exciting opportunity as a late-stage Canadian biopharmaceutical company with two major products at or near market entry. Few other Canadian companies are at this stage. Too many technologies with promise are sold off at a very early stage in their development, diminishing the opportunity for significant returns to shareholders and to Canada.

We look forward to your continuing support as we work to achieve our objectives.



Graeme McRae

Chairman of the Board

President & CEO

# Management's Discussion and Analysis

For the Quarter Ending  
March 31, 2008

Management's discussion and analysis (MD&A) provides a review of the Company's performance. It should be read in conjunction with the Company's unaudited interim consolidated financial statements and notes included herewith, which have been prepared in accordance with Canadian Generally Accepted Accounting Principals (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, 2007 which can be found on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)). This review was prepared by management from information available as at May 8, 2008. 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 drug products thereafter. A complete discussion of risk factors is included in the Bioniche Annual Information Form (AIF) for June 30, 2007 which you can find on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)).

Where "we", "us", "our", "Bioniche" or the "Company" are utilized, these mean Bioniche Life Sciences Inc. unless otherwise indicated. All amounts are presented in Canadian dollars 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.

The Company continued to experience challenges in respect to its financial condition and liquidity during the third quarter of fiscal 2008 and anticipates a continuation of these challenges for the remainder of fiscal 2008. Further discussion on the Company's going concern uncertainty is provided in the section, "Liquidity, Financing, and Capital Resources".

## OVERVIEW

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 fully-integrated Company employs 199 people and has three operating business units: Human Health, Animal Health, and Food Safety. Corporate headquarters are located in Belleville, Ontario, Canada. The Company's human health business unit has research and production facilities in Montréal, Québec, Canada. The animal health business unit has product development, manufacturing and marketing facilities in Belleville, Ontario, Canada; marketing and production facilities in Athens, Georgia, USA; Pullman, Washington, USA; and Armidale, Australia; as well as a sales and marketing office in Ireland.

The Company has several areas of strategic focus, including the development of its proprietary technologies for human bladder cancer and other cancers; a cattle vaccine to help reduce *E. coli* O157:H7 contamination of food, water and the environment; technologies to improve livestock reproduction; and technologies that could replace the use of antibiotics in livestock. The Company's existing animal health business is global in scope.

## BUSINESS STRATEGY

The Company has a three-fold strategy. First, it takes its existing proprietary technologies and continues, through its product development program, to enhance their proven therapeutic value for human and animal use. Second, the Company works to develop these technologies to the point of commercialization, either alone or with strategic marketing partners. Third, the Company manufactures as many products emerging from the product development program as it can to increase profit margins, protect the integrity of its products, and enhance shareholder value.

The structure of the Company is such that its key research and development projects are supported by a revenue-generating business - the Animal Health Division - which has a history of generating positive earnings before interest, taxes, depreciation and amortization (EBITDA) before research and development. The Human Health Division and the Food Safety Division require cash for their operations.

## BUSINESS UNITS

The Company's operations are organized into three strategic business units:

### ***Animal Health***

The Company's animal health business is operated through the division known as Bioniche Animal Health, which is responsible for developing, manufacturing and marketing animal health biopharmaceutical products worldwide. The Company's animal health products are marketed directly to veterinarians in Canada, the United States, Australia and Europe, and through selected distributors in the rest of the world. Bioniche Animal Health operates marketing, production and research facilities in Belleville, Ontario, Canada; marketing and manufacturing units in Athens, Georgia and in Pullman, Washington in the United States; a manufacturing facility in Armidale, New South Wales, Australia; and a sales and marketing entity in Ireland with distributors in many other jurisdictions around the world.

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 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 hyaluronan; immunostimulant products; polyclonal antibodies; vaccine products; and nutraceuticals.

### ***Human Health***

Bioniche's human health business is operated through the division known as Bioniche Therapeutics and has research and production facilities in Montreal, Quebec Canada. This division develops novel and proprietary human cancer therapies. The Company's strategy is to develop its therapies through clinical proof of concept and then to establish alliances to complete clinical studies and regulatory approvals for marketing. The focus of activity is on the research and development of the Company's proprietary 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. Trademarked *Urocidin* for bladder cancer, the MCC technology is currently in Phase III clinical testing in patients with non-muscle-invasive bladder cancer that is refractory (unresponsive) to the standard therapy. A second Phase III study, comparing *Urocidin* to the standard therapy in patients with non-muscle-invasive bladder cancer as a first-line treatment, is being planned.

### ***Food Safety***

The Food Safety division of the Company was established in July, 2001. The division is responsible for researching, developing, manufacturing and marketing of veterinary biopharmaceutical products to improve the safety of food and water supplies. The lead initiative for this division is the development and

commercialization of a new cattle vaccine to prevent the colonization and shed of the deadly *E. coli* O157:H7 organism. This vaccine is designed to reduce the burden of the pathogenic bacterium *E. coli* O157:H7 in cattle and their manure, thereby reducing contamination into the environment, ground water, and in cattle processing plants. The vaccine has proven 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 being produced in limited quantities in the Company's Belleville, Ontario facility, and its first sales were recorded during the first quarter of Fiscal 2008 under a *Permit to Release Veterinary Biologics* granted by the Canadian Food Inspection Agency (CFIA) in December, 2006.

The Company is researching other products in the food and water safety field, in conjunction with researchers at the University of Saskatchewan's Vaccine & Infectious Diseases Organization (VIDO).

## MANAGEMENT OBJECTIVES

The Company's goal is to execute the Company's business strategy:

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

Fiscal 2008 Objectives	Status
<ul style="list-style-type: none"> <li>• Generate cash flow by increasing revenue and productivity, as measured by the consolidated EBITDA in the Animal Health segment.</li> </ul>	<ul style="list-style-type: none"> <li>• The Company is meeting this objective after nine months. The Animal Health EBITDA* has shown a growth of 5% on a year-to-date basis, when compared with the same period in Fiscal 2007.</li> </ul>
<ul style="list-style-type: none"> <li>• Progress to a full Canadian license for the <i>E. coli</i> O157:H7 cattle vaccine, while selling available vaccine (limited quantities) to Canadian veterinarians under the <i>Permit to Release Veterinary Biologics</i>. Continue to pursue registration in the U.S.</li> </ul>	<ul style="list-style-type: none"> <li>• During this quarter, the Company was granted eligibility for a U.S. conditional license.</li> <li>• The Company is in discussions with regulators in Canada and the U.S. about how to progress vaccine registrations.</li> </ul>
<ul style="list-style-type: none"> <li>• Begin to scale-up vaccine production at the Company's Belleville facility. This two-year project is expected to have a capacity of 40 million doses of the <i>E. coli</i> O157:H7 vaccine. The scale-up is expected to cost approximately \$25 million, the first phase of a long-term, \$107 million project to create an Animal Health and Food Safety Vaccine Manufacturing Centre.</li> </ul>	<ul style="list-style-type: none"> <li>• The Company has secured the funding for the Phase I scale-up, with a total of \$20 million announced in December, 2007 and February, 2008. The source of the remaining \$5 million has been identified and will be formally announced when finalized.</li> </ul>
<ul style="list-style-type: none"> <li>• Successfully conclude a marketing partnership transaction for the Company's bladder cancer technology.</li> </ul>	<ul style="list-style-type: none"> <li>• The Company has not yet concluded a marketing partnership transaction. Management has identified several options with regard to financing future corporate development in the event that a marketing partnership transaction is not concluded in the near term.</li> </ul>

\*\*EBITDA means "Earnings Before Interest, Taxes, Depreciation, Amortization and foreign exchange". For more information please refer to the section, "Non-GAAP & Other Measures" below.

## LIQUIDITY AND GOING CONCERN

The Company has incurred substantial operating losses since its inception due primarily to its focus on research and development of proprietary technologies. At March 31, 2008, the Company had an accumulated deficit of \$81.2 million.

During the third quarter, the Company exercised its right under its secured revolving credit agreement to repay US\$1.75 million of its secured revolving credit facility with Valens U.S. (formerly Laurus Master Funds) in common shares. The conversion was made in accordance with the formula set out in the original agreement signed in 2005. The shares were priced at the ten-day market average less 15%, which equated to 2,671,900 shares. In addition, the Company issued 200,000 five-year warrants at market price (\$0.77 per share) in exchange for Valens waiving certain restrictions relating to this conversion under the agreement.

During the quarter, the Company entered into a ten-year, \$5 million commercial loan facility with the Business Development Bank of Canada (BDC). This loan is part of the financing package associated with the vaccine production scale-up in the Belleville, Ontario facility. As at March 31, 2008, \$1.75 million has been drawn on this facility. Disbursement in excess of this \$1.75 million will only be made if the Company makes qualifying expenditures.

During the second quarter of Fiscal 2008, the Company entered into two government agreements to provide loans for a total of \$15.0 million which will fund a portion of the capital expenditure for its scale-up vaccine production at its Belleville facility. Access to these funds is conditional upon the Company finalizing certain other terms and conditions.

At the end of March 31 2008, the Company had cash and cash equivalents of \$8.8 million. Even after the above mentioned financing, the Company's committed cash obligations and expected expenditures for the next twelve months remains in excess of the funds available, including cash, cash equivalents and short-term investments. The Company's ability to continue as a going concern remains dependent upon receiving funds through product licensing agreements or collaborative research contracts, debt or equity financing and achieving future profitable operations. The outcome of these matters is dependent upon factors outside of the Company's control.

## Highlights for Q3, Fiscal 2008

During the third quarter, the Company has announced the following further developments toward its strategic goal of developing its proprietary *E. coli* O157:H7 cattle vaccine to help reduce *E. coli* O157:H7 contamination of food, water and the environment:

- On February 5, 2008, Bioniche received notice from the United States Department of Agriculture (USDA) that the latest data for its *E. coli* O157:H7 cattle vaccine "meets the 'expectation of efficacy' standard" to be granted a conditional license, providing that the Company develops a plan "that would collect sufficient data to move the product to full licensure". The conditional license, when granted, will provide the Company full access to the U.S. market with certain restrictions.
- On March 4, 2008, the Company announced that its therapy for first-line non-muscle-invasive bladder cancer meets the criteria for Fast-track designation. A Phase III clinical trial comparing a formulation of the Company's Mycobacterial Cell Wall-DNA Complex (MCC) – Urocidin<sup>TM</sup> – to the current standard therapy in patients with non-muscle-invasive bladder cancer at high risk of recurrence or progression. This clinical trial, scheduled to begin later in 2008, aims to demonstrate superior efficacy with respect to disease-free survival and fewer toxicities than the current standard therapy.

- During the quarter and in subsequent events, the Company has attracted the coverage of three equity research analysts:
  - Crystal Research Associates, LLC announced on March 26, 2008 that it has issued an Executive Informational Overview(R) (EIO(R)) on Bioniche Life Sciences Inc. The full 68-page report can be found at [www.crystalra.com](http://www.crystalra.com).
  - Fraser Mackenzie announced on April 14, 2008 that it has initiated coverage with a “Strong Buy” recommendation and a target price of \$2.00 per share. The full 57-page report can be found at [www.frasermackenzie.com](http://www.frasermackenzie.com).
  - Haywood Securities announced on April 24, 2008 that it has initiated coverage with a target price of \$1.70 per share and a “Sector Outperform” assessment. The full 73-page report can be found at [www.haywood.com](http://www.haywood.com).

## RESULTS OF OPERATIONS

### **Consolidated Revenue**

For the three-month and nine-month periods ended March 31, 2008, consolidated revenues totalled \$7.2 million and \$19.6 million respectively, compared to \$6.4 million and \$20.1 million for the corresponding periods in Fiscal 2007. The increase in sales in the current quarter reflects increased sales of animal health products in the U.S. and export markets.

### **Gross Profit**

For the three-month and nine-month periods ended March 31, 2008, gross profit totalled \$4.2 million and \$11.4 million respectively, compared to \$3.7 million and \$11.4 million for the corresponding periods in Fiscal 2007. For the three-month and nine-month periods ended March 31, 2008, gross profit as a percentage of sales totalled 57.8% and 58.2% respectively, compared to 58.2% and 57.0% for the corresponding periods in Fiscal 2007. The gross profit margins increased this fiscal year as a result of improved efficiencies.

### **Expenses**

For the three-month and nine-month periods ended March 31, 2008, expenses before research and development totalled \$4.3 million and \$13.1 million respectively, compared to \$4.4 million and \$13.2 million for the corresponding periods in Fiscal 2007. Although these expenses for the three- and nine-month periods remain consistent, expense activity in the current quarter and year-to-date reflects increased marketing costs of \$0.4 million and \$1.3 million respectively related to the education and awareness program focused on the *E. coli* O157:H7 cattle vaccine and increased administration expenses. These increased costs were offset by reductions in interest expense and amortization of deferred financing fees.

## **Research and Development**

For the three-month and nine-month periods ended March 31, 2008, overall gross research and development expenses totaled \$4.4 million and \$11.6 million respectively, compared to \$4.2 million and \$11.4 million for the corresponding periods in Fiscal 2007. The majority of these costs can be attributed to the ongoing Phase III clinical program for the Company's Urocidin™ bladder cancer treatment and the *E. coli* O157:H7 cattle vaccine development program.

### **GROSS RESEARCH & DEVELOPMENT**

*(expressed in millions of Canadian dollars)*

For the three and nine months ended March 31 <b>Key Areas</b>	2008			2007		
	Q3	YTD		Q3	YTD	
	\$	\$	%	\$	\$	%
Animal Health	0.4	1.4	12%	0.5	1.4	12%
Food Safety	0.7	1.8	16%	0.6	2.1	19%
Human Health	3.3	8.4	72%	3.1	7.9	69%
<b>Research and Development Expenses</b>	<b>4.4</b>	<b>11.6</b>	<b>100%</b>	<b>4.2</b>	<b>11.4</b>	<b>100%</b>

## **Net Loss**

For the three-month and nine-month periods ended March 31, 2008, basic and fully-diluted loss per share totalled \$0.07 and \$0.20 respectively, compared to a loss of \$0.10 and \$0.25 for the corresponding periods in Fiscal 2007. Total shares outstanding at March 31, 2008 were 65,564,779 as compared to 58,215,759 at March 31, 2007.

## **EBITDA before Research and Development Expenditures**

### **Calculation of EBITDA\***

*(expressed in millions of Canadian dollars)*

For the three and nine months ended March 31	2008		2007	
	Q3	YTD	Q3	YTD
	\$	\$	\$	\$
Income (loss) before research and development and other items*	(0.2)	(1.7)	(0.6)	(1.7)
Add (deduct):				
Amortization	0.8	1.9	0.5	2.5
Interest	0.1	0.1	0.1	0.7
Accreted interest	-	-	0.1	0.7
Foreign exchange	(0.1)	0.2	(0.0)	(0.3)
<b>EBITDA before research and development</b>	<b>0.6</b>	<b>0.5</b>	<b>0.1</b>	<b>1.9</b>

\* other items include impairment/loss on investment, gain on sale of right to future royalty stream, unrealized loss (gain) on foreign currency embedded derivative

For the three-month and nine-month periods ended March 31, 2008, EBITDA\* before research and development totalled \$0.6 million and \$0.5 million respectively, compared to \$0.1 million and \$1.9 million for the corresponding periods in Fiscal 2007. The positive results for the nine-month period in Fiscal 2007 reflected income from discontinued operations.

\*EBITDA means "Earnings Before Interest, Taxes, Depreciation, Amortization and foreign exchange". For more information please refer to the section, "Non-GAAP & Other Measures" below.

## SEGMENTED FINANCIAL PERFORMANCE FOR THE QUARTER/YEAR TO DATE

### **Human Health Segment**

The Company no longer generates revenues from this segment since it sold its royalty income on sales of *Suplasyn* in Fiscal 2007. Last year's results included royalty revenues of \$0.5 million.

Gross research and development expenses for the three-month and nine-month periods ended March 31, 2008 totalled \$3.3 million and \$8.4 million respectively, which compares to \$3.1 million and \$7.9 million reported in the same periods in Fiscal 2007. The year-to-date increase of \$0.5 million, or 6%, is primarily attributed to the increased recruitment of patients in the first Phase III bladder cancer registration trial and third party costs incurred to support the Company's Phase III clinical program.

Government incentives for the three-month and nine-month periods ended March 31, 2008 totalled \$0.2 million and \$0.8 million respectively, which compares to \$0.4 million and \$1.0 million reported in the same periods in Fiscal 2007. This decrease reflects the reduction in eligible expenses available under one government program that is nearing completion and a one-time adjustment of \$0.2 million reflecting the discounting of amounts booked due to the implementation of new accounting policies.

### **Animal Health Segment**

Animal Health sales increased by \$0.8 million, or 12.5%, to \$7.2 million for the three-month period ended March 31, 2008, as compared to \$6.4 million recorded in the same period in Fiscal 2007. This reflects increased sales of *Folltropin®-V* in the U.S., Europe and global export markets. Animal Health sales were relatively stable at \$19.6 million for the nine-month period ended March 31, 2008, as compared to \$19.6 million recorded in the same period in Fiscal 2007. Last year's sales included a one-time promotion of *Folltropin®-V* during the first quarter which was not repeated in Fiscal 2008.

Gross profit for the three-month and nine-month periods ended March 31, 2008 totalled \$4.1 million, or 57.8%, and \$11.4 million, or 58.1%, respectively, which compares to \$3.7 million, or 58.2%, and \$11.0 million, or 56.1%, reported in the same periods in Fiscal 2007. This primarily reflects increased sales of higher margin products such as *Folltropin®-V* as well as positive adjustments made in the Australian operations that are reducing costs this fiscal year.

Expenses incurred in the three-month period ended March 31, 2008 totalled \$2.1 million, which compares to \$2.0 million reported in the same period last year. Expenses incurred in the nine-month period ended March 31, 2008 totalled \$5.9 million, as compared to \$5.8 million recorded in the same period last year. There were no major changes to activities or expenses.

Gross research and development expenses in the three-month period ended March 31, 2008 totalled \$0.4 million as compared to \$0.5 million reported in the same period in Fiscal 2007. Gross research and development expenses incurred in the nine-month period ended March 31, 2008 totalled \$1.4 million, not a significant change from the same period last year.

### **Food Safety Segment**

This segment recorded its first sales during Fiscal 2008. Sales will remain limited by our production capacity until the vaccine production facility is fully scaled-up in Belleville. A \$25 million expansion is planned over the next 24 months.

Expenses incurred in the three-month and nine-month periods ended March 31, 2008 totalled \$0.4 million \$1.3 million respectively. There were no expenses recorded in the same periods last year. The Company is currently undertaking an education and awareness program focused on the dangers of *E. coli* O157:H7 and the importance of food and environmental safety.

This segment incurred gross research and development expenses of \$0.7 million for the three-month period ended March 31, 2008, as compared to \$0.6 million reported in the same period in Fiscal 2007. Gross research and development expenses incurred in the nine-month period ended March 31, 2008 totalled \$1.8 million, as compared to \$2.1 million recorded in the same period last year. The decrease is due to the fact that the Company has curtailed some of its research and development efforts while awaiting feedback from regulators.

### **Quarterly Information**

The following selected financial information is derived from the Company's unaudited quarterly financial statements for each of the last eight quarters:

<b>LAST EIGHT (8) QUARTERS CONSOLIDATED RESULTS AT A GLANCE</b>								
	2008			2007			2006	
	\$	\$	\$	\$	\$	\$	\$	\$
<i>(expressed in millions of Canadian dollars)</i>	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	7.2	6.5	5.9	7.5	6.4	5.9	7.7	7.5
Loss before research & development and other items	(0.2)	(0.8)	(0.7)	(1.4)	(0.6)	(1.8)	0.6	(2.3)
Loss from continuing operations	(4.6)	(4.2)	(3.8)	(4.7)	(4.5)	(2.9)	(2.7)	(5.9)
Income (loss) from discontinued operations	-	-	-	-	-	-	-	7.9
<b>Net Income (loss)</b>	<b>(4.6)</b>	<b>(4.2)</b>	<b>(3.8)</b>	<b>(4.7)</b>	<b>(4.5)</b>	<b>(2.9)</b>	<b>(2.7)</b>	<b>2.0</b>
Basic and fully diluted net income (loss) per share								
Continuing operations	(0.07)	(0.07)	(0.06)	(0.08)	(0.10)	(0.07)	(0.07)	(0.15)
Discontinued operations	-	-	-	-	-	-	-	0.22
<b>Total basic and fully diluted net income (loss) per share</b>	<b>(0.07)</b>	<b>(0.07)</b>	<b>(0.06)</b>	<b>(0.08)</b>	<b>(0.10)</b>	<b>(0.07)</b>	<b>(0.07)</b>	<b>0.07</b>

### **Balance Sheet**

The balance sheet at March 31, 2008 shows:

- Total assets of \$38.9 million, as compared to \$41.5 million at June 30, 2007.
- Working capital of \$6.6 million, as compared to \$14.4 million at June 30, 2007.
- Shareholders' equity of \$19.7 million, as compared to \$29.1 million at June 30, 2007.
- Cash and cash equivalents of \$8.8 million, as compared to cash, cash equivalents and short-term investments of \$11.0 million at June 30, 2007.
- Unused revolving credit facilities of \$0.5 million, as compared to \$1.8 million at the end of June 30, 2007.

The Company also invested approximately \$546,654, net of government assistance, in property, plant and equipment year-to-date.

## LIQUIDITY AND CAPITAL RESOURCES

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

To date, the Company has financed its research and development (R&D) and capital 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 has been financed through their own internally generated cash flows, through the use of commercial banking facilities, and through capital leases with equipment vendors.

The Company was able to advance its key development platforms in both Food Safety and Human Health while maintaining a burn rate (cash used in operating activities) of \$1.0 million per month for the current fiscal year, only slightly higher than the average for Fiscal 2007 of \$0.9 million per month. Increased costs due to the Phase III clinical trial in refractory bladder cancer started in November 2006 have placed upward pressure on the burn rate. At March 31, 2008, the Company has approximately \$8.8 million in cash and cash equivalents in addition to another \$0.5 million in available borrowing capacity for a total of \$9.3 million, providing between four and six months of available cash flow for operations, assuming "status quo" and no new expenditures. Management expects to have used most of its working capital and cash resources before the end of the first quarter of Fiscal 2009 if no financing activities or marketing partnerships are concluded by that time.

The Company's financial position is such that it is continually reviewing alternatives which would provide additional financial resources to fund the Company's activities and increase shareholder value. The Company is currently pursuing or considering alternatives, as previously disclosed, including completing a marketing partnership transaction that will finance its Phase III development program for *Urocidin* and seeking additional financing through issuance of debt or equity. In addition, the Company may consider reconfiguring its three business segments if such a transaction would provide additional financial resources or increase shareholder value.

There is no assurance that any of these initiatives will be completed as currently planned. Given that there is continuing uncertainty about the successful completion of these plans and the potential impact on the financial position, going concern uncertainty has been disclosed in the financial statements (see note 1).

### **Contractual Obligations**

Contractual obligations have not changed significantly from the information reported in the Fiscal 2007 year-end consolidated financial statements issued at June 30, 2007.

### **Revolving Credit Facility**

On December 19, 2007, this three-year revolving credit facility was amended to increase the borrowing limit to US\$5.5 million from the previous maximum of US\$4.0 million. This facility matures on December 9, 2008. Amounts drawn are based on 90% of eligible accounts receivable and 35% of eligible North American inventory capped at US\$2.5 million plus US\$3.0 million. A fee of US\$1.0 million was charged to amend this facility and is payable in cash or in shares at the discretion of the Company at the date of maturity. This fee has been recorded as a reduction in the carrying value of the facility and is being amortized over the remaining life of the facility using the effective interest method. At March 31, 2008, US\$4.9 million [\$4,998,921] had been drawn on this facility, as compared to June 30, 2007, when US\$0.8 million [\$895,619] had been drawn.

## **Treasury Operations**

The Company's treasury policy is to invest cash that is not required immediately into short-term instruments that are based on capital preservation. Such investments are primarily made in guaranteed investment certificates (GICs) and Canadian banker's acceptance (BAs), both of which are issued by Canadian chartered banks. As a result, the Company has not suffered from any uncertainty associated with monetizing its short-term investments.

## **Related Party Transaction**

On June 3, 2005, the Company entered into a ten-year lease for a building located at 271 Labrosse Avenue, Montréal, Québec from Renaissance (London) Investments Inc. ("Renaissance"). Renaissance acquired the building on that date and the purchase price was financed entirely by a mortgage loan. Renaissance is owned and controlled by Graeme McRae, President and Chief Executive Officer and a Director of Bioniche. Under the terms of the agreement between Renaissance and the Company, the Company has the option to purchase the building by May 31, 2008 by assuming the balance of the loan outstanding. This transaction was recorded as a capital lease obligation as disclosed in note 11 of the annual consolidated financial statements. This facility will allow the Company to expand the production capacity of its existing MCC manufacturing to meet the projected eventual demand for *Urocidin* for the North American and European clinical trials. The purchase of this facility by a related party was necessitated by the Company's liquidity position at the time of acquisition.

## **Outstanding Common Shares**

The Company has total common shares outstanding at May 8, 2008 of 65,702,415. In addition, the Company has 10,833,861 outstanding warrants and 4,261,501 outstanding options, exchangeable for one common share upon exercise. Included in the outstanding warrant total are 1,027,308 compensation warrants issued to underwriters which, if exercised, would result in the issue of 1,027,308 shares and 513,654 warrants. The preferred shares Series II with conversion rights are exchangeable for a maximum of 6,521,677 common shares. The Company also has a commitment, currently under renegotiation, to issue warrants to Industry Canada following the attainment of specific milestones, which have not been reached as of March 31, 2008.

## **CHANGE IN ACCOUNTING POLICIES**

Effective July 1, 2007, the Company adopted the recommendations included in the Canadian Institute of Chartered Accountants ("CICA") Handbook section 1530, Comprehensive Income, CICA Handbook Section 3251, Equity, CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation, and CICA Handbook Section 3865, Hedges. These new Handbook sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards as to when and how hedge accounting may be applied.

The adoption of Section 3855, Financial Instruments – Recognition and Measurement, resulted in the classification of cash and cash equivalents as held for trading, and accounts receivable and other assets as "loans and receivables". Following the transitional provisions of this Section, the estimated fair value of the Company's other assets required a reduction of \$52,007 to other assets, with a corresponding increase to the opening July 1, 2007 deficit. The adjusted value was, and will be, measured at amortized cost using the effective interest method of amortization.

Section 3855 also requires that embedded derivatives be separated from its host contract and accounted for as a derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

The Company determined that certain of its purchase commitments contain foreign currency embedded derivatives. Following the transitional provisions of Section 3855, the fair value of these embedded derivatives on July 1, 2007 resulted in the recognition of an asset of \$186,681 and a decrease to the opening July 1, 2007 deficit. As at March 31, 2008, the change in the fair value of the embedded foreign currency derivatives resulted in an unrealized loss of \$191,096 and \$52,893 in the three and nine month periods ending March 31, 2008. This reflects the recent strengthening of the U.S. dollar. The fair value of the embedded foreign currency derivatives was based on published forward rates.

The revolving credit facility, accounts payable and accrued liabilities and long-term debt have been classified as “other financial liabilities”. Deferred financing fees in the amount of \$104,080 have been re-classified from long-term assets to a reduction of the amount of the revolving credit facility in accordance with the provisions of Section 3855.

The net transitional adjustment to the July 1, 2007 opening deficit was a credit of \$134,674.

Section 1530 establishes standards for reporting comprehensive income (loss) and, as a result of the adoption of this new Section, the cumulative amount, i.e. accumulated other comprehensive income (loss), is presented separately under shareholders’ equity in the consolidated balance sheets and a reconciliation of the accumulated other comprehensive income (loss) as well as the comprehensive income (loss) for the period are presented in the interim consolidated statements of shareholders’ equity. The Company has not recognized any other comprehensive income in its interim consolidated financial statements at March 31, 2008 and for the quarter then ended.

Section 3865 establishes standards for when and how hedge accounting may be applied. Hedging is an activity designed to modify an entity’s exposure to one or more risks. Hedge accounting modifies the basis for recognizing the gains, losses, revenue and expenses associated with a hedged item or a hedging item in an entity’s income statement. It ensures that offsetting gains, losses, revenue and expenses are recognized in the same period. The adoption of this Section had no impact on the Company’s consolidated results of operations or financial position.

In June, 2007, the CICA issued a new accounting standard, Section 3031, *Inventories*, which replaces the existing standard for inventories, Section 3030. The main features of the new section are as follows:

- Measurement of inventories at the lower of cost and net realizable value;
- Consistent use of either first-in, first-out or a weighted average cost formula to measure cost; and
- Reversal of previous write-downs to net realizable value when there is a subsequent increase to the value of inventories.

The new Section is effective for the Company beginning January 1, 2008. The Company’s financial statements will not be impacted until July 1, 2008 and management is currently assessing the impact on the financial statements.

In December, 2006, the CICA issued three new accounting standards as described below, effective for fiscal years beginning on or after October, 2007 with early adoption encouraged. The Company is currently assessing the impact on its consolidated financial statements.

Section 3862, Financial Instruments – Disclosure, describes the required disclosure for the assessment of the significance of financial instruments for an entity’s financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, Financial Instruments – Presentation establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, Financial Instruments - Disclosure and Presentation. The Company does not expect that the adoption of this new section will have a significant effect on its consolidated financial statements.

Section 1535, Capital Disclosures, establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance.

## 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 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. The Company's critical accounting estimates are the same as reported in the June 30, 2007 MD&A. In addition, the Company must make estimates about fair value of embedded derivatives. On an ongoing basis, the Company evaluates its estimates, including cash requirements, by assessing research and development activities and general and administrative requirements, market need for its drug candidates, technological changes, the regulatory environment, pricing and sales expectations and major business assumptions.

## NON-GAAP & 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, Foreign Exchange and Amortization". 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 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).

## 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, 2007. 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.

- **Dependence on Collaborative Partners, Licensors and Others:** The Company's activities will require it to enter into various arrangements. There can be no assurance, however, that the Company will be able to establish such additional collaborations on favorable terms, if at all, or that its current or future collaborations will be successful.

- **Clinical Trial Results:** Clinical trials are long, expensive and uncertain processes and Health Canada or the U.S. FDA may ultimately not approve any of the Company's product candidates.
- **Manufacturing Facilities:** The Company relies on having properly validated, fully functioning manufacturing facilities of sufficient size in which to produce its products for market. Should systems fail, or a disaster strike, the ability to produce products would be negatively affected which, in turn, would affect revenue generation.
- **Government Regulations:** The manufacture and sale of animal and human therapeutic products is governed by numerous statutes and regulations in the United States, Canada, Europe, and other countries where the Company intends to market its products. There is no guarantee the Company will be able to maintain compliance with all regulations as changes occur.
- **Key Personnel:** The Company's success is dependent upon its ability to attract and retain a highly-qualified work force, and to establish and maintain close relations with research centres. Competition is intense and the Company's success will depend, to a great extent, on its senior executives, scientific staff, and collaborators. The loss of key personnel could compromise the rhythm and success of product development.
- **Financing Requirements:** The Company is dependent upon the future support of its lenders, suppliers, employees and customers. The Company believes that it will be able to obtain long-term financing to support its corporate objectives, but it is impossible to guarantee the availability of additional financial resources or that these will be available under acceptable conditions. In the event that there is an inability to raise sufficient capital, the Company will be required to reduce its spending programs and dispose of additional assets.
- **Currency Risk:** The Company is exposed to currency risks as a result of the export of products manufactured in Canada and Europe, the majority of which are denominated in U.S. dollars and the Company's subsidiaries in the U.S.A., Australia and Europe are integrated.
- **Volatility of Share Prices:** Dividends, quarterly results and share prices are subject to change because of numerous different factors related to Company activity, including reports of new information, changes in the Company's financial situation, the sale of shares in the market, the Company's failure to obtain results in line with the expectations of analysts, or an announcement by the Company or any of its competitors concerning technological innovation.
- **Intellectual Property:** Intellectual property must be protected to ensure the Company's success. This will depend, in part, on the Company's ability to obtain, maintain and enforce patent rights, maintain trade secrets and operate without infringing the proprietary rights of third parties. There is no assurance that the Company's patents will protect its technologies.
- **Suppliers:** The Company is dependant on certain third parties for the supply involved in the manufacturing of certain key products. Although it seeks to secure alternative suppliers, an interruption in the availability of certain raw material sources could have a material adverse effect on the Company's business and financial condition.
- **Other Business Risks:** The Company has international operations that expose it to additional business risks.

## EFFECTIVENESS OF DISCLOSURE CONTROLS

The President and Chief Executive Officer and the Chief Financial Officer have reviewed the effectiveness of the Company's disclosure and internal controls and procedures related to financial reporting at May 8, 2008. Both officers have concluded that the Company's controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, was made known to them and reported as required, particularly during the period in which this report was being prepared. The Company has not identified, during the third quarter of Fiscal 2008, any deficiencies in internal controls or significant changes in internal controls. On an ongoing basis, management analyzes its controls and procedures to identify potential areas of improvement.

## FORWARD-LOOKING STATEMENTS

This discussion and analysis contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events predicted in this document to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur or, if they do, that any benefit may be derived from them.

## 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).

A handwritten signature in black ink, appearing to read "Patrick Montpetit". The signature is fluid and cursive, with a large initial "P" and "M".

**Patrick Montpetit, CA CF**  
**Vice-President, Finance and Chief Financial Officer**  
May 8, 2008

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

**INTERIM CONSOLIDATED BALANCE SHEETS**

[Unaudited – see note 1]

	As at March 31, 2008 \$	As at June 30, 2007 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	8,807,376	1,523,597
Short-term investments	—	9,500,000
Accounts receivable	5,502,049	5,495,836
Inventories [note 3]	4,945,312	5,480,167
Prepaid expenses and deposits	700,590	658,867
Foreign currency embedded derivatives [note 2]	105,327	—
	<b>20,060,654</b>	<b>22,658,467</b>
<b>Long-term</b>		
Property, plant and equipment, net	9,496,091	9,557,359
Intangible assets, net	7,902,828	8,545,215
Goodwill	456,155	456,155
Deferred financing fees [note 2]	—	209,578
Foreign currency embedded derivatives [note 2]	28,461	—
Other assets [notes 2 and 6]	945,096	100,000
	<b>38,889,285</b>	<b>41,526,774</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Revolving credit facility [note 4]	4,120,711	895,619
Accounts payable and accrued liabilities	7,856,646	6,399,382
Income and other taxes payable	445,024	283,845
Deferred government incentives	615,864	541,282
Current portion of long-term debt and obligations under capital leases	422,507	123,769
	<b>13,460,752</b>	<b>8,243,897</b>
<b>Long-term</b>		
Long-term debt [note 5]	1,838,938	421,396
Obligations under capital leases	942,924	764,933
Deferred government incentives	2,986,572	2,986,572
	<b>19,229,186</b>	<b>12,416,798</b>
<b>Shareholders' equity</b>		
Share capital [note 7]	92,759,917	90,038,524
Special warrants [note 7]	2,174,008	2,174,008
Other paid-in capital [note 7]	5,894,348	5,528,059
Deficit	(81,168,174)	(68,630,615)
	<b>19,660,099</b>	<b>29,109,976</b>
	<b>38,889,285</b>	<b>41,526,774</b>

See accompanying notes

**Bioniche Life Sciences Inc.**

**INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

[Unaudited – see note 1]

	Common shares #	Common shares \$	Preferred shares – Series 1 #	Preferred shares – Series 1 \$	Preferred shares – Series II #	Preferred shares – Series II \$	Special warrants \$	Other paid- in capital \$	Deficit \$	Cumulative translation adjustment \$	Total \$
<b>Balance, June 30, 2006</b>	39,198,140	60,794,185	167	161,000	12,000,000	11,731,716	—	4,556,290	(53,869,621)	(23,379)	23,350,191
Net loss for the period									(10,164,369)	23,379	(10,140,990)
Issued under employee share ownership plan	409,114	349,940						8,978	—	—	358,918
Stock-based compensation	—	—						166,264	—	—	166,264
Shares issued to directors	109,998	76,999						—	—	—	76,999
Share bonus	5,264	4,001						—	—	—	4,001
Shares issued on exercise of options	2,000	1,889						(89)	—	—	1,800
Term debt repayment made in shares	1,903,165	1,472,473						(79,571)	—	—	1,392,902
Warrants issued in connection with the convertible term note	—	—						93,023	—	—	93,023
Revolving debt principal payments made in shares	2,004,745	1,602,963						—	—	—	1,602,963
Unit offering, net of issue costs	14,583,333	12,598,546					2,159,568	775,833	—	—	15,533,947
<b>Balance, March 31, 2007</b>	58,215,759	76,900,996	167	161,000	12,000,000	11,731,716	2,159,568	5,520,728	(64,033,990)	—	32,440,018
<b>Balance, June 30, 2007</b>	61,711,867	81,078,737	167	161,000	9,000,000	8,798,787	2,174,008	5,528,059	(68,630,615)	—	29,109,976
Transition adjustment [note 2]									134,674	—	134,674
Net loss for the period									(12,672,233)	—	(12,672,233)
Issued under employee share ownership plan [note 7]	590,560	456,451						—	—	—	456,451
Stock-based compensation	—	—						273,559	—	—	273,559
Shares issued to directors [note 7]	73,560	76,502						—	—	—	76,502
Share bonus [note 7]	516,886	408,340						—	—	—	408,340
Revolving debt principal payment made in shares	2,671,900	1,780,100						—	—	—	1,780,100
Adjustment for conversion of fractional shares	6	—						—	—	—	—
Warrants issued in connection with the revolving debt								92,730	—	—	92,730
<b>Balance, March 31, 2008</b>	65,564,779	83,800,130	167	161,000	9,000,000	8,798,787	2,174,008	5,894,348	(81,168,174)	—	19,660,099

See accompanying notes

**Bioniche Life Sciences Inc.**

**INTERIM CONSOLIDATED STATEMENTS OF LOSS**

*[Unaudited – see note 1]*

For the three and nine months ended March 31

	Current Quarter 2008 \$	Last Year Quarter 2007 \$	Current Year to Date 2008 \$	Last Year to Date 2007 \$
<b>REVENUE</b>				
Sales	7,185,970	6,397,832	19,605,015	20,054,734
Cost of sales	3,033,310	2,672,384	8,199,792	8,608,512
<b>Gross profit</b>	<b>4,152,660</b>	<b>3,725,448</b>	<b>11,405,223</b>	<b>11,446,222</b>
<b>EXPENSES</b>				
Administration	1,609,317	1,870,869	5,212,1451	4,603,108
Marketing and selling	1,734,872	1,550,481	5,104,963	4,456,518
Quality assurance	202,946	174,036	573,730	512,082
Interest on long-term debt	36,748	78,336	110,678	573,081
Other interest (income)	27,120	26,047	(57,226)	170,778
Accreted interest on convertible term note	—	59,831	—	679,244
Amortization of property, plant and equipment	308,125	289,502	872,287	880,348
Amortization of intangible assets	214,130	214,130	642,387	642,389
Amortization of deferred financing fees	283,608	137,464	436,415	946,722
Foreign exchange loss (gain)	(71,387)	(27,597)	245,128	(311,448)
	<b>4,345,479</b>	<b>4,373,099</b>	<b>13,140,813</b>	<b>13,152,822</b>
Loss before research and development expenses and other items	(192,819)	(647,651)	(1,735,590)	(1,706,600)
Research and development expenses, gross	4,416,249	4,199,003	11,646,663	11,350,443
Less: government incentives, net	(250,659)	(425,667)	(969,242)	(1,262,201)
Change in unrealized loss (gain) on foreign currency embedded derivatives <i>[note 2]</i>	191,096	—	(52,893)	—
Impairment of investment	—	—	—	175,000
Loss on sale of investment	—	—	—	17,157
Gain on sale of right to future royalty stream	—	—	—	(2,127,587)
<b>Loss before income taxes</b>	<b>(4,549,505)</b>	<b>(4,420,987)</b>	<b>(12,465,904)</b>	<b>(9,859,412)</b>
Provision for income taxes	92,805	89,447	206,329	304,957
<b>Net loss for the period</b>	<b>(4,642,310)</b>	<b>(4,510,434)</b>	<b>(12,672,233)</b>	<b>(10,164,369)</b>
<b>Basic and diluted net loss per share</b>	<b>(0.07)</b>	<b>(0.10)</b>	<b>(0.20)</b>	<b>(0.25)</b>
<b>Weighted-average number of common shares outstanding</b>	<b>62,791,700</b>	<b>44,274,985</b>	<b>62,246,607</b>	<b>41,242,672</b>

*See accompanying notes*

**Bioniche Life Sciences Inc.**

**INTERIM CONSOLIDATED STATEMENTS  
OF CASH FLOWS**

*[Unaudited – see note 1]*

For the three and nine months ended March 31

	Current Quarter 2008 \$	Last Year Quarter 2007 \$	Current Year to Date 2008 \$	Last Year to Date 2007 \$
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(4,642,310)	(4,510,434)	(12,672,233)	(10,164,369)
Add (deduct) non-cash items:				
Amortization	805,863	641,096	1,951,089	2,469,459
Accreted interest on convertible term note	—	59,831	—	679,244
Change in unrealized loss (gain) on foreign currency embedded derivative	191,096	—	52,893	—
Unrealized foreign exchange loss (gain)	231,039	(8,914)	177,593	336,730
Stock-based compensation	94,585	55,242	273,559	166,264
Share compensation	126,719	—	380,156	81,000
Employee share ownership plan	188,061	146,256	499,383	358,918
Impairment of investment	—	—	—	175,000
Loss on sale of investment	—	—	—	17,157
Gain on sale of right to future royalty stream	—	—	—	(2,127,587)
	<b>(3,004,947)</b>	<b>(3,616,923)</b>	<b>(9,337,560)</b>	<b>(8,008,184)</b>
Net change in non-cash working capital balances	<b>1,103,295</b>	<b>(1,906,198)</b>	<b>272,530</b>	<b>(808,490)</b>
<b>Cash used in operating activities</b>	<b>(1,901,652)</b>	<b>(5,523,121)</b>	<b>(9,065,030)</b>	<b>(8,816,674)</b>
<b>INVESTING ACTIVITIES</b>				
Proceeds from maturity of short-term investments	—	—	9,500,000	—
Proceeds from sale of investment	—	—	—	3,196,200
Proceeds from sale of right to future royalty stream	—	—	—	3,652,800
Government incentives received				
on account of property, plant and equipment	—	—	4,641	30,224
Proceeds on disposal of property, plant and equipment	—	2,124	—	2,124
Purchase of property, plant and equipment	(274,257)	(27,172)	(546,654)	(209,248)
<b>Cash provided by (used in) investing activities</b>	<b>(274,257)</b>	<b>(25,048)</b>	<b>8,957,987</b>	<b>6,672,100</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from units issued	—	15,535,747	—	15,535,747
Proceeds fees paid	(43,000)	—	(43,000)	—
Proceeds from convertible term note <i>[note 5]</i>	1,750,000	—	1,750,000	—
Proceeds from deferred government incentives	—	—	49,965	74,282
Proceeds from revolving credit facility	8,500,864	5,895,962	21,952,839	15,948,279
Repayment of revolving credit facility	(5,838,724)	(4,706,109)	(16,219,244)	(15,411,793)
Repayment of obligations under capital lease	(20,663)	(26,126)	(84,986)	(84,385)
Repayment of senior and other long-term debt	(5,140)	(56,412)	(14,752)	(3,290,561)
<b>Cash provided by financing activities</b>	<b>4,343,337</b>	<b>16,643,062)</b>	<b>7,390,822</b>	<b>12,771,569</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>2,167,428</b>	<b>11,094,893</b>	<b>7,283,779</b>	<b>10,626,995</b>
Cash and cash equivalents, beginning of period	<b>6,639,948</b>	<b>3,625,395</b>	<b>1,523,597</b>	<b>4,093,293</b>
<b>Cash and cash equivalents, end of period</b>	<b>8,807,376</b>	<b>14,720,288</b>	<b>8,807,376</b>	<b>14,720,288</b>

*See accompanying notes*

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

Unaudited

### 1. NATURE OF THE BUSINESS AND GOING CONCERN UNCERTAINTY

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 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The Company’s common stock is traded on the Toronto Stock Exchange [“TSX” symbol “BNC”].

At March 31, 2008, the Company has incurred significant losses and has an accumulated deficit of \$81,168,174. The Company’s committed cash obligations and expected level of expenditures for the next twelve months exceeds the Company’s cash and cash equivalents and committed sources of funds. To date, the Company has financed its cash requirements primarily through issuances of shares and debt, investment tax credits, sale of products, royalties, government grants, and a revolving credit facility. The Company continues to pursue an alliance with a strategic partner to fund the development program for *Urocidin* and to pursue other financing initiatives including long-term debt financing and further equity issues. The Company’s ability to continue as a going concern is dependent on the successful conclusion of these initiatives as well as its ability to continue to sell its products at positive margins, to bring new products to market, to obtain regulatory approvals, and to achieve future profitable operations. The outcome of these matters are dependent upon factors outside of the Company’s control. As a result, there is significant uncertainty as to whether the Company will have the ability to continue as a going concern.

These 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 its operations and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business for the foreseeable future. These consolidated financial statements do not include 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.

These interim 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, 2007. These unaudited interim consolidated financial statements follow the same accounting policies and methods of their application as outlined in the most recent annual consolidated financial statements, except as described in note 2.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

Unaudited

### 1. NATURE OF THE BUSINESS AND GOING CONCERN UNCERTAINTY [Cont'd]

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results, however, may differ from the estimates used in these interim consolidated financial statements and such differences may be material.

### 2. CHANGES IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants ["CICA"] recently released the following Handbook Sections: 3855, *Financial Instruments – Recognition and Measurement*; 1530, *Comprehensive Income*; 3251, *Equity*; 3865, *Hedges*; 3861, *Financial Instruments – Disclosure and Presentation*, and 1506, *Accounting Changes*. The Company adopted these sections on July 1, 2007. The impact of the adoption of these sections on the Company's interim consolidated financial statements is presented below.

#### Financial Instruments – Recognition and Measurement

Under Section 3855, all financial assets are classified as held for trading, held-to-maturity investments, loans and receivables or available-for-sale; all financial liabilities must be classified as held for trading or as other financial liabilities. All financial instruments are recorded initially on the consolidated balance sheet at fair value. After initial recognition, financial instruments should be measured at their fair value, except for held-to-maturity investments, loans and receivables, and other liabilities, which should be measured at amortized cost using the effective interest method of amortization. Gains or losses resulting from changes in the fair values of financial assets classified as held for trading are included in net income in the period in which they arise. Gains or losses resulting from unrealized changes in the fair values of available-for-sale financial assets are recognized in other comprehensive income until the financial instrument is derecognized and the cumulative gain or loss is then recognized in net income. An other than temporary loss in the value of an available-for-sale financial asset requires a write-down to its fair value through an impairment loss recognized in net income.

The Company has classified its cash and cash equivalents as held for trading and its accounts receivable and other assets as loans and receivables. Following the transitional provisions of Section 3855, the estimated fair value of the Company's other assets required a reduction of \$52,007 to other assets, with a corresponding increase to the opening July 1, 2007 deficit. The adjusted value was and will be measured at amortized cost using the effective interest method of amortization.

Section 3855 also requires that embedded derivatives be separated from their host contract and accounted for as a derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

Unaudited

### 2. CHANGES IN ACCOUNTING POLICIES [CONT'D]

The Company determined that certain of its purchase commitments contain foreign currency embedded derivatives. Following the transitional provisions of Section 3855, the fair value of these embedded derivatives on July 1, 2007 resulted in the recognition of an asset of \$186,681 and a decrease to the opening July 1, 2007 deficit. The change in the fair value of the embedded foreign currency derivatives for the three and nine month periods ended March 31, 2008 resulted in an unrealized loss of \$191,096 and \$52,893 respectively. The fair value of the embedded foreign currency derivatives was based on published forward rates.

The revolving credit facility, accounts payable and accrued liabilities and long-term debt have been classified as other financial liabilities. Deferred financing fees in the amount of \$104,080 have been reclassified from long-term assets and recorded as a reduction in the amount outstanding of the revolving credit facility in accordance with Section 3855.

The net transitional adjustment to the July 1, 2007 opening deficit was a credit of \$134,674.

#### Comprehensive income (loss) and equity

Section 1530 establishes standards for reporting comprehensive income (loss) and as a result of the adoption of this new section, the cumulative amount, i.e. accumulated other comprehensive income (loss), is presented separately under shareholders' equity in the consolidated balance sheets and a reconciliation of the accumulated other comprehensive income (loss) as well as the comprehensive income (loss) for the period are presented in the interim consolidated statements of shareholders' equity. The Company has not recognized any other comprehensive income in its interim consolidated financial statements as at March 31, 2008 and for the nine-month period then ended.

#### Hedges

Section 3865 establishes standards for when and how hedge accounting may be applied. Hedging is an activity designed to modify an entity's exposure to one or more risks. Hedge accounting modifies the basis for recognizing the gains, losses, revenue and expenses associated with a hedged item or a hedging item in an entity's income statement. It ensures that off-setting gains, losses, revenue and expenses are recognized in the same period. The adoption of this section had no impact on the Company's consolidated results of operations or financial position.

#### Recent Accounting Pronouncements

Section 3031, *Inventories*, replaces the existing standard for inventories, Section 3030. The main features of the new section are as follows:

- Measurement of inventories at the lower of cost and net realizable value;
- Consistent use of either first-in, first-out or a weighted average cost formula to measure cost; and
- Reversal of previous write-downs to net realizable value when there is a subsequent increase to the value of inventories.

The new section is effective for the Company beginning January 1, 2008. The Company is currently assessing the impact on its financial statements.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

Unaudited

### 2. CHANGES IN ACCOUNTING POLICIES [CONT'D]

Section 3862, *Financial Instruments – Disclosure*, describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The Company is currently assessing the impact on its financial statements.

Section 3863, *Financial Instruments – Presentation*, establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, *Financial Instruments – Disclosure and Presentation*. The Company does not expect that the adoption of this new section will have a significant effect on its consolidated financial statements. The Company is currently assessing the impact on its financial statements.

Section 1535, *Capital Disclosures*, establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. The Company is currently assessing the impact on its financial statements.

### 3. INVENTORIES

	March 31, 2008	June 30, 2007
	\$	\$
Raw materials	1,131,652	952,894
Work in process	927,164	1,508,182
Finished goods	2,886,496	3,019,091
	<b>4,945,312</b>	<b>5,480,167</b>

### 4. REVOLVING CREDIT FACILITY

On December 19, 2007, this three-year revolving credit facility was amended to a maximum available amount of US \$5,500,000 from the previous maximum of US \$4,000,000. Amounts drawn are based on 90% of eligible accounts receivable and 35% of eligible North American inventory, capped at US \$2,500,000 plus an additional US \$3,000,000. This facility is open with the lender until December 9, 2008.

A fee of US \$1,000,000 was charged by the lender to amend this facility and is payable in cash or in shares of the Company, at the discretion of the Company. This fee has been recorded as a liability with an offsetting debit to deferred financing fees and will be amortized over the remaining life of the note. As at March 31, 2008, the unamortized balance was \$681,400 and is recorded as a reduction of the revolving credit facility. Deferred financing fees related to the original note, in the amount of \$104,080, have been reclassified from long-term assets and recorded as a reduction in the revolving credit facility, as discussed in note 2.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

Unaudited

### 4. REVOLVING CREDIT FACILITY [CONT'D]

On March 27, 2008, the Company issued 2,671,900 common shares in lieu of cash principal repayments of revolving debt, valued at \$1,780,100 [US \$1,750,000] and 200,000 five-year warrants valued at \$92,730 [note 7]. The value of the warrants has been recorded as a reduction of the carrying value of the note and will be amortized over the remaining life of the note using the effective interest rate method.

As at March 31, 2008, \$4,998,921 [June 30, 2007 – \$895,619] has been drawn on this facility [\$4,120,711 net of financing fees] [note 2].

### 5. LONG-TERM DEBT

On February 7, 2008, the Company entered into a ten-year \$5 million commercial loan facility with the Business Development Bank of Canada (BDC). This loan is collateralized by certain property, plant and equipment at the Company's Belleville, Ontario facility and is subject to certain financial and non-financial covenants. The loan bears interest, payable monthly, at the BDC floating rate of prime plus 2%, but the rate may be fixed at the Company's discretion. Principal repayments commence September 1, 2008 with a payment of \$28,000 followed by monthly payments of \$44,000 until repaid. Disbursement in excess of \$1.75 million will only be made if the Company makes certain qualifying expenditures. The proceeds will be used to finance the project to create an Animal Health and Food Safety Vaccine Manufacturing Centre in Belleville, Ontario. Financing fees of \$43,000 have been recorded as a reduction of the carrying value of the loan and will be amortized over the life of this loan using the effective interest rate method.

As at March 31, 2008, \$1,750,000 has been drawn on this facility [\$292,000 current and \$1,415,000 long-term net of unamortized financing fees].

### 6. GOVERNMENT INCENTIVES

In November 2007, the Company was informed by Industry Canada's Industrial Technology Office (formerly Technology Partnerships Canada) that they would be exercising their option to withhold the last 20% of the funding for the Company's MCC project until the project is completed, currently estimated to be September 30, 2011. As a result, the Company has discounted its current receivable of \$1,085,157 to its fair value of \$836,640 using a discount rate of 7.5% and reclassified it to other assets. The discount has been reflected as a reduction in government incentives and will be amortized over the term that each claim amount is outstanding, using the effective interest rate method.

On September 7, 2007, the Company announced an agreement for a \$2 million government grant for market development related to its *E. coli* O157:H7 cattle vaccine. As at March 31, 2008, the Company has recognized \$279,785 of this grant related to eligible expenditures incurred since August 16, 2007. As a result of a 10% holdback clause in this agreement, the Company has discounted its holdback receivable of \$27,978 to its fair value of \$24,292 using a discount rate of 7.5% and reclassified it to other assets. This discount will be amortized over the term that each claim amount is outstanding, using the effective interest rate method. The eligible amount less the discount has been netted against the related marketing expenses.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

Unaudited

### 6. GOVERNMENT INCENTIVES [CONT'D]

On December 18, 2007, the Company announced that it is eligible to receive up to \$10 million in Ontario government financing in the form of a loan which will be interest-free until April 2013. This loan from the Ontario Ministry of Economic Development and Trade's ["MEDT"] 'Advance Manufacturing Investment Strategy' ["AMIS"] program will be based on eligible expenditures made by the Company to scale up a vaccine production facility in Belleville, Ontario. Funding related to eligible expenditures amounting to \$781,475 has not been recognized, pending finalization of the conditions discussed below.

On December 20, 2007, the Company announced that it is eligible to receive up to \$5 million in federal government financing by the Department of Agriculture and Agri-Food (Canada) ["AAFC"] Agri-Opportunities Program in the form of an interest-free loan based on eligible expenditures made by the Company to scale up the aforementioned vaccine production facilities. The loan will be interest-free until fully repaid. Funding related to eligible expenditures amounting to \$39,438 has not been recognized, pending finalization of the conditions discussed below.

Funding under these programs is conditional upon the Company finalizing certain other terms and conditions, including obtaining certain regulatory approvals. These programs will consider eligible expenditures made by the Company beginning April 12, 2007 for the AMIS program and from September 21, 2007 for the Agri-Opportunities program. As the funding outlined above remains contingent, no amounts have been recognized in these interim consolidated financial statements.

### 7. SHARE CAPITAL AND OTHER PAID-IN CAPITAL

#### Authorized

The authorized capital of the Company is as follows:

- unlimited number of common shares; and
- unlimited number of preferred shares issuable in series with no par value

#### Capital stock transactions

During the nine-month period ended March 31, 2008, the Company issued 590,560 common shares [2007 – 409,114] under the employee share ownership plan valued at \$456,451 [2007 – \$349,940 of which \$41,291 related to the accrued balance at June 30, 2006 included in other paid-in capital]. Also, during the same period, the Company issued 73,560 common shares [2007 – 109,998] as director's compensation which had been accrued at June 30, 2007 and included in accounts payable and accrued liabilities, valued at \$76,502 [2007 – \$76,999]. On March 27, 2008, the Company issued 2,671,900 common shares to Valens US (formerly Laurus Master Funds) in lieu of cash principal repayments of debt, valued at \$1,780,100 [2007 – 3,907,910 common shares were issued valued at \$3,075,436]. During the current quarter, the Company issued 516,886 common shares in settlement of bonuses valued at \$408,340 [2007 – 5,264 common shares settled bonuses valued at \$4,001].

In the nine-month period ended March 31, 2007, the Company completed a unit offering resulting in the issuance of 14,583,333 common shares valued at \$12,598,546, 1,020,833 compensation warrants valued at \$775,833 and reflected in other paid-in capital and 7,291,667 special warrants valued at \$2,159,568.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

Unaudited

### 7. SHARE CAPITAL AND OTHER PAID-IN CAPITAL [CONT'D]

#### Warrants

The changes in the number of warrants granted by the Company and their weighted-average exercise prices for the nine-month period ended March 31, 2008 and 2007 are as follows:

	2008		2007	
	#	\$	#	\$
<b>Balance, beginning of period</b>	<b>10,633,861</b>	<b>1.39</b>	4,270,000	1.96
Granted to Valens US (formerly Laurus Master Funds)	<b>200,000</b>	<b>0.77</b>	200,000	1.00
Special warrants issued	—	—	7,291,667	1.40
Compensation warrants	—	—	1,020,833	1.20
Expired	—	—	(2,620,000)	2.24
<b>Balance, end of period</b>	<b>10,833,861</b>	<b>1.38</b>	10,162,500	1.39

The fair value of the five-year warrants granted to Valens US (formerly Laurus Master Funds) during the quarter ended March 31, 2008, was estimated at the date of grant using the Black-Scholes option pricing model using the following assumptions: a risk-free interest rate of 5.5%, expected dividend yield of 0%, expected volatility of 66% and expected life of 5.0 years. The fair value of the warrants using the above assumptions was \$92,730 and has been recorded as a reduction of the carrying value of the revolving credit facility. [2007 – 200,000 five-year warrants valued at \$93,023].

#### Stock options

The changes in the number of options granted by the Company and their weighted-average exercise prices for the nine-month period ended March 31, 2008 and 2007 are as follows:

	2008		2007	
	#	\$	#	\$
<b>Balance, beginning of period</b>	<b>3,861,501</b>	<b>2.23</b>	4,158,501	2.29
Granted	<b>425,000</b>	<b>0.93</b>	—	—
Exercised	—	—	(2000)	0.90
Expired	<b>(25,000)</b>	<b>2.95</b>	(80,000)	3.21
<b>Balance, end of period</b>	<b>4,261,501</b>	<b>2.08</b>	4,076,501	2.27

The fair value of options granted during the nine months ended March 31, 2008, was estimated at the date of grant using the Black-Scholes option pricing model using the following weighted-average assumptions: risk-free interest rate of 5.80%, expected dividend yield of 0%, expected volatility of 56.8% and expected option life of 5.0 years. The weighted-average fair value of the options using the above assumptions amounted to \$0.49 per option. The fair value of options granted is expensed over the vesting period of the options. The amount recognized as a compensation expense during the nine months ended March 31, 2008 was \$273,559 [2007 – \$166,264].

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

Unaudited

### 7. SHARE CAPITAL AND OTHER PAID-IN CAPITAL [CONT'D]

With the approval of shareholders at the annual general meeting on November 8, 2007, the maximum number of common shares available to be issued under the stock option plan was increased to 6,000,000 from 3,459,829.

### 8. 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.

	Current Quarter March 2008				
	Human Health \$	Animal Health \$	Food Safety \$	Corporate \$	Total \$
Sales	—	7,174,070	11,900	—	7,185,970
Cost of sales	—	3,027,821	5,489	—	3,033,310
Expenses	—	2,055,377	456,502	1,035,256	3,547,135
<b>EBITDA before research and development</b>	<b>—</b>	<b>2,090,872</b>	<b>(450,091)</b>	<b>(1,035,256)</b>	<b>605,525</b>
Research and development expenses, gross	3,258,247	444,592	713,410	—	4,416,249
Less: government incentives, net	(193,004)	—	(57,655)	—	(250,659)
<b>Net research and development expenses</b>	<b>3,065,243</b>	<b>444,592</b>	<b>655,755</b>	<b>—</b>	<b>4,165,590</b>
Interest expense, net	—	20,135	—	43,733	63,868
Amortization of property, plant and equipment and intangible assets	268,387	206,731	26,525	20,612	522,255
Amortization of deferred financing fees	—	—	—	283,608	283,608
Foreign exchange gain	—	—	—	(71,387)	(71,387)
Change in unrealized loss on foreign currency embedded derivatives	—	—	—	191,096	191,096
<b>Segment income (loss) before taxes</b>	<b>(3,333,630)</b>	<b>1,419,414</b>	<b>(1,132,371)</b>	<b>(1,502,918)</b>	<b>(4,549,505)</b>
Inter-segment sales	—	—	—	3,984,195	3,984,195

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

Unaudited

### 8. SEGMENTED FINANCIAL INFORMATION [CONT'D]

	Last Year Quarter March 2007				
	Human Health \$	Animal Health \$	Food Safety \$	Corporate \$	Total \$
Sales	—	6,397,832	—	—	6,397,832
Cost of sales	—	2,672,384	—	—	2,672,384
Expenses	1,308	1,999,487	—	1,594,591	3,595,386
<b>EBITDA before research and development</b>	(1,308)	1,725,961	—	(1,594,591)	130,062
Research and development expenses, gross	3,083,456	547,501	568,046	—	4,199,003
Less: government incentives, net	(364,385)	—	(61,282)	—	(425,667)
<b>Net research and development expenses</b>	2,719,071	547,501	506,764	—	3,773,336
Interest expense, net	—	19,789	—	144,425	164,214
Amortization of property, plant and equipment and intangible assets	259,570	205,838	17,239	20,985	503,632
Amortization of deferred financing fees	—	—	—	137,464	137,464
Impairment/loss on sale of investment	—	—	—	—	—
Gain on sale of annual <i>Suplasyn</i> royalty payments	—	—	—	—	—
Foreign exchange gain	—	—	—	(27,597)	(27,597)
<b>Segment income (loss) before taxes</b>	(2,979,949)	952,833	(524,003)	(1,869,868)	(4,420,987)
Inter-segment sales	—	—	—	2,144,389	2,144,389

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

Unaudited

### 8. SEGMENTED FINANCIAL INFORMATION [CONT'D]

	Current Year to Date March 2008				
	Human Health \$	Animal Health \$	Food Safety \$	Corporate \$	Total \$
Sales	—	19,590,365	14,650	—	19,605,015
Cost of sales	—	8,192,850	6,942	—	8,199,792
Expenses	—	5,926,832	1,287,995	3,676,317	10,891,144
<b>EBITDA before research and development</b>	<b>—</b>	<b>5,470,683</b>	<b>(1,280,287)</b>	<b>(3,676,317)</b>	<b>514,079</b>
Research and development expenses, gross	8,448,902	1,404,047	1,793,714	—	11,646,663
Less: government incentives, net	(766,494)	—	(202,748)	—	(969,242)
<b>Net research and development expenses</b>	<b>7,682,408</b>	<b>1,404,047</b>	<b>1,590,966</b>	<b>—</b>	<b>10,677,421</b>
Interest expense, net	—	61,064	—	(7,612)	53,452
Amortization of property, plant and equipment and intangible assets	789,660	596,439	69,510	59,065	1,514,674
Amortization of deferred financing fees	—	—	—	436,415	436,415
Foreign exchange loss	—	—	—	245,128	245,128
Change in unrealized loss on foreign currency embedded derivatives	—	—	—	52,893	52,893
<b>Segment income (loss) before taxes</b>	<b>(8,472,068)</b>	<b>3,409,133</b>	<b>(2,940,763)</b>	<b>(4,462,206)</b>	<b>(12,465,904)</b>
Inter-segment sales	—	—	—	10,655,275	10,655,275

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

Unaudited

### 8. SEGMENTED FINANCIAL INFORMATION [CONT'D]

	Last Year to Date March 2007				
	Human Health \$	Animal Health \$	Food Safety \$	Corporate \$	Total \$
Sales	490,719	19,564,015	—	—	20,054,734
Cost of sales	—	8,608,512	—	—	8,608,512
Expenses	13,714	5,801,345	—	3,756,649	9,571,708
<b>EBITDA before research and development</b>	477,005	5,154,158	—	(3,756,649)	1,874,514
Research and development expenses, gross	7,882,801	1,385,046	2,082,596	—	11,350,443
Less: government incentives, net	(1,037,676)	—	(224,525)	—	(1,262,201)
<b>Net research and development expenses</b>	6,845,125	1,385,046	1,858,071	—	10,088,242
Interest expense, net	—	61,153	—	1,361,950	1,423,103
Amortization of property, plant and equipment and intangible assets	802,403	607,404	50,850	62,080	1,522,737
Amortization of deferred financing fees	—	—	—	946,722	946,722
Impairment/loss on sale of investment	—	—	—	192,157	192,157
Gain on sale of annual <i>Suplasyn</i> royalty payments	—	—	—	(2,127,587)	(2,127,587)
Foreign exchange gain	—	—	—	(311,448)	(311,448)
<b>Segment income (loss) before taxes</b>	(7,170,523)	3,100,555	(1,908,921)	(3,880,523)	(9,859,412)
Inter-segment sales	—	—	—	9,452,531	9,452,531

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

March 31, 2008 and 2007

Unaudited

### **9. RELATED PARTY TRANSACTIONS**

During the nine months ended March 31, 2008 and 2007, the Company made monthly lease payments of \$16,667 to a company controlled by the Company's Chief Executive Officer who is also a Director of the Company. Effective with April's lease payment, the Company has an agreement to reduce its monthly payments for a six-month period to the payment of interest only.

### **10. 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 2008 interim consolidated financial statements.

## **CORPORATE DATA**

### **BOARD OF DIRECTORS**

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

LORNE BABIUK, B.Sc., M.Sc., Ph.D., D.Sc. <sup>(6)</sup>  
Vice-President (Research), University of Alberta

MICHEL BAZINET, M.D. <sup>(2) (3) (4) (6)</sup>  
Chairman and CEO of Replicor Inc.

MARGARET CUNNINGHAM Ph.D. <sup>(1) (6)</sup>  
Associate Professor, School of Business, Queens University

PIERRE-YVES DESBIENS, C.A., CF, MBA <sup>(1) (2) (6)</sup>  
Vice-President Finance, PureCell Technologies Inc.

JAMES JOHNSON Ph.D. <sup>(4) (6)</sup>  
Partner, King & Spalding LLP

GRAEME MCRAE <sup>(4) (6)</sup>  
Chairman, President and CEO  
Bioniche Life Sciences Inc.

LYLE VANCLIEF <sup>(3) (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

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

Rick Culbert  
President, Bioniche Food Safety (Global)

Leslie Dunlop  
Vice-President, Corporate Counsel  
Secretary of the Board of Directors

Mohamed Elrafih  
Vice-President Manufacturing Operations

Bruce McLeod  
Vice-President, Human Resources

Andrew Grant  
Divisional Vice-President, Bioniche Animal Health Export Sales,  
Europe & Australia

Cameron Groome  
Executive Vice-President, Corporate & Strategic Development

Patrick Montpetit, C.A., C.F.  
Vice-President, Finance and Chief Financial Officer

Jim Phillips  
President, Bioniche Global Animal Health

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

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

Jennifer Shea  
Director of Corporate Communications, Investor & Government Relations

Gary Weber  
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 our Internet website at [www.Bioniche.com](http://www.Bioniche.com), through our Corporate Communications & Investor Relations office at (613) 966-8058, or by e-mail at [info@Bioniche.com](mailto:info@Bioniche.com).

**GENERAL & INVESTOR INQUIRIES:**

Jennifer Shea  
Director of Corporate Communications, Investor & Government Relations

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K8N 5J2

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